LUYE PHARMA
绿叶制药

Luye Pharma Group Ltd.

(incorporated in Bermuda with limited liability)

Stock Code: 2186

Annual Report 2016

Contents

Company Overview	2
Corporate Information	3
Financial Highlights	5
Chairman's Statement	6
Management Discussion and Analysis	9
Directors and Senior Management	19
Report of Directors	26
Corporate Governance Report	42
Independent Auditor's Report	52
Consolidated Statement of Profit or Loss	57
Consolidated Statement of Comprehensive Income	58
Consolidated Statement of Financial Position	59
Consolidated Statement of Changes in Equity	61
Consolidated Statement of Cash Flows	62
Notes to the Consolidated Financial Statements	64

Company Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the People's Republic of China (the "PRC" or "China"), the United States (the "U.S."), Europe and other countries or districts, namely oncology, cardiovascular system, alimentary tract and metabolism and central nervous system ("CNS"). The Group's product portfolio consists of 34 products and centers around 6 key products, 5 of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases, diabetes and CNS.

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2016. The Group's sales, marketing and distribution functions are conducted through over 60 sales support offices, over 1,300 sales and marketing personnel, a network of approximately 1,000 distributors that collectively enabled the Group to sell its products to over 11,500 hospitals. For overseas, the Group has established in-house sales teams in both Singapore and Malaysia. The Group has strong sales partnerships with more than 20 partners throughout the world, covering more than 20 countries including the U.S., Europe and other countries or districts.

The Group's research and development ("R&D") activities are organised around four platforms — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. As at 31 December 2016, the Group's R&D team consisted of approximately 320 employees, including approximately 54 Ph.D. degree holders and approximately 155 Master's degree holders in medical, pharmaceutical and other related areas. As at 31 December 2016, the Group had been granted over 250 patents and had over 40 pending patent applications in the PRC, as well as over 150 patents and over 50 pending patent applications overseas. The Group had a pipeline of 27 PRC product candidates in various stages of development. These candidates included 15 oncology products, 3 cardiovascular and metabolism products, as well as 9 CNS products.

Also, the Group had a pipeline of 6 candidate products in the U.S. or Europe in various stages of development.

Corporate Information

Board of Directors

Executive Directors

Mr. LIU Dian Bo
(Executive Chairman and Chief Executive Officer)
Mr. YANG Rong Bing *(Vice Executive Chairman)*
Mr. YUAN Hui Xian
Ms. ZHU Yuan Yuan

Non-Executive Directors

Mr. PAN Jian *(Retired on 8 June 2016)*
Mr. LIU Dong *(Retired on 8 June 2016)*
Ms. WANG Xin *(Retired on 8 June 2016)*
Mr. SONG Rui Lin *(Appointed on 29 March 2017)*

Independent Non-executive Directors

Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Mr. CHOY Sze Chung Jojo

Company Secretary

Ms. LAI Siu Kuen

Authorized Representatives

Mr. YANG Rong Bing
Ms. ZHU Yuan Yuan

Audit Committee

Mr. LEUNG Man Kit *(Chairman)*
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam

Remuneration Committee

Mr. CHOY Sze Chung Jojo *(Chairman)*
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam

Nomination Committee

Professor LO Yuk Lam *(Chairman)*
Mr. ZHANG Hua Qiao
Mr. CHOY Sze Chung Jojo

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in the People's Republic of China

No. 15 Chuang Ye Road
High-tech Industrial Development Zone
Yantai, Shandong
264003
People's Republic of China

Building 12
Shanghai Business Park III
No. 1036 Tianlin Road
Shanghai
People's Republic of China

Principal Place of Business in Hong Kong

Unit 3207, 32/F, Champion Tower
3 Garden Road
Central
Hong Kong

Corporate Information (Continued)

Principal Share Registrar and Transfer Office

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong Share Registrar

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

Legal Advisers

Allen & Overy
9/F, Three Exchange Square
Central
Hong Kong

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

Auditor

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Stock Code

2186

Company's Website

www.luye.cn

Principal Bankers

Bank of China Limited
China Everbright Bank
Industrial and Commercial Bank of China Limited
Citibank (China) Limited

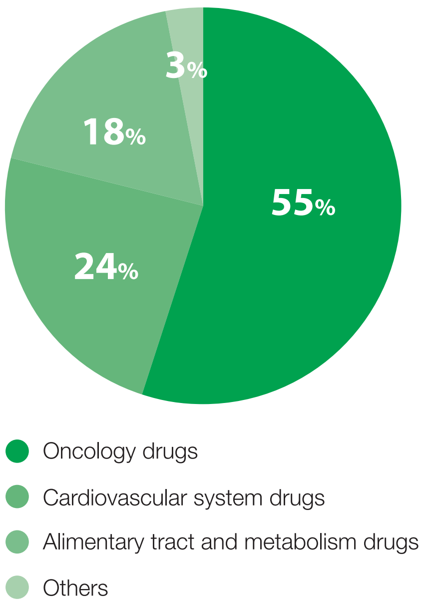
Financial Highlights

For the year ended 31 December, 2016,

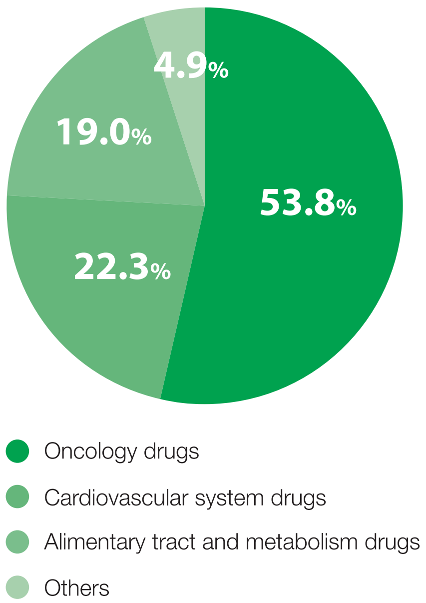
- Revenue increased by RMB354.7 million or 13.8% to RMB2,917.8 million, as compared to the year ended 31 December 2015.
- Profit attributable to shareholders increased by RMB137.0 million or 18.2% to RMB891.5 million, as compared to the year ended 31 December 2015.
- Earnings per share was RMB26.84 cents compared to RMB22.72 cents for the year ended 31 December 2015.
- The Board declared a final dividend of RMB0.035 (equivalent to HKD$0.039) per share for the year ended 31 December 2016.

	2012 RMB Million	2013 RMB Million	2014 RMB Million	2015 RMB Million	**2016 RMB Million**
Revenue	1,713.8	1,996.5	2,544.0	2,563.1	**2,917.8**
Gross Profit	1,362.0	1,583.0	2,061.5	2,087.4	**2,382.7**
EBITDA	368.2	508.2	875.9	1,028.9	**1,146.0**
Net Profit	175.6	327.9	614.4	764.7	**894.0**
Profit attributable to owners of the Parent	169.0	310.5	605.5	754.5	**891.5**
Total Assets	2,677.6	3,387.5	6,130.8	7,052.9	**9,205.8**
Total Liabilities	1,093.8	1,489.8	1,093.2	1,253.4	**2,643.8**
Equity	1,583.8	1,897.7	5,037.6	5,799.5	**6,562.0**

2015 Segment revenue



2016 Segment revenue



Chairman's Statement

Dear Shareholders:

I would like to report the annual performance of Luye Pharma as at and for the year ended 31 December 2016, as well as present the brief outlook of the Group's operation in 2017.

Chairman's Statement (Continued)

As a leading innovative international pharmaceutical enterprise in China, Luye Pharma focuses on research and development, production and sales of innovative pharmaceutical products in the world. The Company's product portfolio consists of more than 30 products, with the focus in the therapeutic areas with the largest market size and highest growth rate including oncology, cardiovascular system, alimentary tract and metabolism, and central nervous system. Our business has already covered China, the U.S., Europe and other countries or regions.

In 2016, there was a further progress of regulation and reform in the Chinese pharmaceutical industry. The policies of the medical reform have been continuously promulgated, the industrial environment has been improving under adjustments while the overall growth of the industry was stabilized with steady increase. By virtue of excellent management, strong and characterized product portfolio as well as continuous improvement in academic promotion, Luye Pharma has maintained a steady growth in sales of innovative pharmaceutical products. In 2016, the revenue of the Company increased by 13.8% year-on-year to RMB2,918 million. Profit attributable to owners of the parent increased by 18.2% year-on-year to RMB892 million. The result was broadly in line with the expectation of the management and has brought satisfactory returns to our shareholders.

As for product lines, revenue from sales of oncology, cardiovascular system and alimentary tract and metabolism sectors increased by 13%, 5% and 18% year-on-year, respectively, while products of other categories have significantly increased by 81% year-on-year. In general, the growth of all product portfolio has maintained in a well-balanced manner. The market share of major products continued to increase, while there was further expansion in business coverage and penetration.

2016 represented a milestone in Luye Pharma's achieving a globalized layout. On 30 November 2016, the Company completed the merger and acquisition of transdermal solutions and implants business of Acino Group in Europe. The acquired business has a comprehensive research and development, production and sales system of transdermal drugs. The focus of our product portfolio was the sophisticated sectors with higher profit margin, including central nervous system, pain and hormone, and several products with great difficulties in manufacturing have already been commercialized. The acquisition has led to synergy to the Group's business, a promising start for the Company's layout in European markets, and also a valuable opportunity for development.

As for research and development, the Company enjoyed success in foreign research and development projects. Goserelin Acetate Extended Release Microspheres, an oncology product which is used in treatment of carcinoma of the prostate and breast cancers, has obtained the approval for clinical trial from the U.S. Food and Drug Administration. In China, all clinical studies for Risperidone Extended-release Microspheres were completed. Other innovative pharmaceutical microsphere products, such as Goserelin Acetate Extended Release Microsphere, Triptorelin Microspheres and Exenatide Microspheres, have obtained the approval for clinical trial from China Food and Drug Administration ("CFDA") in China.

In 2016, the Group has successfully consolidated the newly-acquired European transdermal solutions research and development platform, which would further enhance the Company's research and development capabilities in core sectors and enrich our pipelines of product candidates. For instance, Rivastigmine Multi-day Transdermal Patch, which was used in treatment of Alzheimer's disease, has already obtained the approval for clinical trial from the Federal Institute for Drugs and Medical Devices in Germany and commenced the clinical trials. Meanwhile, the Company has obtained the approval from the CFDA to commence the development of Buprenorphine Transdermal Patches. Currently, the Group has 27 product candidates in China and approximately 10 product candidates overseas.

Chairman's Statement (Continued)

Looking forward into 2017, the Company will firmly implement the existing strategies and keep on the track of innovation and internationalization steadfastly. As for domestic market, the Group will continue to improve the market share in the three key areas, namely oncology, cardiovascular and alimentary tract and metabolism, and nurture the pharmaceutical market of central nervous system. In the latest insurance catalogue published by the PRC in February 2017, Bei Xi, the Company's flagship diabetic products, has been elevated form Class B to Class A pharmaceuticals; a total of five products including Xuezhikang, a flagship cardiovascular product, were removed or relaxed from reimbursement restrictions; three other products, including Sidinuo and Okai, were added to the insurance catalogue. The Group will make use of the advantages brought by the policies to accelerate the product promotion and market coverage, striving to achieve a faster growth in result.

As for International business, the Company will further consolidate its transdermal drug delivery business and expand its global market. The Group believes this business will bring stable and continuous contribution to the Company. In 2017, we will consider overseas merger and acquisition from time to time should those opportunities arise and accelerate the launch of product candidates in international market at the same time. Under the strategy of "Global Power, Growth of China", we shall accelerate the globalization of the Group. Being customer-oriented, guided by value-making and driven by innovation, we shall provide more quality products and professional services with international standard to patients and customers in China and all around the world. We will put more effort to become a respected international innovative pharmaceutical enterprise. We are fully confident about the fulfillment of our 2017 goals and the future strategical vision of Luye.

Finally, on behalf of Luye Pharma Group Ltd., I give my sincerest thanks to our shareholders for your significant contributions to the Company.

Liu Dian Bo
Executive Chairman

29 March 2017

Management Discussion and Analysis

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the PRC, the U.S., Europe and other countries or districts, namely oncology, cardiovascular system, alimentary tract and metabolism and CNS. The Group's product portfolio consists of 34 products and centers around 6 key products, 5 of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases, diabetes and central nervous system. During the year ended 31 December 2016, the Group's sales of innovative pharmaceutical products maintained a stable growth momentum as the Group further deepened its market penetration and expanded the market share of its key products. The Group recorded a stable revenue growth of 13.8% in 2016 as compared to 2015.

Market Positioning

In China, the Group's key products are competitively positioned in one of its three key therapeutic areas and have gained top-ranking market shares measured by revenue. According to QUINTILES IMS HOLDINGS ("IMS"), oncology-related pharmaceutical products constituted the fourth largest market in China for pharmaceutical products in 2016. The Group's portfolio of oncology products includes Lipusu, the best-selling pharmaceutical product for cancer treatment in China in 2016 according to IMS, as well as CMNa, a Class I New Chemical Drug and the only CFDA approved sensitiser for cancer radiotherapy in China. IMS data showed that cardiovascular system-related pharmaceutical products constituted the second largest market for pharmaceutical products in the PRC in 2016. According to IMS, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular Chinese medicine for the treatment of hypercholesterolaemia and the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2016, respectively. According to IMS, alimentary tract and metabolism-related pharmaceutical products constituted the largest market for pharmaceutical products in the PRC in 2016. According to IMS, the Group was the third largest domestic pharmaceutical manufacturer of oral diabetic medications in China in 2016 by revenue. For overseas, the Group's products are mainly positioned in central nervous system therapeutic area, including rivastigmine, fentanyl and buprenorphine patches.

For the year ended 31 December 2016, the Group's revenue from sales of oncology products, cardiovascular system products, alimentary tract and metabolism products and other products increased to RMB1,569.9 million, RMB651.9 million, RMB554.5 million and RMB141.5 million, respectively, representing a growth rate of 12.5%, 4.9%, 18.4% and 80.9% as compared to the year ended 31 December 2015 for the respective therapeutic areas.

Key Products

The Company believes that the Group's five key products are competitively positioned for high prevalence medical conditions that are expected to grow stably globally.

Lipusu® (力撲素®)

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. According to IMS, the market for oncology pharmaceutical products in the PRC was RMB65.7 billion in 2016 and by revenue, Lipusu was the most popular pharmaceutical product for cancer treatment in China in 2016, as well as the most popular paclitaxel product in China in 2016 with a market share of approximately 53.8%. As of 31 December 2016, Lipusu represented the first and only paclitaxel liposome product approved for sale globally.

Management Discussion and Analysis (Continued)

CMNa® (希美納®)

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only CFDA approved sensitiser for cancer radiotherapy in China. According to the CFDA, CMNa was the only glycididazole product available for sale in 2016. An independent third party study in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

Xuezhikang® (血脂康®)

Xuezhikang is the Group's proprietary Chinese medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the CFDA, the Group was the only Xuezhikang manufacturer in China as of 31 December 2016. According to IMS, the market for pharmaceutical products indicated for hypercholesterolaemia and the lowering of blood cholesterol triglycerides and low density lipoprotein cholesterol in China was estimated to be approximately RMB11.7 billion in 2016. According to IMS, Xuezhikang ranked as the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2016.

Maitongna® (麥通納®)

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IMS, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB2.4 billion in 2016. Maitongna was the best-selling sodium aescinate product in China in 2016 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2016, according to IMS, with a market share of approximately 68.7% in 2016.

Bei Xi® (貝希®)

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the CFDA, the Group was the only manufacturer of acarbose in capsule form in 2016. According to IMS, the market for acarbose products in China was estimated to be approximately RMB3.2 billion in 2016 and Bei Xi ranked as the third most popular acarbose product in China with a market share of approximately 7.1% in 2016.

Rivastigmine Transdermal Patches (the "Rivastigmine Patch")

The Rivastigmine Patch is rivastigmine in transdermal patches form approved by the U.S. Food and Drug Administration ("FDA") and is indicated for mild to moderate dementia of the Alzheimer's type and dementia due to Parkinson's disease. According to IMS, Rivastigmine Patch's market share is approximately 28.2% in the U.S and 13.2% in EU countries in 2016.

R&D

The Group's R&D activities are organised around four platforms — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities. The Group believes that its R&D capabilities will be the driving force behind the Group's long-term competitiveness, as well as the Group's future growth and development. As at 31 December 2016, the Group's R&D team consisted of approximately 320 employees, including approximately 54 Ph.D. degree holders and approximately 155 Master's degree holders in medical, pharmaceutical and other related areas. As at 31 December 2016, the Group had been granted over 250 patents and had over 40 pending patent applications in the PRC, as well as over 150 patents and over 50 pending patent applications overseas.

Management Discussion and Analysis (Continued)

Through the Group's four platforms and the corresponding R&D capabilities, the Group focuses on R&D projects not only within its core strength therapeutic areas of oncology and alimentary tract and metabolism, but also expands into the CNS therapeutic area, which according to IMS, was one of the fastest growing therapeutic areas in China from 2014 to 2016 with a compound annual growth rate of 10.6%. As at 31 December 2016, the Group had a pipeline of 27 PRC product candidates in various stages of development. These candidates included 15 oncology products, 3 cardiovascular and metabolism products, as well as 9 CNS products.

Also, the Group had a pipeline of 6 candidate products in the U.S or Europe in various stages of development. In the U.S, 1 product candidate has completed its clinical stage and 4 candidates are in different clinical stages. In Europe, 1 product candidate has obtained approval in Germany to commence clinical trials. Furthermore, the Group is registering its products in Japan, Brazil and other countries through various cooperation patterns such as co-development with its partners or licensing out, etc.

In March 2016, the Group's product candidate, Goserelin Acetate Extended Release Microspheres for Injection ("LY01005"), has obtained the approval from the U.S. FDA to initiate clinical trials for the treatment of carcinoma of the prostate.

In August 2016, LY01005 has also obtained the approval from the CFDA to initiate clinical trials for the treatment of carcinoma of the prostate. In addition to China and the U.S., the Company is also targeting to obtain clinical trial approval for this potential new drug in Europe and Japan.

In November 2016, the Group's oncology product candidate, Triptorelin Acetate Extended Release Microspheres for Injection ("LY01007") has obtained the approval from the CFDA to initiate clinical trials for the treatment of prostate cancer, precocious puberty, endometriosis (stage I to IV), female infertility and breast cancer and the treatment of uterine fibroids prior to surgery.

In November 2016, the Group's anti-diabetic product candidate, Exenatide Extended-Release Microspheres for Injection (LY05006), has obtained the approval from the CFDA to initiate clinical trials for the treatment of type 2 diabetes mellitus. In addition to China, the Company is also working on obtaining clinical trial approvals for LY05006 in the U.S., Europe and Japan.

In February 2017, the Group has obtained the approval from the CFDA to commence the development of Buprenorphine Transdermal Patches. The product has been marketed in a number of countries including the United Kingdom, Germany and Spain. Leveraging on the expertise in transdermal patches of Luye Pharma AG's R&D platform, the Group will also seek to register the product in the U.S., Japan and South Korea.

In March 2017, the Group has obtained the approval from the Federal Institute for Drugs and Medical Devices in Germany to commence clinical trials for Rivastigmine Multi-day Transdermal Patch for the treatment of Alzheimer's disease. In addition to Germany, the Group also plans to register this product in the U.S., Japan, China and other countries.

Management Discussion and Analysis (Continued)

Sales, Marketing and Distribution

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2016. The Group's sales, marketing and distribution functions are conducted through over 60 sales support offices, over 1,300 sales and marketing personnel, a network of approximately 1,000 distributors that collectively enabled the Group to sell its products to over 11,500 hospitals, which comprised approximately 1,530 or approximately 79.0% of all Class III hospitals, approximately 3,370 or approximately 49.0% of all Class II hospitals and approximately 6,600 or approximately 40% of all Class I and other hospitals and medical institutions, in the PRC in 2016. The Group believes that its sales and marketing model and extensive coverage of hospitals with other medical institutions represent a significant competitive advantage and a culmination of both academic promotion by the Group's in-house personnel in different regions and partnerships with high-quality distributors across China. The Group also believes that its sales and marketing model also provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.

For overseas, the Group has established in-house sales teams in both Singapore and Malaysia. The Group has strong sales partnerships with more than 20 partners throughout the world, covering more than 20 countries including the U.S, Europe and other countries or districts.

In February, 2017, National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance Catalogue (2017 Version) (the "Insurance Catalogue") was released by the Ministry of Human Resources and Social Security. Among the group's products, three have been newly added to the Insurance Catalogue, including Sidinuo, Okai and Sailimai; five have been removed or relaxed from previous reimbursement restrictions, including Xuezhikang, CMNa, Sailimai, Beitangning and Saitan; Beixi has been elevated from Class B to Class A in the Insurance Catalogue. The Company believes that such changes will be beneficial to the Group's sales in the long run.

Merger and Acquisition

The Group acquired the transdermal drug delivery systems ("TDS") business through the acquisition of Luye Pharma AG (formerly known as Acino AG) and Luye Supply AG (formerly known as Acino Supply AG). The acquisition was completed in November 2016.

The TDS business includes the business of developing, producing and distributing therapeutic systems for drug release and related products, and providing related services, which in particular include the transdermal systems and implants. The acquisition target possesses strong know-how in difficult-to-make formulations, applying the highest quality standards and has a proven R&D and successful product launch track record. Its robust product pipeline also offers potential to deliver multiple products into the markets over the next few years.

The Group believes that the acquisition represents a valuable opportunity to acquire a well-established European specialized pharmaceutical platform and a leading business in niche markets, together with a strong revenue base supported by a diversified product portfolio as well as a promising pipeline of products. The acquisition is a significant step in the Group's international expansion strategy and will help the Group achieve various strategic goals.

Save as disclosed above, during the year ended 31 December 2016, the Group had no other, material acquisition or disposal of subsidiaries and associated companies. As at the date of this annual report, so far as the Directors are aware, there are no current plans to acquire any material investment.

Management Discussion and Analysis (Continued)

Outlook

Due to policy and market factors, the Chinese pharmaceutical industry's growth rate began to revive in the year of 2016. According to IMS, the growth rate of the Chinese pharmaceutical market was 8.1% in 2016, compared to 4.92% in 2015.

However, since it is a highly competitive industry, inevitably all the pharmaceutical companies are facing intense competition from other market participants. Furthermore, the industry is highly constrained by the government policy, which may cause great uncertainty during the pharmaceutical companies' developments. In recent years, policies such as tendering and reimbursement are posing great impacts on the industry.

For the year of 2017, the Group will continue to introduce measures to improve its profitability and enhance efficiency in key aspects of its operations. With respect to its sales and marketing activities, the Group will continue to undertake a series of changes and initiatives to enable it to focus its marketing and promotion resources on the regions and products where marketing and promotion expenditure yields higher returns, thereby increasing its overall sales efficiency. The Group also intends to increase its profitability through production efficiency and to continuously upgrade its production facilities. In addition, the Group intends to further strengthen its R&D capabilities and develop its product candidates.

As described above, for the year 2016, the Group has made remarkable progresses in R&D. In China, LY01005 has obtained the approval from the CFDA to initiate clinical trials for the treatment of carcinoma of the prostate. LY01007 has obtained the approval from the CFDA to initiate clinical trials for the treatment of prostate cancer and other indications. LY05006 has obtained the approval from the CFDA to initiate clinical trials for the treatment of type 2 diabetes mellitus. Also, the Group has obtained the approval from the CFDA to commence the development of Buprenorphine Transdermal Patches.

For overseas, the Group has obtained the approval from the U.S. FDA for LY01005 to initiate clinical trials for the treatment of carcinoma of the prostate as well as approval from the Federal Institute for Drugs and Medical Devices in Germany to commence clinical trials for Rivastigmine Multi-day Transdermal Patch for the treatment of Alzheimer's disease.

In November 2016, the acquisition of Luye Pharma AG and Luye Supply AG was completed. The Company believes that the Acquisition represents a valuable growth opportunity to acquire a wellestablished European specialised pharmaceutical platform and a leading business in niche markets, together with a strong revenue base supported by a diversified product portfolio as well as a promising pipeline of products. After completion of the Acquisition, the Group has made great efforts to consolidate the business and has made significant achievements.

For R&D, the Group has established a transdermal drug delivery systems platform based on Luye Pharma AG's R&D platform. The platform has enabled the Group to obtain the approval from the CFDA to commence the development of Buprenorphine Transdermal Patches. In addition, the Group has obtained the approval from the Federal Institute for Drugs and Medical Devices in Germany to commence clinical trials for Rivastigmine Multi-day Transdermal Patch for the treatment of Alzheimer's disease.

For sales and distribution, the Insurance Catalogue (2017 Version) was released by the Ministry of Human Resources and Social Security of the PRC in February, 2017. Among the Group's products, three have been newly added to the Insurance Catalogue, including Sidinuo, Okai and Sailimai; five have been removed or relaxed from previous reimbursement restrictions, including Xuezhikang, CMNa, Sailimai, Beitangning and Saitan; Beixi has been elevated from Class B to Class A in the Insurance Catalogue. The Company believes that such changes will be beneficial to the Group's sales in the long run.

Management Discussion and Analysis (Continued)

For overseas, the Group has consolidated Luye Supply AG's sales and business development teams. With the help of sales and business development teams in Asia and the U.S., the Group is targeting to enhance Luye Supply AG's sales power as well as extend its sales channels, which will significantly increase the Group's global sales capabilities. For manufacturing, the Group is working on establishing a global quality control and quality assurance system as well as information platform to ensure the successful integration of the Group's global manufacturing facility system.

Management of the Group is confident that, with the Group's competitive positioning of its innovative products, its strong pipeline of product candidates, its proven R&D capabilities and its sales and marketing networks, as well as its capabilities to execute strategic acquisitions, the Group is well positioned to enter a new phase of growth.

Financial Review

Revenue

For the year ended 31 December 2016, the Group's revenue amounted to RMB2,917.8 million, as compared to approximately RMB2,563.1 million for the year ended 31 December 2015, representing an increase of RMB354.7 million, or 13.8%. The increase in sales was mainly attributable to the sales growth of the Group's key products.

For the year ended 31 December 2016, the Group's revenue from sales of oncology products increased to RMB1,569.9 million, as compared to RMB1,395.4 million for the year ended 31 December 2015, representing an increase of RMB174.5 million, or 12.5%, primarily attributable to the increase in sales volume of our key oncology product.

For the year ended 31 December 2016, the Group's revenue from sales of cardiovascular system products increased to RMB651.9 million, as compared to RMB621.3 million the year ended 31 December 2015, representing an increase of RMB30.6 million, or 4.9%, primarily attributable to the increase in sales volume of various key cardiovascular system products of the Group, the increased sales was offset by the lower sales of a few non-key products.

For the year ended 31 December 2016, the Group's revenue from sales of alimentary tract and metabolism products increased to RMB554.5 million, as compared to RMB468.1 million the year ended 31 December 2015, representing an increase of RMB86.4 million, or 18.4%, primarily attributable to the increase in sales volume of various key alimentary tract and metabolism products of the Group, the increased sales was offset by the lower sales of a few non-key products.

For the year ended 31 December 2016, the Group's revenue from sales of other products increased to RMB141.5 million, as compared to RMB78.2 million the year ended 31 December 2015, representing an increase of RMB63.3 million, or 80.9%. The increased revenue was mainly attributable to contribution of revenue from the newly acquired entities' products and some other non-key products of the Group also increased during the year.

Management Discussion and Analysis (Continued)

Cost of Sales

The Group's cost of sales increased from RMB475.7 million for the year ended 31 December 2015 to RMB535.0 million for the year ended 31 December 2016, which accounted for 18.3% of the Group's total revenue for the year. The primarily driver of the Group's increased cost of sales was the increased sales volume for the year ended 31 December 2016, as compared to the year ended 31 December 2015.

Gross Profit

For the year ended 31 December 2016, the Group's gross profit increased to RMB2,382.7 million, as compared to RMB2,087.4 million for the year ended 31 December 2015, representing an increase of RMB295.3 million, or 14.1%. The increase in the Group's gross profit was broadly in line with its revenue growth. The Group's gross profit margin increased to 81.7% the year ended 31 December 2016 from 81.4% the year ended 31 December 2015.

Other Income and Gains

The Group's other income and gains mainly comprised government grants, interest income and investment income. For the year ended 31 December 2016, the Group's other income and gains increased to approximately RMB209.0 million, as compared to approximately RMB165.1 million the year ended 31 December 2015, representing an increase of approximately RMB43.9 million. The increase is mainly attributable to higher government grants recognized during the year, and the increase is offset by the lower investment income.

Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the year ended 31 December 2016, the Group's selling and distribution expenses amounted to approximately RMB1,121.6 million, as compared to approximately RMB964.1 million for the year ended 31 December 2015, representing an increase of RMB157.5 million, or 16.3%. The increase was mainly attributable to increase in promotional activities for the Group's products and staff cost as part of the Group's initiative to improve sales. On the other hand, as a percentage of revenue, the Group's selling and distribution expenses increased from 37.6% the year ended 31 December 2015 to 38.4% the year ended 31 December 2016, which has shown the Group determination to expand the market.

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the year ended 31 December 2016, the Group's administrative expenses amounted to RMB267.0 million, as compared to RMB184.8 million for the year ended 31 December 2015, representing an increase of approximately RMB82.2 million, or 44.5%. The increase was mainly due to those one-off expenses incurred for the Acquisition and higher staff cost for the year ended 31 December 2016.

Other Expenses

The Group's other expenses primarily consisted of its R&D costs, donations, loss on disposal of property, plant and equipment and miscellaneous expenses. For the year ended 31 December 2016, the Group's other expenses amounted to RMB199.1 million, as compared to approximately RMB190.2 million for the year ended 31 December 2015, representing an increase of RMB8.9 million, or 4.7%. The increase was mainly due to increased R&D costs. The increase is offset by lower other expenses during the year ended 31 December 2016.

Management Discussion and Analysis (Continued)

Finance Costs

For the year ended 31 December 2016, the Group's finance costs amounted to RMB30.4 million, as compared to RMB15.6 million for the year ended 31 December 2015, representing an increase of approximately RMB14.8 million, or 94.7%. The increase was mainly due to higher outstanding bank borrowings during the year as compared to the corresponding year of 2015.

Income Tax Expense

For the year ended 31 December 2016, the Group's income tax expense amounted to RMB80.7 million, as compared to RMB133.4 million for the year ended 31 December 2015, representing a decrease of RMB52.7 million or 39.5%. The effective tax rate for the year ended 31 December 2016 and the year ended 31 December 2015 was 8.3% and 14.9%, respectively. The decrease in income tax expense and effective tax rate was mainly due to the reversal of withholding tax recognized in prior years on the distributable profits of the Group's PRC subsidiaries.

Net Profit

For the year ended 31 December 2016, the Group's net profit amounted to RMB894.0 million, as compared to RMB764.7 million for the year ended 31 December 2015, representing an increase of RMB129.3 million, or 16.9%.

Liquidity, Financial and Capital Resources

Net Current Assets

As at 31 December 2016, the Group had net current assets of approximately RMB2,907.7 million, as compared to approximately RMB4,026.0 million as at 31 December 2015. The current ratio of the Group decreased slightly to approximately 2.2 as at 31 December 2016 from approximately 4.9 as at 31 December 2015. The decrease in net current assets was mainly attributable to higher level of loan and borrowing.

Borrowings and Pledge of Assets

As at 31 December 2016, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB1,624.1 million, as compared to approximately RMB502.7 million as at 31 December 2015. Amongst the loans and borrowings, approximately RMB1,623.7 million are repayable within one year, and approximately RMB0.4 million are repayable after one year. The increase in loans and borrowings is mainly for the working capital of the Company. The bank loans were secured by the Group's time deposits, intra-group trade receivables and notes receivable.

Gearing Ratio

As at 31 December 2016, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 24.8% from 8.7% as at 31 December 2015. The increase was primarily due to an increase in the Group's total borrowings resulting from additional loans taken during the year.

Debt Ratio

As at 31 December 2016, the debt ratio of the Group, which calculated by dividing total liabilities by assets was 28.7%, as compared with 17.8% as at 31 December 2015.

Capital structure

As at 31 December 2016, the Company's number of issued ordinary shares was 3,321,073,843 shares in aggregate and the shareholders' equity of the Group excluding non-controlling interests was approximately RMB6,429 million.

Management Discussion and Analysis (Continued)

Return on Equity

As at 31 December 2016, the return on equity of the Group, which calculated by dividing net income by average shareholder equity, increased to 14.5% from approximately 14.1% as at 31 December 2015.

Foreign Currency Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk during the year ended 31 December 2016. For details, please refer to note 39 to the consolidated financial statements in this annual report.

Interest Rate Risk

The Group adopts a policy to manage interest cost using a combination of fixed and floating rate debts. For details, please refer to note 39 to the consolidated financial statements in this annual report on interest rate risk the Group faced. The Group did not enter into any hedging transactions in respect of interest rate risk during the year ended 31 December 2016.

Contingent Liabilities

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

Use of Net Proceeds from Listing

The net proceeds from the Company's initial public offering ("IPO") (after deducting the underwriting fees and related expenses) amounted to HK$3,845 million, which are intended to be applied in the manner consistent with that set out in the Company's prospectus dated 26 June 2014 ("Prospectus").

Management Discussion and Analysis (Continued)

As at 29 March 2017, the Group had utilised HK$3,802.7 million, representing 98.9% of the net proceeds received by the Company from the IPO. Set out below is a summary of the utilisation of the net proceeds:

Use of proceeds (HK$'MM)	Amount	%	Utilised	%	Unutilized balance as at 29 March 2017	%
To expand the Group's portfolio of pharmaceuticals products	769.0	20.0	769.0	20.0	NIL	NIL
For R&D	769.0	20.0	769.0	20.0	NIL	NIL
For selective acquisition of domestic or international companies	769.0	20.0	769.0	20.0	NIL	NIL
To fund capital expenditure projects to increase production capabilities	769.0	20.0	726.7	18.9	42.3	1.1
To expand sales and marketing networks	192.2	5.0	192.2	5.0	NIL	NIL
To partially repay borrowings under U.S. dollar secured loan	192.2	5.0	192.2	5.0	NIL	NIL
For working capital and general corporate purposes	384.6	10.0	384.6	10.0	NIL	NIL

Significant Investment Held

As at 31 December 2016, the Group had available-for-sale financial assets of approximately RMB1,473.3 million, which represents the outstanding balance of the wealth management product subscribed by the Group with various bank as at the year ended 31 December 2016.

Employee

As at 31 December 2016, the Group had approximately 3,492 employees (2015: 3,400). For the year ended 31 December 2016, the staff costs of the Group, including Directors' emoluments but excluding any contributions to pension scheme, was RMB348.2 million as compared to RMB302.8 million for the year ended 31 December 2015. Please refer to the Report of Directors for information on the Group's emolument policy and the Luye Pharma Share Award Scheme.

Directors and Senior Management

Directors

Executive Directors

Mr. Liu Dian Bo, aged 51, Executive Chairman, is a founding member of our Group. He was appointed as a Director in July 2003. As our Executive Chairman, Mr. Liu is responsible for the overall management, operations and the charting and reviewing of corporate directions and strategies of our Group. Prior to founding our Group, Mr. Liu was a teacher at Yantai Teacher's College from 1985 to 1989. From 1989 to 1993, Mr. Liu was the General Manager of Penglai Huatai Pharmaceutical Co. Ltd. From 1994 to 1999, Mr. Liu was the chairman cum general manager of Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye"). From 1999 to the incorporation of our Company in 2003, Mr. Liu was the chairman cum president of Shandong Luye. Mr. Liu obtained a Medical Diploma from Yishui Special Medical College (now known as Shandong Medical College) in July 1985. Mr. Liu is the executive chairman of Shandong Luye and Beijing WBL Peking University Biotech Co., Ltd. ("Beijing WPU"), and a director of the following main subsidiaries of our Company: Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading"), Sichuan Luye Pharmaceutical Co., Ltd. ("Sichuan Luye"), Shandong Luye Natural Drug R&D Co. Ltd., Shanghai Ge Lin Li Fu Business Consulting Co. Ltd., AsiaPharm Investments Limited, Luye Pharma (Singapore) Pte. Ltd., Luye Biotech (Singapore) Pte. Ltd. and A-Bio Pharma Pte. Ltd. Mr. Liu is a director of each of Luye Group Ltd ("Luye Group"), Luye Pharma Holdings Ltd. ("Luye Pharma Holdings"), Luye Pharmaceutical International Co., Ltd. ("Luye Pharma Intl"), Luye Pharmaceutical Investment Co., Ltd. ("Luye Pharma Investment"), Shorea LBG, Gingko Trust Limited, and Nelumbo Investment Limited.

Mr. Yang Rong Bing, aged 51, holds the office of Vice Executive Chairman and the President and is also a founding member of our Group. Mr. Yang was appointed as an Executive Director on 1 March 2007 and was previously a Non-Executive Director from July 2003. Mr. Yang was appointed as Vice Executive Chairman of the Board with effect from 30 March 2015. Mr. Yang has also been a non-executive director of Shandong Luye since 2000. Prior to that, Mr. Yang was with Jiangsu Xuzhou Bio-Chemical Pharmaceutical Factory from 1988 to 1994 where he worked as an assistant factory head. In 1994, Mr. Yang joined Shandong Luye as a deputy general manager and from 1999 to 2000, he was the chief sales executive and executive director of Shandong Luye. Mr. Yang obtained a Bachelor's degree in Science from Beijing Normal University in July 1988. Mr. Yang is the executive chairman of Nanjing Luye Pharmaceutical Co., Ltd. ("Nanjing Luye") and a director of the following main subsidiaries of our Company: Shandong Luye, Luye Trading and Nanjing Luye. Mr. Yang is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Mr. Yuan Hui Xian, aged 58, holds the office of Executive Director and is also a founding member of our Group. Mr. Yuan was appointed as a Director in July 2003 and is in charge of our Group's public relations. Prior to joining our Group in 1994, Mr. Yuan was a doctor with Shengli Petroleum Administrative Bureau Yantai Sanatorium from 1980 to 1994, where he was in charge of radiation diagnosis. From 1994 to 1999, Mr. Yuan was a Deputy General Manager with Shandong Luye. From 1999 to the incorporation of our Company in 2003, Mr. Yuan was the vice-president and executive director of Shandong Luye. He has also received a Post-graduate Certificate in National Economics from the China People's University in February 2003. Mr. Yuan is the executive chairman of Luye Trading and a director of the following main subsidiaries of our Company: Shandong Luye, Nanjing Luye and Nanjing New AIGE Eggs Co. Ltd. Mr. Yuan is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Directors and Senior Management (Continued)

Ms. Zhu Yuan Yuan, aged 36, has been our Executive Director since March 2014. She joined our Group in August 2009 and has 11 years of experience in corporate finance. Before joining our Group, she worked for New Asia Partners Investment Holdings Limited, a Shanghai and Hong Kong-based investment firm focused on assisting Chinese companies in accessing the international capital markets, principally by providing equity capital and corporate finance advisory services. She obtained her Master's degree in Corporate Strategy and Governance from the University of Nottingham in December 2004 and a Bachelor's degree in Finance from Southeast University, the PRC in June 2003. Ms. Zhu is a director of the following subsidiaries of our Company: Luye Pharma Hong Kong Limited, Solid Success Holdings Limited, Apex Group Holdings Limited and Kang Hai Pharmaceutical Technology Development Limited. She is a supervisor of our subsidiary, Beijing WPU. Ms. Zhu is a director of each of Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Non-Executive Director

Mr. Song Rui Lin, aged 55, has been our Non-Executive Director since March 2017. Mr. Song is the executive chairman of China Pharmaceutical Industry Research and Development Association (中國醫藥創新促進會) and the executive deputy director of the Research Centre for Drug Policy and Industrial Development at China Pharmaceutical University (中國藥科大學藥物政策與產業經濟研究中心). Mr. Song has extensive experience in the research of the PRC healthcare and drugs laws and policies, and was involved in the drafting and review of a number of the current PRC laws and regulations on healthcare and drugs. From 1985 to 2007, Mr. Song served as deputy director, director and deputy head at the PRC State Council Legislative Office (中國國務院法制辦公室). Subsequent to 2008, Mr. Song served as deputy director of the Chinese Pharmaceutical Association (中國藥學會) (the "Association") and executive director of the Research Centre for Drug Policies (醫藥政策研究中心) at the Association. He served as the chairman and executive editor of Chinese Journal of New Drugs (中國新藥雜誌). Since 2011, Mr. Song has been serving as an expert at the Capital Healthcare Policy Reform Expert Group (首都醫療衛生體制改革專家組). Mr. Song obtained a Bachelor of Laws degree from China University of Political Science and Law in 1985 and a Master in Business Administration degree from China Europe International Business School in 2004.

Mr. Song is an independent director of Shanxi Zhendong Pharmaceutical Co., Ltd. (山東振東製藥股份有限公司) (SHE: 300158), an independent director of Jiangxi Boya Bio-pharmaceutical Co., Ltd. (江西博雅生物製藥股份有限公司) (SHE: 300294) and an independent director of Tibet Aim Pharm. Inc. (西藏易明西雅醫藥科技股份有限公司) (SHE: 002826). Each of Shanxi Zhendong Pharmaceutical Co., Ltd., Jiangxi Boya Bio-pharmaceutical Co., Ltd. and Tibet Aim Pharm. Inc. is a company listed on the Shenzhen Stock Exchange.

Independent Non-executive Directors

Mr. Zhang Hua Qiao, aged 53, has been our Independent Non-Executive Director since June 2014. Mr. Zhang has 17 years of experience in working in the investment banking industry since 1994. He served as managing director and the co-head of China research team from June 1999 to April 2006 and the deputy head of China investment banking division of UBS AG, Hong Kong Branch from September 2008 to June 2011. He graduated from the Graduate School of the People' s Bank of China (中國人民銀行研究生部) with a Master's degree in Economics in 1986, and from the Australian National University with a Master's degree in Economics in January 1991.

Directors and Senior Management (Continued)

As at the date of this annual report, Mr. Zhang holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
Yancoal Australia Ltd, a company listed on the Australian Securities Exchange (stock code: YAL)	April 2014 to present	Independent non-executive director
Logan Property Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3380)	November 2013 to present	Independent non-executive director
China Huirong Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1290)	October 2013 to present	Independent non-executive director
Nanjing Central Emporium (Group) Stocks Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600280)	March 2013 to June 2015	Director
Zhong An Real Estate Limited, a company listed on the Main Board of the Stock Exchange (stock code: 672)	January 2013 to present	Independent non-executive director
China Smartpay Group Holdings Limited a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8325)	September 2012 to May 2015 May 2015 to present	Non-executive director Executive director
Fosun International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 656)	March 2012 to present	Independent non-executive director
Boer Power Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1685)	November 2011 to present	Non-executive director
Sinopec Oilfield Service, Corporation, a company listed on the Main Board of the Stock Exchange (stock code: 1033)	February 2015 to present	Independent non-executive director
Wanda Hotel Development Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 169)	September 2014 to present	Independent non-executive director
Fuguiniao Co. Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 1819)	May 2013 to June 2014	Independent non-executive director
Ernest Borel Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1856)	June 2014 to November 2014	Independent non-executive director

Directors and Senior Management (Continued)

Professor Lo Yuk Lam, aged 68, has been our Independent Non-executive Director since June 2014. Professor Lo has extensive experience in biotechnology industry, corporate management, academic research and community service. Professor Lo is currently serving as the Chairman of the Advisory Council of the Food and Health Bureau, Hong Kong Special Administrative Region Government ("HKSAR Government"), an Executive Committee Member of the Chinese Manufacturers' Association of Hong Kong ("CMA") and Chairman of the Education Committee of CMA. He is also the Honorary Founding Chairman of Hong Kong Bio-Organization. In the educational area, Professor Lo has been elected an Honorary Fellow of the Hong Kong University of Science and Technology, a member of the Advisory Committee of the Vocational Training Council, Adjunct Professor of the Chinese University of Hong Kong and Honorary Professor of several universities in China. He was heavily involved in several committees of the HKSAR Government, including the Chairman of the Biotechnology Committee of the Hong Kong Industry & Technology Development Council, and the Chairman of Biotechnology Projects Vetting Committee of the Innovation and Technology Fund, HKSAR Government. In Mainland China, Professor Lo is a member of Chinese People's Political Consultative Conference in Jilin Province, and a consultant of the Centre for Disease Control and Prevention of China. In recognition of his leadership in the community and dedication to his field, Professor Lo has received many awards, including the prestigious "World's outstanding Chinese Award" in 2008 and China's "Top Ten Financial and Intelligent Persons" in 2007.

As at the date of this annual report, Professor Lo holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
CSPC Pharmaceutical Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1093)	June 2014 to present	Independent non-executive director
Sinovac Biotech Ltd., a company listed on NASDAQ Global Select Market (symbol SVA)	March 2006 to present	Independent director

Professor Lo obtained an Honorary Doctorate of Philosophy in Business Management from York University in June 2008.

Mr. Leung Man Kit, aged 63, has been the Independent Non-executive Director since June 2014. Mr. Leung has over 33 years of experience in project finance and corporate finance. He joined Unitas Holdings Limited (formerly known as Chanceton Financial Group Limited), a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8020), in March 2011, and has been its executive director since September 2011. He is also a responsible officer of Unitas Holdings Limited. Previously, he was a director of Emerging Markets Partnership (Hong Kong) Limited, the principal adviser to the AIG Infrastructure Fund L.P. in 1999. He also held senior positions in the Hong Kong Branch of the Swiss Bank Corporation, SG Securities (HK) Limited (formerly known as Crosby Securities (Hong Kong) Limited) and Peregrine Capital Limited.

Directors and Senior Management (Continued)

As at the date of this annual report, Mr. Leung holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
China Electronics Optics Valley Union Holding Company Limited ("formerly known as Optics Valley Union Holding Company Limited"), a company listed on the Main Board of the Stock Exchange (stock code: 798)*	March 2014 to present	Independent non-executive director
China Huiyuan Juice Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1886)*	June 2012 to present	Independent non-executive director
Unitas Holdings Limited ("formerly known as Chanceton Financial Group Limited"), a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8020)	October 2011 to present	Executive director
Orange Sky Golden Harvest Entertainment (Holdings) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1132)*	February 2008 to present	Independent non-executive director
China Ting Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3398)	November 2005 to present	Independent non-executive director
Netease.com Inc., a company listed on NASDAQ (stock code: NTES)*	July 2002 to present	Independent non-executive director

* *Mr. Leung is also the chairman of the audit committee of these companies.*

Mr. Leung obtained a Bachelor's degree in Social Sciences from University of Hong Kong in October 1977.

Mr. Choy Sze Chung Jojo, aged 58, has been the Independent Non-executive Director since June 2014. Mr. Choy has extensive experience in the securities industry and business management. He is currently the vice chairman of National Resources Securities Limited and the permanent honourable president and vice chairman of the Institute of Securities Dealers.

Mr. Choy is a fellow member of the Hong Kong Institute of Directors, the Institute of Financial Accountants (UK), the Institute of Public Accountants (Australia) and the Institute of Compliance Officer, a member of the Stock Exchange Cash Market Consultative Panel and the Society of Registered Financial Planner Limited. Mr. Choy is also a member of the Election Council for Hong Kong Deputies to the 12th National People's Congress of the People's Republic of China, a member of the 4th and 5th term Chief Executive Election Committee of Hong Kong and a member of Chinese People's Political Consultative Conference, Shantou.

Directors and Senior Management (Continued)

As at the date of this annual report, Mr. Choy holds or held directorships in the following listed companies in the past three years:

Name of the listed company	Term	Position
Orient Securities International Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8001)	March 2010 to May 2016	Independent non-executive director
Sparkle Roll Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 970)	October 2007 to present	Independent non-executive director
Zhaojin Mining Industry Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1818)	May 2007 to present	Independent non-executive director
Chengdu Putian Telecommunications Cable Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1202)	February 2006 to present	Independent non-executive director

Mr. Choy obtained a Master's degree in Business Administration from University of Wales, Newport in October 2004 and a Master's degree in Business Law from Monash University in April 2007.

Senior Management

Our senior management comprises Executive Directors and the following persons:

Mr. Liu Yuan Chong, aged 53, joined our Group in March 1997 and is currently our Chief Financial Officer. He started as the accountant-in-charge at our finance department, and was promoted to chief of the finance department in 2005 and to our Chief Financial Officer in 2012. Prior to joining our Group, he was the head of accounting of Yantai Alternator Plant (煙台家電交電總公司). He also taught at Yantai Business Vocational Secondary School (煙台商業中專) from September 1983 until September 1986. From 1980 to 1983, he was employed by Shangdong Laiyang Biochemical Pharmaceutical Factory. Mr. Liu received a Post-Graduate Certificate in Financial Management from Peking University in October 2006.

Directors and Senior Management (Continued)

Dr. Li You Xin, aged 55, joined our Group in October 2007 and is currently our Senior Vice President and head of R&D. Dr. Li has extensive experience in drug design. He is responsible for a number of our R&D platforms including our long-acting and extended release technology and targeted drug delivery platforms. Under Dr. Li's leadership, the Company was awarded the State Key Laboratory of Long-acting and Targeting Drug Delivery System (長效和靶向製劑國家重點實驗室). Dr. Li is also a professor at the College of Life Sciences of Jilin University. Prior to joining our Group, he was a senior scientist officer at Schwarz Pharma AG. He was also a Research Fellow of Alexandar von Humboldt Foundation of University of Marburg from 1991 to 1993. Dr. Li obtained a Bachelor's degree in Chemistry in July 1982, a Master of Science degree in July 1985 and a Ph.D. in Science in July 1988 from Peking University.

Ms. Xue Yun Li, aged 53, joined our Group in 1994 and is currently our Senior Vice President and the general manager of Shandong Luye and responsible for manufacturing and quality management of subsidiaries. From 1999 to 2009, she was the director of the R&D centre and the vice president of R&D of Shandong Luye. Prior to joining our Group, she was a technician and the chief of scientific research at Shenyang Liaohe Pharmaceutical Factory from 1988 to 1994. Ms. Xue obtained a Bachelor's degree in Engineering from Jiamusi University in July 1988 and a Master's degree in Integrated Traditional Chinese and Western Clinical Medicine from Shandong University of Traditional Chinese Medicine in July 2011.

Ms. Jiang Hua, aged 39, joined our Group in 1998 and is currently our Vice President and head of international business, responsible for corporate strategy, product portfolio management and our Group's international business. Ms. Jiang has over 17 years of experience in international business development. Ms. Jiang holds a Doctor of Business Administration from United Business Institute in Belgium, a Master's degree in Business Administration from KEDGE Business School (formerly known as Euromed Management School), and a Bachelor's degree of Economics from Economy School, Fudan University. She is also an economist certified by the Ministry of Personnel of the People's Republic of China (now the Ministry of Human Resources and Social Security of the People's Republic of China).

Report of Directors

The directors of the Company (the “Directors”) are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Corporate Information

The Company was incorporated in Bermuda on 2 July 2003 as an exempted company with limited liability under the laws of Bermuda (the “Companies Law”). The Company’s shares (the “Shares”) were listed on the Stock Exchange on 9 July 2014 (the “Listing” or “Listing Date”).

Principal Activities

The principal activity of the Company is investment holding and the Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC. Details of the principal activities of the Company’s subsidiaries are set out in note 1 to the consolidated financial statements in this annual report.

Business Review and Performance

A fair review of the Group’s business during the year, including an analysis of which using financial key performance indicators, and the outlook of the Group’s business are provided in the section headed “Management Discussion and Analysis” of this annual report, which discussion forms part of this “Report of Directors”

Results

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 57 of this annual report.

Final Dividend

The Board recommended the payment of a final dividend of RMB0.035 (equivalent to HK$0.039) per share for the year ended 31 December 2016 (2015: Nil) to the shareholders of the Company (the “Shareholders”). The final dividend, if approved, will be payable on or around 18 July 2017 and is subject to the approval of the Shareholders at the Company’s annual general meeting to be held on 13 June 2017 (“AGM”).

Financial Summary

A summary of the Group’s results, assets, liabilities for the last five financial years are set out on page 5 in this annual report. This summary does not form part of the audited consolidated financial statements.

Report of Directors (Continued)

Use of Net Proceeds from Listing

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$3,845 million, which sum is intended to be applied in the manner consistent with that set out in the Prospectus. For details of the utilisation of the net proceeds, please refer to "Use of Net Proceeds from Listing" under the Management Discussion and Analysis section of this annual report.

Risks and Uncertainties Relating to the Group's Business

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Investment Risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of the Group would be submitted to the Board.

Manpower and Retention Risk

The Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Group. The Group will provide attractive remuneration package to suitable candidates and personnel.

Financial Risk

The Group also faces financial risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of these financial risks are set out in note 39 to the consolidated financial statements of this annual report.

Report of Directors (Continued)

Environmental Policies and Performance

Our Group is committed to achieving environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group's business is subject to national, provincial and local environmental laws and regulations of the PRC. During the year ended 31 December 2016, so far as our Directors are aware, there were no material breach of applicable environmental laws and regulations of the PRC that have a significant adverse impact on the business and operations of our Group.

Our Group also encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group endeavours to comply with the relevant laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, waste reduction and energy saving. Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs — reduce, recycle and reuse and enhance environmental sustainability.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Company's Environmental, Social and Governance Report will be available on its website within three months from the publication of this annual report.

Compliance with Laws and Regulations

Our Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. Our Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. To the best of our knowledge, for the year ended 31 December 2016, the Group has complied, in all material respects, with relevant rules and regulations that have a significant impact on the Company.

Key Relationships with Employees, Customers and Suppliers

Being people-oriented, our Group ensures all staff are reasonable remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

Our Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

Our Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

Report of Directors (Continued)

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 18.8 % of the total sales for the year ended 31 December 2016 and sales to the largest customer included therein amounted to 6.2% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 45.9% of the total purchase for the year ended 31 December 2016 and purchase from the Group's largest supplier included therein amounted to 16.9% of the total purchase for the year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2016 are set out in note 13 to the consolidated financial statements in this annual report.

Share Capital

Details of the share capital of the Company during the year ended 31 December 2016 are set out in note 30 to the consolidated financial statements in this annual report.

Reserves

Details of the reserves of the Group during the year are set out on page 61 in the consolidated statement of changes in equity of this annual report.

Distributable Reserves

As at 31 December 2016, the Company's and the Group's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, amounted to approximately RMB–55.3 million (as at 31 December 2015: RMB–8.4 million) and RMB2.7 billion (as at 31 December 2015: RMB1.9 billion), respectively.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in note 25 to the consolidated financial statements in this annual report.

Report of Directors (Continued)

Directors

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

Executive Directors:

Mr. LIU Dian Bo *(Executive Chairman and Chief Executive Officer)*
Mr. YANG Rong Bing *(Vice Executive Chairman)*
Mr. YUAN Hui Xian
Ms. ZHU Yuan Yuan

Non-executive Directors:

Mr . SONG Rui Lin *(appointed on 29 March 2017)*
Mr. PAN Jian *(retired on 8 June 2016)*
Mr. LIU Dong *(retired on 8 June 2016)*
Ms. WANG Xin *(retired on 8 June 2016)*

Independent non-executive Directors:

Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Mr. CHOY Sze Chung Jojo

In accordance with the bye-laws of the Company (the "Bye-laws"), all Directors are subject to retirement by rotation at least once every three years and any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In accordance with bye-law 84(1) of the Bye-laws, Ms. ZHU Yuan Yuan, Mr. ZHANG Hua Qiao and Mr. CHOY Sze Chung Jojo will retire by rotation and being eligible, will offer themselves for re-election as the Directors at the AGM.

In accordance with bye-law 83(2) of the Bye-laws, Mr. SONG Rui Lin will retire and being eligible, will offer himself for re-election as a Director at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders.

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 19 to 25 of this annual report.

Confirmation of Independence of Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent under the independence guidelines as set out in Rule 3.13 of the Listing Rules.

Report of Directors (Continued)

Directors' Service Contracts

Each of the executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the Listing Date and may be terminated in accordance with the respective terms of the appointment letters.

Each of the then non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from the date of appointment until the end of two years, and such Directors retired in June 2016. Mr. SONG Rui Lin, the non-executive Director, entered into an appointment letter with the Company for an initial term of two years from 29 March 2017, who is subject to re-election at the AGM, and may be terminated in accordance with the respective terms of the appointment letters.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from 9 July 2016 and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors proposed for re-election at the AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Transactions, Arrangements and Contracts of Significance

Other than those transactions disclosed in note 36 to the consolidated financial statements in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, Company's subsidiaries, fellow subsidiaries or its parent companies was a party and in which a Director or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

During the year ended 31 December 2016, there is no contract of significance (i) between the Company or its subsidiaries and Company's controlling shareholder or its subsidiaries; and (ii) for the provision of services to the Company or any of its subsidiaries by Company's controlling shareholder or its subsidiaries.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

Equity-Linked Agreements

Save as disclosed in this annual report, no equity-linked agreement that will or may result in the Company issuing Shares nor require the Company to enter into an agreement that will or may result in the Company issuing Shares was entered into by the Company during the year or subsisted at the end of the year under review.

Report of Directors (Continued)

Emolument Policy

The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long-term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Apart from social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations. For employee retirement benefits, please refer to note 2.4 to the consolidated financial statements in this annual report.

A remuneration committee of the Board was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. Our Group participates in the national pension schemes as defined by the laws of the countries in which it has operations and our Group makes contributions to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore. The Company's subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC.

Share Option Scheme

During the year ended 31 December 2016 and up to the date of this annual report, the Group has no share option scheme.

Luye Pharma Share Award Scheme

After the reporting period, on 10 January 2017, the Board approved the adoption of the "Luye Pharma Share Award Scheme" (the "Scheme") to recognise contributions by certain Group's employees and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. No Shareholders' approval is required to adopt the Scheme. Please refer to the Company's announcement dated 10 January 2017 for information.

A summary of terms of the Scheme is set out below:

i. Purpose

The purpose of the Scheme is to recognise contributions by certain employee, including any executive director of any member of the Group except for the current executive Directors ("Employee") and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

Report of Directors (Continued)

ii. Duration

Subject to any early termination as may be determined by the Board in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of ten years commencing on the 10 January 2017 (“Adoption Date”).

iii. Administration

The Scheme shall be administered by the Board and Bank of Communications Trustee Limited, and any additional or replacement trustees, being the trustee or trustees of the Trust (“Trustee”) in accordance with the rules of the Scheme and the trust deed in respect of the Scheme to be entered into between the Company and the Trustee (as restated, supplemented and amended from time to time) (“Trust Deed”). The decision of the Board with respect to any matter arising under the Scheme (including the interpretation of any provision) shall be final and binding. The Trustee will hold the Shares in accordance with the terms of the Trust Deed.

iv. Contribution of funds to the Trust

The Board may from time to time cause to be paid an amount to the Trust by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the Board.

The committee appointed and authorised by the Board to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the Board (“EBT Committee”) may from time to time instruct the Trustee in writing to purchase Shares on the Stock Exchange specifying the timing of purchase, maximum amount of funds to be used and the range of prices within which such Shares are to be purchased.

v. Eligible persons for the Scheme and grant of Awarded Shares

The Board may from time to time select any Employee (excluding any Employee who is resident in a place where the award of, in respect of a Selected Employee, such number of Shares awarded by the Board (“Awarded Shares”) and/or the vesting and transfer of the Awarded Shares pursuant to the terms of the Scheme is not permitted under the laws or regulations of such place or where in the view of the Board or the trustee of the Scheme, compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such Employee (“Excluded Employee”)) for participation in the Scheme as a Selected Employee and grant to such Selected Employee Awarded Shares in such number at a stated price at which an Award Share is granted to a Selected Employee (“Grant Price”) and on and subject to such terms and conditions as it may in its discretion determine.

vi. Vesting of Awarded Shares

The Board is entitled to impose any conditions as it deems appropriate in its discretion with respect to the vesting of the Awarded Shares on the Selected Employee. Upon the vesting of the Awarded Shares, the Selected Employee may elect to have the Awarded Shares transferred to him or effect the sale of the Awarded Shares and receive the net proceeds from such sale. In either case, the Selected Employee shall pay the Company the Grant Price for the Awarded Shares.

vii. Rights attached to the Awarded Shares

A Selected Employee will not have any interest or rights (including the right to vote at general meetings of the Company or the right to receive dividends) in the Awarded Shares prior to, in respect of a Selected Employee, the date on which his entitlement to the Awarded Shares is vested in such Selected Employee pursuant to the terms of the Scheme (“Vesting Date”).

Report of Directors (Continued)

viii. Non-transferrable

Prior to the Vesting Date, any award of Awarded Shares is personal to the Selected Employee to whom it is made and is not assignable and no Selected Employee may in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the Awarded Shares referable to him pursuant to such award.

ix. Lapse of Awarded Shares

In the event that a Selected Employee has ceased to be an Employee, the relevant award made to such Selected Employee will automatically lapse and the relevant Awarded Shares will remain part of the funds under the Trust.

x. Voting rights of the Trustee

The Trustee may not exercise the voting rights in respect of any Shares held under the Trust.

xi. Restrictions

The Trustee may not acquire or sell any Shares at any time when dealings in the Shares are prohibited under any code or requirements of the Listing Rules and all applicable laws.

xii. Scheme Limit

The maximum number of Shares and Awarded Shares which may be held under the Trust and managed by the Trustee may not exceed 2% of issued share capital of the Company at any single point in time during the life of the Trust.

xiii. Alteration of the Scheme

The Scheme may be altered in any respect by a resolution of the Board provided that no such amendment shall operate to affect materially and adversely any subsisting rights of any Selected Employee.

xiv. Termination

The Scheme will terminate on the earlier of (i) the 10th anniversary date of the Adoption Date; and (ii) such date of early termination as determined by the Board provided that such termination shall not materially and adversely affect any subsisting rights of any Selected Employee.

The Company did not grant any shares under the Scheme since its Adoption Date up to the date of this annual report.

Remuneration of Directors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements in this annual report.

Changes to Information in respect of Directors

Save as disclosed in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules for the year ended 31 December 2016.

Report of Directors (Continued)

Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures

As at 31 December 2016, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), are as follows:

(i) Interest in the Company

Name of Director	Nature of interest	Number of shares held	Approximate percentage of shareholding
Liu Dian Bo[(1) and (2)]	Founder of a discretionary trust	1,517,113,930(L)	45.68%

Remark: The Letter "L" denotes long position in such securities.

Notes:

1. *Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo Trust Limited, Nelumbo Investments Limited, Luye Group Ltd. Luye Pharma Holdings Ltd., Luye Pharmaceutical International Co., Ltd. and Luye Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,517,113,930 ordinary shares in the Company held by Luye Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Group Ltd.*

2. *The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo Trust Limited is wholly owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.*

Report of Directors (Continued)

(ii) Interest in associated corporations

Name of Director	Associated Corporation	Nature of interest	Number of shares held	Approximate percentage in the registered capital of the associated corporation
Liu Dian Bo	Luye Group Ltd.	Founder of a discretionary trust	8,400(L)	70%
Liu Dian Bo	Ginkgo Trust Limited	Founder of a discretionary trust	1(L)	100%
Liu Dian Bo	Luye Pharma Holdings Ltd.	Founder of a discretionary trust	1,136,852(L)	100%
Liu Dian Bo	Luye Pharmaceutical International Co., Ltd.	Founder of a discretionary trust	202,180,988(L)	100%
Liu Dian Bo	Luye Pharmaceutical Investment Co., Ltd.	Founder of a discretionary trust	1(L)	100%
Liu Dian Bo	Nelumbo Investments Limited	Founder of a discretionary trust	1(L)	100%
Yang Rong Bing	Luye Group Ltd.	Beneficial owner	1,800(L)	15%
Yuan Hui Xian	Luye Group Ltd.	Beneficial owner	1,800(L)	15%

Remark: The Letter "L" denotes long position in such securities.

Notes:

1. *The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the family trust of Mr. Liu Dian Bo.*

2. *Luye Group Ltd. holds the entire issued ordinary share capital of Luye Pharma Holdings Ltd. Luye Pharmaceutical International Co., Ltd. is wholly-owned by Luye Pharma Holdings Ltd. and Luye Pharmaceutical Investment Co., Ltd. is wholly-owned by Luye Pharmaceutical International Co., Ltd.*

Save as disclosed above, none of our Directors and chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate for the year ended 31 December 2016.

Report of Directors (Continued)

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2016, to the best of the Directors' knowledge, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interests and/or short position in the Shares or the underlying Shares which fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding
Luye Pharmaceutical Investment Co., Ltd.(1)	Beneficial owner	1,517,113,930(L)	45.68%
Luye Pharmaceutical International Co., Ltd.(1)	Interest in controlled corporation	1,517,113,930(L)	45.68%
Luye Pharma Holdings Limited(1)	Interest in controlled corporation	1,517,113,930(L)	45.68%
Luye Group Ltd.(2)	Interest in controlled corporation	1,517,113,930(L)	45.68%
Nelumbo Investments Limited(2)	Interest in controlled corporation	1,517,113,930(L)	45.68%
Ginkgo Trust Limited(2)	Trustee	1,517,113,930(L)	45.68%
Shorea LBG(2)	Interest in controlled corporation	1,517,113,930(L)	45.68%
CPE Greenery Ltd.(3)	Beneficial owner	196,561,695 (L)	5.92%
CPEChina Fund, L.P.(3)	Interest in controlled corporation	196,561,695 (L)	5.92%
CITIC PE Associates, L.P.(3)	Interest in controlled corporation	196,561,695 (L)	5.92%
CITIC PE Funds Limited(3)	Interest in controlled corporation	196,561,695 (L)	5.92%
CITICPE Holdings Limited(3)	Interest in controlled corporation	196,561,695(L)	5.92%
CITIC Securities International Asset Management Limited(3)	Interest in controlled corporation	196,561,695(L)	5.92%
CITIC Securities International Company Limited(3)	Interest in controlled corporation	196,561,695(L)	5.92%
CITIC Securities Company Limited(3)	Interest in controlled corporation	196,561,695(L)	5.92%
中國平安保險(集團)股份有限公司(4)	Interest in controlled corporation	546,355,060(L)	16.45%
平安銀行股份有限公司(4)	Security interest in shares	546,355,060(L)	16.45%

Remark: The Letter "L" denotes long position in such securities.

Notes:

1. *Luye Pharmaceutical Investment Co., Ltd. is wholly owned by Luye Pharmaceutical International Co., Ltd., which is in turn wholly owned by Luye Pharma Holdings Limited.*

2. *Nelumbo Investments Limited holds 70% of the issued share capital of Luye Group Ltd. (formerly known as AsiaPharm Holdings Ltd.) The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo Trust Limited is wholly owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.*

3. *CPE Greenery Ltd. is wholly owned by CPEChina Fund, L.P. The general partner of CPEChina Fund, L.P. is CITIC PE Associates, L.P. The general partner of CITIC PE Associates, L.P. is CITIC PE Funds Limited. CITIC PE Funds Limited is wholly owned by CITICPE Holdings Limited. CITIC Securities International Asset Management Limited holds 35% of the issued share capital of CITICPE Holdings Limited. CITIC Securities International Asset Management Limited is wholly owned by CITIC Securities International Company Limited, which in turn is wholly owned by CITIC Securities Company Limited.*

4 *平安銀行股份有限公司 is 49.56% owned by 中國平安保險(集團)股份有限公司.*

Report of Directors (Continued)

Save as disclosed above, as at 31 December 2016, the Directors have not been aware of any person who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of Company's Listed Securities

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2016.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Law that would oblige the Company to offer new Shares on a pro rata basis to the existing Shareholders.

Permitted Indemnity Provision

According to the Bye-laws of the Company, among others, the Directors acting in relation to any of the affairs of the Company may be entitled to indemnified and secured harmless out of assets and profits of the Company from and against all, among others, actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain. The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

Director's and Controlling Shareholder's Interest in Competing Business

A deed of non-compete undertaking dated 19 June 2014 (the "Deed of Non-compete Undertaking") was entered into between the Company and the controlling shareholder and the executive chairman of the Company, Mr. Liu Dian Bo, who has undertaken to our Company that conditional upon Listing, he will not carry on, engage, invest, participate or otherwise be interested in any business which competes or is likely to compete with any of the existing and/or future businesses carried on by any shareholder of our Group in relation to developing, producing, marketing and selling innovative pharmaceutical products.

As disclosed in the Prospectus, separately from Mr. Liu Dian Bo's interest in our Group, he is interested in the equity interest of 蕪湖綠葉製藥有限公司 (Wuhu Luye Pharmaceutical Co. Ltd.) ("Wuhu Luye"), which is owned as to 90% by 綠葉投資集團有限公司 (Luye Investment Group Co. Ltd.) ("Luye Investment Group") and 10% by 蕪湖長榮醫藥科技資訊諮詢有限責任公司 (Wuhu Changrong Pharmaceutical Technology Information Consulting Co. Ltd.), an independent third party. Luye Investment Group is owned by the founding shareholders (namely, Messrs. Liu Dian Bo, Yuan Hui Xian ("Mr. Yuan") and Yang Rong Bing ("Mr. Yang")) as to 70% by Mr. Liu Dian Bo and 15% by each of Mr. Yang and Mr. Yuan (each an executive Director). Wuhu Luye is primarily engaged in the production and sale of Chinese medicine covering a number of therapeutic areas including cardio-cerebral vascular, neurology, neuropsychiatry and hepatology, which competes or is likely to compete, either directly or indirectly, with our Group's business.

Report of Directors (Continued)

By reasons of the fact that Wuhu Luye and our Group have (i) different management teams; (ii) separate production facilities and respective procurement teams to source raw materials and suppliers; (iii) independent sales and marketing activities; and (iv) independent financial and accounting systems, and that Mr. Liu Dian Bo has already given an undertaking pursuant to the Deed of Non-compete Undertaking, our Group is therefore capable of carrying on its business independently of, and at arms length from, the excluded business as described above.

The Company has received an annual written confirmation from the controlling shareholder, Mr. Liu Dian Bo, in respect of his compliance with the Deed of Non-compete Undertaking.

The independent non-executive Directors have reviewed the Deed of Non-compete Undertaking and assessed whether the controlling shareholder has abided by the non-competition undertaking. The independent non-executive Directors confirmed that the controlling shareholder has not been in breach of the non-competition undertaking during the year ended 31 December 2016.

Save as disclosed above, none of the Directors held any interests in any business that compete directly against the Company or any of its jointly controlled entities and subsidiaries during the year ended 31 December 2016.

Connected Transactions

The Company has complied with the disclosure requirements, to the extent they are not waived by the Stock Exchange, in accordance with Chapter 14A of the Listing Rules with respect to the connected transaction entered into by the Group during the year ended 31 December 2016.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2016 is contained in note 36 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules.

Charitable Donations

During the year ended 31 December 2016, the Group made charitable and other donations in a total amount of RMB3.2 million.

Post Balance Sheet Events

Other than the adoption of Luye Pharma Share Award Scheme, so far the Directors are aware, there are no event material to the Group's business after the reporting period.

Report of Directors (Continued)

Audit Committee

The audit committee of the Board ("Audit Committee") has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2016.

Code of Conduct regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2016.

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 42 to 51 of this annual report.

Closure of Register of Shareholders

The register of shareholders of the Company will be closed from Thursday, 8 June 2017 to Tuesday, 13 June 2017, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 7 June 2017.

The register of shareholders of the Company will be closed from Monday, 19 June 2017 to Wednesday, 21 June 2017, both days inclusive, in order to determine the entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 16 June 2017.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

Report of Directors (Continued)

Auditor

Ernst & Young has been appointed as auditor of the Company for the year ended 31 December 2016.

Ernst & Young shall retire in the AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as independent auditor of the Company will be proposed at the AGM.

On behalf of the Board
Liu Dian Bo
Chairman

Hong Kong, 29 March 2017

Corporate Governance Report

Corporate Governance Practices

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

Save for the deviation disclosed in this annual report, in the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code during the year ended 31 December 2016.

The Board

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Board Composition

As at the date of this annual report, the Board comprises 9 members, consisting of 4 executive Directors, 1 non-executive Director and 4 independent non-executive Directors as set out below:

Executive Directors

Mr. LIU Dian Bo *(Executive Chairman and Chief Executive Officer)*
Mr. YANG Rong Bing *(Vice Executive Chairman)*
Mr. YUAN Hui Xian
Ms. ZHU Yuan Yuan

Non-executive Director

Mr. SONG Rui Lin

Independent Non-executive Directors

Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Mr. CHOY Sze Chung Jojo

During the year ended 31 December 2016, Mr. PAN Jian, Mr. LIU Dong and Ms. WANG Xin retired from office as non-executive Directors on 8 June 2016 upon the conclusion of the Company's annual general meeting due to their business engagement/arrangements. According to the retired Directors, their reasons for retirement do not relate to the affairs of the Company.

Corporate Governance Report (Continued)

Each of Mr. PAN, Mr. LIU and Ms. WANG confirmed that there is no disagreement with the Board and that there is no matter relating to his/her resignation that needs to be brought to the attention of the shareholders of the Company in relation to their retirement from the Board.

Biographies of the current Directors are set out under the section headed "Directors and Senior Management" of this annual report.

During the year ended 31 December 2016, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company also complied Rule 3.10A of the Listing Rules, which relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

None of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant status, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

According to A.6.5 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. According to the records kept by the Company, each of the Directors during the reporting period, namely, Mr. LIU Dian Bo, Mr. YUAN Hui Xian, Mr. YANG Rong Bing and Ms. ZHU Yuan Yuan, Mr. PAN Jian, Mr. LIU Dong and Ms. WANG Xin, Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo (a) attended seminars and/or trainings that are relevant to the Directors' professional knowledge and skills and in performing their duties and responsibilities as Directors; and (b) read materials that are relevant to the Directors' professional knowledge and skills and in performing their duties and responsibilities as Directors during the year ended 31 December 2016.

Corporate Governance Report (Continued)

Chairman and Chief Executive Officer

As required by code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

Under the current organization structure of the Company, Mr. LIU Dian Bo is our Executive Chairman of the Board and the Chief Executive Officer. Although the dual roles of Chairman and Chief Executive Officer is a deviation from the CG Code, the Board believes that with extensive experience in the pharmaceutical industry, vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals.

Appointment and Re-Election of Directors

Each of the executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the Listing Date and may be terminated in accordance with the respective terms of the appointment letters.

Each of then non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from the date of appointment until the end of two years, and such Directors retired in June 2016. Mr. SONG Rui Lin, the non-executive Director, entered into an appointment letter with the Company for an initial term of two years from 29 March 2017, who is subject to re-election at the AGM, and may be terminated in accordance with the respective terms of the appointment letters.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of two years commencing from 9 July 2016 and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has a service agreement which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Bye-laws, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy shall submit himself/herself for re-election by the Shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the next following annual general meeting of the Company after appointment.

The procedures and process of appointment, re-election and removal of directors are set out in the Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

Board Meetings

The Company has adopted the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than 14 days will be given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

Corporate Governance Report (Continued)

For other Board and committee meetings, reasonable notice will generally be given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Minutes of the board meetings and committee meetings will be recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

For the year end 31 December 2016, seven board meetings and one annual general meeting were held and the attendance of the individual Directors at these meetings is set out in the table below:

Name of Director	Attended/Eligible to attend Board meeting	Annual general meeting
Mr. LIU Dian Bo	7/7	1/1
Mr. YANG Rong Bing	7/7	1/1
Mr. YUAN Hui Xian	7/7	0/1
Ms. ZHU Yuan Yuan	7/7	1/1
Mr. PAN Jian[(1)]	0/2	0/1
Mr. LIU Dong[(1)]	0/2	0/1
Ms. WANG Xin[(1)]	1/2	0/1
Mr. ZHANG Hua Qiao	6/7	0/1
Professor LO Yuk Lam	5/7	0/1
Mr. LEUNG Man Kit	7/7	1/1
Mr. CHOY Sze Chung Jojo	7/7	1/1

(1) *Mr. PAN Jian, Mr. LIU Dong and Ms. WANG Xin resigned on 8 June 2016. The Company held two Board meetings from 1 January 2016 to the date of their resignation.*

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2016.

During the year ended 31 December 2016, the Company adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

Corporate Governance Report (Continued)

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors which include:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2016 are set out in note 8 to the consolidated financial statements in this annual report.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. Remuneration paid to the top senior management (excluding the Directors) for the year ended 31 December 2016 fell within the following bands as follows:

Remuneration Band	No. of employees
Nil to RMB1,000,000	2
RMB1,000,001 to RMB1,500,000	2
	4

Directors' Liability Insurance

The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

Board Committees

Nomination Committee

The Nomination Committee currently comprises three members, namely Professor LO Yuk Lam (chairman), Mr. ZHANG Hua Qiao and Mr. CHOY Sze Chung Jojo, all of them are independent non-executive Directors.

Corporate Governance Report (Continued)

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendation to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors. The Nomination Committee adopted certain criteria and procedure in the nomination of new directors. The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

The written terms of reference of Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016, one meeting of the Nomination Committee were held and the attendance record of the Nomination Committee members is set out in the table below:

Members	**Attended/Eligible to attend**
Professor LO Yuk Lam *(Chairman)*	1/1
Mr. ZHANG Hua Qiao	0/1
Mr. CHOY Sze Chung Jojo	1/1

During the year 2016, the Nomination Committee reviewed the Board composition and considered that the existing Board was appropriately structured.

Board Diversity Policy

The Company views diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. To that end, the Company has adopted a Board Diversity Policy to set out the approach to achieve diversity on the Board. In designing the Board’s composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Ultimately, all Board appointments have been based on merit, and candidates were considered against objective criteria, having due regard for the benefits of diversity on the Board.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. CHOY Sze Chung Jojo (chairman), Mr. ZHANG Hua Qiao and Professor LO Yuk Lam, all of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include making recommendations to the Board for approval on the remuneration policy and structure and remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for ensuring that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The written terms of reference of Remuneration Committee are available on the websites of the Stock Exchange and the Company.

Corporate Governance Report (Continued)

During the year ended 31 December 2016, two meetings of the Remuneration Committee were held and the attendance record of the Remuneration Committee members is set out in the table below:

Members	Attended/Eligible to attend
Mr. CHOY Sze Chung Jojo *(Chairman)*	2/2
Mr. ZHANG Hua Qiao	1/2
Professor LO Yuk Lam	1/2

During the year 2016, the Remuneration Committee assessed the performance of the Directors and reviewed the Company's policy and structure for all directors' and senior management remuneration.

Audit Committee

The Audit Committee comprises three members namely, Mr. LEUNG Man Kit (chairman), Mr. ZHANG Hua Qiao and Professor LO Yuk Lam, all of them are independent non-executive Directors. The main duties of the Audit Committee include the following:

— To review the financial statements and reports before submission to the Board;

— To review and monitor the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standard and discuss with external auditor the nature and scope of the audit and reporting obligations before the audit commences;

— To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function; and

— To oversee the risk management and internal control systems of the Group, report to the Board on any material issue, and make recommendations to the Board.

The written terms of reference of Audit Committee has been amended on 30 December 2015 which are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016, two meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

Members	Attended/Eligible to attend
Mr. LEUNG Man Kit *(Chairman)*	2/2
Mr. ZHANG Hua Qiao	2/2
Professor LO Yuk Lam	1/2

During the year 2016, the Audit Committee had reviewed the annual results of the Group for the year ended 31 December 2015 and interim results of the Group for the period ended 30 June 2016, the risk management systems and processes for the re-appointment of the external auditor. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters.

Corporate Governance Report (Continued)

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2016 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 52 of this annual report.

Risk Management and Internal Control

The Board acknowledges its accountability to the risk management and internal control system and its responsibility to review the effectiveness of the system. The Board also clarifies that the system is purported to manage, but not eliminate, the risk of failure to fulfil business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has established an internal audit department to review the financial condition, operational condition, risk management, compliance control and internal control of the Group. The Audit Committee assists the Board to fulfill its oversight role over the Group's risk management and internal control function by reviewing and evaluating the effectiveness of our overall risk management and internal control system at least annually. For the year ended 31 December 2016, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the internal control system is effective and adequate.

The Group's risk management and internal control system is embedded within our business processes so that it functions as an integral part of the overall operation of the Group. The system comprises a comprehensive organisation structure with assignment of definite accountabilities and delegation of corresponding authorities to each post. Based on our organisation structure, a reporting system has been developed including reporting channels from division heads of business units to the Board.

The risk management and internal control systems and accounting system of the Group are aimed at identifying and evaluating the Group's risk and formulate risk mitigation strategies, and to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorisation, and the accounting records are reliable for preparing financial information used within the business for publication, maintaining accountability for assets and liabilities and ensuring the business operations are in accordance with relevant legislation, regulations and internal guidelines.

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated to all staff; the Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. In addition, only Directors and delegated officers can act as the Group's spokesperson and respond to external enquiries about the Group's affairs.

Corporate Governance Report (Continued)

The Group has a defined organisational structures with clear defined lines of responsibility and authority. Each department is accountable for its daily operations and is required to report to Executive Directors on a regular basis. Policies and procedures are set for each department, which includes establishing and maintaining effective policies to enhance risks identification to which the Group are exposed and taking appropriate action to manage such risks, establishing a structure with defined authorities and proper segregation of duties; monitoring the strategic plan and performance; designing an effective accounting and information system; controlling price sensitive information; and ensuring swift actions and timely communication with our stakeholders.

Auditor's Remuneration

For the year ended 31 December 2016, the total remuneration paid or payable to the Company's auditors, Ernst & Young, for annual audit and other audit services totally RMB4.94 million.

An analysis of the remuneration paid or payable to Ernst & Young is set out below:

Items of auditors' services	**Amount (RMB'000)**
Audit services	4,940
Non-audit services	—
Total	4,940

The Audit Committee and the Board have agreed on the re-appointment of Ernst & Young as the independent auditor of the Group for 2017 and the proposal will be submitted for approval at the AGM to be held on 13 June 2017.

Company Secretary

Ms. LAI Siu Kuen ("Ms. LAI") was appointed as the Company Secretary. She is a senior manager of KCS Hong Kong Limited (a company secretarial service provider). Ms. ZHU Yuan Yuan, an executive Director, is the main internal liaison between her and the Company.

During the year 2016, Ms. LAI undertook not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

Corporate Governance Report (Continued)

The annual general meeting of the Company provides opportunity for shareholders to communicate directly with the Directors. The Chairman of the Company, the chairman of the Board Committee of the Company will attend the annual general meetings to answer shareholders' questions. The external auditor of the Company will also attend the annual general meetings to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and maintains a website at www.luye.cn, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at shareholder meetings, including the election of individual directors. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

Convening of Special General Meeting and Putting Forward Proposals

In accordance with the Bye-laws, a special general meeting shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings.

Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition.

Shareholders may put forward proposals for consideration at an annual general meeting in accordance with the Companies Act 1981 of Bermuda and the Bye-laws.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Written enquiries may be put to the Board through the Company's principal place of business in Hong Kong at Unit 3207, 32/F, Champion Tower, 3 Garden Road, Central, Hong Kong for the attention to the Chairman of the Board.

Change in Constitutional Documents

There was no change in the Bye-laws of the Company for the year ended 31 December 2016.

Independent Auditor's Report

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Luye Pharma Group Ltd.
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Luye Pharma Group Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 57 to 140, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 Hong Kong Institute of Certified Public Accountants ("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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
The carrying amount of goodwill at 31 December 2016 was RMB995,921,000. The Group performs its impairment test of goodwill on an annual basis. Management's annual impairment test is important to our audit because the assessment process is complex and requires significant judgement and estimates including cash-generating unit identification, growth rate, gross margin and discount rate. The Group's disclosures about impairment testing of goodwill are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 15 *Goodwill*, which specifically explain the accounting policies and management's assumptions and accounting estimates.	We evaluated management's identification of cash-generating units within the Group. We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's development plan, budget and financial projections and analysis on the industry. We involved our valuation specialist to assist us in evaluating the key valuation parameters such as the discount rate calculation, the terminal growth rate applied and the valuation model with forecasted cash flows.
Recoverability of trade receivables	
As at 31 December 2016, the trade receivable balance amounting to RMB954,469,000 before provision for impairment of RMB1,830,000 was significant to the Group. The determination as to whether a trade receivable is collectable involved management's judgement by considering the age of the balance, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. The collectability of trade receivables is important to our audit as it requires a high level of management's judgement and estimates in determining the provision levels on these balances. The Group's disclosures about trade receivables are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 20 *Trade and notes receivables*, which specifically explain the accounting policies, management's estimates, the overdue receivables and the related provision.	We evaluated management's assessment of the recoverability of the receivables by reviewing the detailed analyses of the ageing of the receivables and testing if payments had been received subsequent to the year end, historical payment patterns, any disputes between the parties involved and the correspondence with customers on expected settlement dates and the credit status of counterparties where available. We also evaluated the provision for impairment of trade receivables, including the methodology used by management to calculate the provision.

Independent Auditor's Report (Continued)

Key audit matter	How our audit addressed the key audit matter
Accounting for acquisition	
On 30 November 2016, the Group acquired the entire issued share capital of Acino AG and Acino Supply AG at a total consideration of EUR244,567,000 (equivalent to RMB1,794,778,000). The accounting for this acquisition requires significant judgement and assumptions relating to the allocation of the purchase price to the identifiable assets acquired and liabilities assumed and fair value adjustments made. The Group's disclosures about the acquisition are included in note 2.4 *Summary of significant accounting policies* and note 33 *Business combination*, which specifically explain the accounting policies and management's accounting estimates relating to the purchase price allocation.	We assessed the sale and purchase agreement and tested the payment of the purchase price to the sellers. In evaluating the Group's purchase price allocation for this acquisition, we tested the identification of assets and liabilities acquired based on our understanding of the business of the acquired companies, business plans and management's explanations on the rationale of the acquisition. We evaluated the objectivity of the valuation process and expertise of the independent professional valuer. We involved our valuation specialists to assist with the audit of the identification and valuation of the assets and liabilities acquired. We also reviewed the related disclosures in the financial statements.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Report of Directors and the Corporate Governance Report, which are expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Statement, the Report of Directors and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

Independent Auditor's Report (Continued)

Responsibilities of the directors 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 IFRSs issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

Independent Auditor's Report (Continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**2,917,794**	2,563,129
Cost of sales		**(535,047)**	(475,717)
Gross profit		**2,382,747**	2,087,412
Other income and gains	5	**208,994**	165,132
Selling and distribution expenses		**(1,121,626)**	(964,097)
Administrative expenses		**(267,039)**	(184,821)
Other expenses		**(199,110)**	(190,164)
Finance costs	7	**(30,389)**	(15,606)
Share of profit of an associate	17	**1,145**	276
PROFIT BEFORE TAX	6	**974,722**	898,132
Income tax expense	10	**(80,727)**	(133,433)
PROFIT FOR THE YEAR		**893,995**	764,699
Attributable to:			
Owners of the parent		**891,539**	754,523
Non-controlling interests		**2,456**	10,176
		893,995	764,699
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
— For profit for the year	12	**26.84 cents**	22.72 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**893,995**	764,699
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**39,393**	74,684
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**(37,314)**	(76,895)
Exchange differences:		
Exchange differences on translation of foreign operations	**(22,060)**	4,051
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(19,981)**	1,840
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(19,981)**	1,840
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**874,014**	766,539
Attributable to:		
Owners of the parent	**871,558**	756,363
Non-controlling interests	**2,456**	10,176
	874,014	766,539

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,701,739**	1,196,262
Advance payments for property, plant and equipment		**44,303**	48,762
Prepaid land lease payments	14	**223,505**	185,813
Goodwill	15	**995,921**	347,356
Other intangible assets	16	**855,676**	126,216
Investment in an associate	17	**5,840**	4,350
Available-for-sale investments	18	**2,646**	3,342
Deferred tax assets	29	**93,760**	69,377
Total non-current assets		**3,923,390**	1,981,478
CURRENT ASSETS			
Inventories	19	**452,670**	285,609
Trade and notes receivables	20	**1,415,009**	1,193,103
Prepayments, deposits and other receivables	21	**183,521**	118,249
Due from related parties	36(b)(i)	**1,393**	1,600
Pledged time deposits	22	**482,467**	266,500
Available-for-sale investments	18	**1,473,284**	1,402,118
Time deposits with original maturity of over three months	22	**876,338**	960,591
Cash and cash equivalents	22	**397,775**	843,674
Total current assets		**5,282,457**	5,071,444
CURRENT LIABILITIES			
Trade and notes payables	23	**116,142**	83,219
Other payables and accruals	24	**449,037**	366,457
Interest-bearing loans and borrowings	25	**1,623,741**	502,222
Government grants	27	**56,778**	25,155
Tax payable		**128,270**	64,946
Due to related parties	36(b)(ii)	**808**	3,428
Total current liabilities		**2,374,776**	1,045,427
NET CURRENT ASSETS		**2,907,681**	4,026,017
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,831,071**	6,007,495

Consolidated Statement of Financial Position (Continued)

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		6,831,071	6,007,495
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	25	372	493
Government grants	27	121,595	115,150
Deferred revenue	28	25,668	—
Deferred tax liabilities	29	121,435	92,321
Total non-current liabilities		269,070	207,964
Net assets		6,562,001	5,799,531
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	427,269	427,269
Share premium	30	2,936,817	2,936,817
Reserves	31	3,064,457	2,299,875
		6,428,543	5,663,961
Non-controlling interests		133,458	135,570
Total equity		6,562,001	5,799,531

Mr. Liu Dianbo
Director

Mr. Yang Rongbing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium account RMB'000	Other reserves* RMB'000	Statutory surplus reserves* RMB'000 *(note 31)*	Retained earnings* RMB'000	Unrealised gain reserves* RMB'000	Foreign currency translation reserves* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	427,269	2,936,817	41,387	328,184	1,930,906	2,042	(2,644)	5,663,961	135,570	5,799,531
Profit for the year	–	–	–	–	891,539	–	–	891,539	2,456	893,995
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	2,079	–	2,079	–	2,079
Exchange differences related to foreign operations	–	–	–	–	–	–	(22,060)	(22,060)	–	(22,060)
Total comprehensive income for the year	–	–	–	–	891,539	2,079	(22,060)	871,558	2,456	874,014
Transfer to statutory reserves	–	–	–	48,225	(48,225)	–	–	–	–	–
Interim 2016 dividend	–	–	–	–	(106,976)	–	–	(106,976)	–	(106,976)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(4,568)	(4,568)
At 31 December 2016	427,269	2,936,817	41,387	376,409	2,667,244	4,121	(24,704)	6,428,543	133,458	6,562,001
At 1 January 2015	427,269	2,936,817	41,387	297,796	1,206,771	4,253	(6,695)	4,907,598	129,962	5,037,560
Profit for the year	–	–	–	–	754,523	–	–	754,523	10,176	764,699
Other comprehensive income for the year:										
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	(2,211)	–	(2,211)	–	(2,211)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	4,051	4,051	–	4,051
Total comprehensive income for the year	–	–	–	–	754,523	(2,211)	4,051	756,363	10,176	766,539
Transfer to statutory reserves	–	–	–	30,388	(30,388)	–	–	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(4,568)	(4,568)
At 31 December 2015	427,269	2,936,817	41,387	328,184	1,930,906	2,042	(2,644)	5,663,961	135,570	5,799,531

* *These reserve accounts comprise the consolidated reserves of RMB3,064,457,000 (2015: RMB2,299,875,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		974,722	898,132
Adjustments for:			
Share of profit of an associate		(1,145)	(276)
Depreciation of items of property, plant and equipment	13	105,803	86,280
Amortisation of other intangible assets	16	29,478	23,657
Amortisation of prepaid land lease payments	14	5,639	5,272
Loss/(gain) on disposal of items of property, plant and equipment		1,904	(21)
Interest income	5	(47,729)	(21,776)
Investment income	5	(37,314)	(76,895)
Interest expense	7	30,389	15,606
		1,061,747	929,979
Increase in trade and notes receivables		(115,888)	(278,973)
Increase in prepayments, deposits and other receivables		(73,710)	(44,959)
Decrease in amounts due from related parties		207	1,055
Increase in inventories		(43,054)	(34,411)
Decrease in government grants		(5,602)	(6,019)
Increase in trade and notes payables		2,068	24,175
Decrease in other payables and accruals		(64,327)	(76,523)
(Decrease)/increase in amounts due to related parties		(2,620)	3,428
Decrease in deferred revenue		(520)	—
(Increase)/decrease in pledged time deposits		(5,000)	2,015
Cash generated from operations		753,301	519,767
Interest paid		(29,085)	(13,971)
Income tax paid		(132,188)	(111,088)
Net cash flows from operating activities		592,028	394,708

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash flows from operating activities		**592,028**	394,708
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and construction in progress		**(263,411)**	(204,107)
Prepayment of land lease payments		**(44,220)**	—
Purchases of other intangible assets	*16*	**(11,510)**	(3,985)
Purchases of available-for-sale investments		**(4,554,000)**	(5,138,720)
Proceeds from sales of available-for-sale investments		**4,489,000**	5,578,185
Receipt of investment income from available-for-sale investments		**22,806**	76,895
Proceeds from disposal of items of property, plant and equipment		**110**	971
Dividend received from an associate		**693**	—
Refund of a prepayment for acquisition of a subsidiary		**—**	700,000
Acquisition of subsidiaries	*33*	**(1,674,489)**	—
Increase in government grants		**43,670**	2,670
Decrease/(increase) in time deposits with original maturity of over three months		**84,253**	(780,591)
Increase in pledged time deposits		**(21,126)**	—
Addition to entrusted loan receivables		**(920,000)**	—
Collection of entrusted loan receivables		**920,000**	—
Receipt of investment income from entrusted loan		**14,508**	—
Interest received		**78,821**	9,000
Net cash flows (used in)/from investing activities		**(1,834,895)**	240,318
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans		**(2,282,817)**	(1,294,293)
Proceeds from loans		**3,404,215**	1,491,471
Increase in pledged time deposits		**(189,841)**	(141,300)
Dividends paid to equity holders of the parent		**(106,976)**	—
Dividends paid to non-controlling shareholders		**(4,568)**	(4,568)
Net cash flows from financing activities		**820,013**	51,310
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(422,854)**	686,336
Effect of foreign exchange rate changes, net		**(23,045)**	5,475
Cash and cash equivalents at beginning of year	*22*	**843,674**	151,863
CASH AND CASH EQUIVALENTS AT END OF YEAR	*22*	**397,775**	843,674

Notes to the Consolidated Financial Statements

31 December 2016

1. Corporate and group information

Luye Pharma Group Ltd. (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act on 2 July 2003. It was listed on the Singapore Exchange Securities Trading Limited (the "SGX") on 5 May 2004, and has been delisted since 29 November 2012. On 9 July 2014, the Company succeeded its listing on the Main Board of the Stock Exchange of Hong Kong Limited ("SEHK").

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the development, production, marketing and sale of pharmaceutical products.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is Suite 3207, Champion Tower, 3 Garden Road, Central, Hong Kong.

In the opinion of the directors, the ultimate holding company of the Company is Luye Group Ltd., which is incorporated in Bermuda.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
AsiaPharm Investments Ltd.	Bermuda 2 July 2003	US$120,000	100	—	Investment holding
Luye Pharma (Singapore) Pte. Ltd. ("LPPL")	Singapore 23 April 1991	SG$1,700,000	100	—	Distribution and sale of pharmaceutical drugs
Luye Pharma Investments Pte. Ltd.	Singapore 26 August 2010	SG$2	100	—	Investment holding
Luye Pharma Venture Capital	Cayman Islands 26 November 2015	US$50,000	100	—	Investment holding
Luye Pharma (USA) Ltd.	United States of America ("USA") 3 August 2015	—	100	—	Manufacture and sale of pharmaceutical products

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Luye Pharma Hong Kong Limited	Hong Kong 31 July 2007	HK$1	—	100	Investment holding
Solid Success Holdings Ltd. ("Solid Success")	British Virgin Islands ("BVI") 22 August 2002	US$100	—	100	Investment holding
Kanghai Pharmaceutical Technology Development Limited	Hong Kong 22 June 2002	HK$100	—	100	Investment holding
Apex Group Holding Limited	Hong Kong 10 June 1993	HK$10,000	—	100	Investment holding
A-Bio Pharma Pte. Ltd.	Singapore 17 August 2001	SG$12,500,000	—	100	Provision of contract research, process development and manufacturing services
Luye Biotech Pte. Ltd.	Singapore 6 November 2009	SG$26,100,000	—	100	Research and development on oncological, cardiovascular and other tropical diseases
Luye Pharma (Malaysia) Sdn. Bhd. (formerly known as AsiaPharm Biotech Sdn. Bhd.)	Malaysia 15 September 2010	MYR100,000	—	100	Distribution and sale of pharmaceutical products
Luye Pharma Switzerland AG	Switzerland 11 July 2016	CHF100,000	—	100	Investment holding
Luye Pharma (Germany) GmbH	Germany 17 July 2016	EUR25,000	—	100	Investment holding

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Luye Supply AG	Switzerland 23 January 2006	CHF100,000	—	100	Manufacture and sale of pharmaceutical products
Luye Pharma AG ("LPAG")	Germany 17 April 1997	EUR209,865	—	100	Distribution and sale of pharmaceutical products
Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye")[(i)]	People's Republic of China ("PRC")/ Mainland China 8 June 1994	RMB1,171,800,000	—	100	Manufacture and sale of pharmaceutical products
Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading")[(i)]	PRC/ Mainland China 27 March 1997	RMB900,000,000	—	100	Distribution and sale of pharmaceutical products
Shandong Langhe Biotechnology Ltd.[(i)]	PRC/ Mainland China 11 March 2010	RMB10,000,000	—	100	Research and development
Shandong Luye Natural Drug Research and Development Co., Ltd[(i)]	PRC/ Mainland China 31 December 2002	RMB5,000,000	—	100	Research and development of Chinese and Western medicines and provision of related services
Nanjing Luye Pharmaceutical Co., Ltd. ("Nanjing Luye")[(i)]	PRC/ Mainland China 22 February 2004	RMB220,000,000	—	100	Manufacture and sale of pharmaceutical products
Beijing WBL Peking University Biotech Co., Ltd. ("Beijing WPU")[(i)]	PRC/ Mainland China 1 September 1994	RMB80,000,000	—	69.55	Manufacture and sale of pharmaceutical products

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

1. Corporate and group information (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanjing New AIGE Eggs Co., Ltd. ("Nanjing AIGE")(i)	PRC/ Mainland China 25 June 2010	RMB300,000	—	100	Manufacture and sale of eggs and technology development
Nanjing Kanghai Phospholipid Biological Technology Co., Ltd. ("Nanjing Kanghai Phospholipid")(i)	PRC/ Mainland China 13 September 2010	RMB1,500,000	—	100	Manufacture and sale of pharmaceutical products
Shanghai Ge Lin Li Fu Consulting Co., Ltd.(i)	PRC/ Mainland China 28 June 2010	RMB1,000,000	—	100	Provision of business and investment consultation services
Sichuan Luye Pharmaceutical Co., Ltd. ("Sichuan Luye", formerly known as Sichuan Luye Baoguang Pharmaceutical Co., Ltd.)(i)	PRC/ Mainland China 21 December 2000	RMB36,000,000	—	100	Manufacture and sale of pharmaceutical products
Chengdu Bomai Technology Co., Ltd.(i)	PRC/ Mainland China 1 December 2004	RMB500,000	—	100	Research and development
Yantai Luye Pharma Holdings Co., Ltd.(ii)	PRC/ Mainland China 15 May 2014	US$300,260,000	—	100	Investment holding
Yantai Lujian Drugs Retail Co., Ltd.(i)	PRC/ Mainland China 12 August 2015	RMB200,000	—	100	Retail of pharmaceutical products

(i) These entities are limited liability enterprises established under PRC law.
(ii) The entity is a wholly-foreign-owned enterprise established under PRC law.

During the year, the Group acquired the entire issued share capital of Luye Pharma AG (formerly known as Acino AG) and Luye Supply AG (formerly known as Acino Supply AG) from independent third parties. Further details of this acquisition are included in note 33 to the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.2 Changes in accounting policies and disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs

The adoption of the above new and revised standards has had no significant financial effect on the financial statements.

2.3 Issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IFRS 12 *included in Annual Improvements 2014–2016 Cycle*	*Disclosure of Interests in Other Entities*[1]
Amendments to IFRS 1 *included in Annual Improvements 2014–2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[2]
Amendments to IAS 28 *included in Annual Improvements 2014–2016 Cycle*	*Investments in Associates and Joint Ventures*[2]

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.3 Issued but not yet effective International Financial Reporting Standards (continued)

[1] *Effective for annual periods beginning on or after 1 January 2017*
[2] *Effective for annual periods beginning on or after 1 January 2018*
[3] *Effective for annual periods beginning on or after 1 January 2019*
[4] *No mandatory effective date yet determined but is available for adoption*

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application, certain of which may be relevant to the Group's operation and may result in changes in the Group's accounting policies, and changes in presentation and measurement of certain items of the Group's financial statements.

2.4 Summary of significant accounting policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Investments in associates and joint ventures (continued)

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combination and goodwill

Business combination is accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date through fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Business combination and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Foreign currencies

These financial statements are presented in RMB, which the Company adopted as the presentation currency of the Group. The functional currency of the Company is the United States dollar ("US$") and certain subsidiaries incorporated outside Mainland China use the Singapore dollar ("SG$"), the Hong Kong dollar ("HK$"), Malaysian Ringgit ("MYR") and the Euro ("EUR") as their functional currencies. The functional currency of the subsidiaries established in Mainland China is RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the non-PRC established subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entities. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the non-PRC established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the non-PRC established companies which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in accounting policy for "Contracts for services" below;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Employee benefits

Pension scheme

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to the statement of profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The Group make contributions to the Central Provident Fund (the "CPF") Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore.

The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

The subsequent measurement of financial assets depends on their classification as follows: (continued)

Available-for-sale investments (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets, if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred assets is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale investments

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" required judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties and interest-bearing loans and borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Fair value measurement

The Group measures financial instruments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Freehold land	Not depreciated
Buildings	10–40 years
Machinery and equipment	5–15 years
Motor vehicles	5–10 years
Computer and office equipment	3–15 years
Leasehold improvements	2–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Trademarks	10 years
Patents and technology know-how	5–20 years
Software	2–10 years

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs (continued)

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production. During the period of development, the deferred development costs are tested for impairment annually.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

2.4 Summary of significant accounting policies (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Estimation uncertainty

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, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB995,921,000 (2015: RMB347,356,000). Further details are given in note 15.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There were no deferred tax assets relating to recognised tax losses as at 31 December 2016 (2015: RMB994,000). The carrying value of deferred tax assets relating to recognised deductible temporary differences at 31 December 2016 was RMB93,760,000 (2015: RMB68,383,000). Further details are contained in note 29 to the consolidated financial statements.

Income tax

The Group is subject to income taxes in various regions. As a result, certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade and other receivables at 31 December 2016 was RMB4,830,000 (2015: RMB5,124,000).

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or management will write off or write down technically obsolete or non-strategic assets that have been abandoned.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the consolidated financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2016, the best estimate of the carrying amount of capitalised development costs was RMB112,214,000. (2015: Nil).

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

4. Operating segment information

The Group manages its businesses by type of products. The Group's chief operating decision maker is the Chief Executive Officer, who reviews revenue from and results of the major type of products sold for the purpose of resource allocation and assessment of segment performance. Segment result is evaluated based on gross profit less selling expenses allocated. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision-maker for review.

Year ended 31 December 2016

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	1,569,936	651,891	554,492	141,475	2,917,794
Total revenue	1,569,936	651,891	554,492	141,475	2,917,794
Segment results	747,023	261,769	233,581	18,748	1,261,121
Other income and gains					208,994
Administrative expenses					(267,039)
Other expenses					(199,110)
Finance costs					(30,389)
Share of profit of an associate					1,145
Profit before tax					974,722

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

4. Operating segment information (continued)

Year ended 31 December 2015

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	1,395,446	621,348	468,146	78,189	2,563,129
Total revenue	1,395,446	621,348	468,146	78,189	2,563,129
Segment results	657,296	239,462	203,356	23,201	1,123,315
Other income and gains					165,132
Administrative expenses					(184,821)
Other expenses					(190,164)
Finance costs					(15,606)
Share of profit of an associate					276
Profit before tax					898,132

Geographic information

(a) Revenue from external customers

	2016 RMB'000	2015 RMB'000
Mainland China	**2,859,866**	2,546,373
Other countries	**57,928**	16,756
Total	**2,917,794**	2,563,129

The revenue information above is based on the locations of the customers. No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2016 and 2015.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

4. Operating segment information (continued)

Geographic information (continued)

(b) Non-current assets

	2016 RMB'000	2015 RMB'000
Mainland China	**2,102,272**	1,902,785
European Union	**1,710,013**	—
Other countries	**14,699**	5,974
Total	**3,826,984**	1,908,759

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

5. Revenue, other income and gains

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
Sale of drugs	**2,981,320**	2,621,019
Less: Business tax and government surcharges	**(63,526)**	(57,890)
	2,917,794	2,563,129
Other income and gains		
Bank interest income	**47,729**	21,776
Government grants	**114,285**	62,904
Investment income	**37,314**	76,895
Foreign exchange gain, net	**6,120**	—
Others	**3,546**	3,557
	208,994	165,132

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2016 RMB'000	2015 RMB'000
Depreciation of items of property, plant and equipment	13	105,803	86,280
Amortisation of other intangible assets *	16	29,478	23,657
Amortisation of prepaid land lease payments **	14	5,639	5,272
(Reversal of provision)/provision for impairment of trade receivables	20	(122)	1,458
Operating lease expenses		20,800	15,827
Auditor's remuneration		4,940	4,860
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		316,244	276,091
Pension scheme contributions		67,394	59,851
Central Provident Fund in Singapore		756	329
Staff welfare expenses		25,187	20,126
		409,581	356,397
Other expenses:			
Research and development costs		193,656	170,439
Foreign exchange loss, net		—	16,139
Donation		3,150	3,288
Loss on disposal of items of property, plant and equipment		1,904	—
Others		400	298
		199,110	190,164
Cost of inventories sold ***		535,047	475,717
The "Cost of sales" amount includes the following expenses which are also included in the respective total amounts of the items disclosed above:			
Depreciation		79,255	67,716
Amortisation of other intangible assets *		28,204	23,017
Staff costs		132,517	117,741

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

6. Profit before tax (continued)

* *The amortisation of trademarks, patents and technology know-how is included in "Cost of sales" in the consolidated statement of profit or loss.*

The amortisation of software is included in "Administrative expenses" in the consolidated statement of profit or loss.

** *The amortisation of prepaid land lease payments is included in "Administrative expenses" in the consolidated statement of profit or loss.*

*** *The write-down of inventories to net realisable value of RMB2,371,000 for the year ended 31 December 2016 (2015: RMB965,000) is included in "Cost of sales" in the consolidated statement of profit or loss.*

7. Finance costs

	2016 RMB'000	2015 RMB'000
Interest on bank loans	24,406	12,908
Interest on discounted notes receivable	5,951	2,668
Finance charges payable under a hire purchase contract	32	30
	30,389	15,606

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

8. Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	**1,079**	1,063
Other emoluments:		
Salaries, allowances and benefits in kind	**4,811**	4,673
Performance related bonuses	**918**	797
Pension scheme contributions	**201**	194
	5,930	5,664
	7,009	6,727

Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
Choy Sze Chung Jojo	**257**	253
Leung Man Kit	**308**	304
Lo Yuk Lam	**257**	253
Zhang Hua Qiao	**257**	253
	1,079	1,063

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

8. Directors' and chief executive's remuneration (continued)

Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Executive directors:					
Liu Dian Bo	—	2,604	420	59	3,083
Yang Rong Bing	—	1,084	320	59	1,463
Yuan Hui Xian	—	796	108	—	904
Zhu Yuan Yuan	—	327	70	83	480
	—	4,811	918	201	5,930
Non-executive directors:					
Liu Dong*	—	—	—	—	—
Wang Xin*	—	—	—	—	—
Pan Jian*	—	—	—	—	—
	—	—	—	—	—

* *Liu Dong, Wang Xin and Pan Jian retired on 8 June 2016.*

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

8. Directors' and chief executive's remuneration (continued)

Executive directors and non-executive directors (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015					
Executive directors:					
Liu Dian Bo	—	2,603	420	54	3,077
Yang Rong Bing	—	1,084	200	54	1,338
Yuan Hui Xian	—	693	108	5	806
Zhu Yuan Yuan	—	293	69	81	443
	—	4,673	797	194	5,664
Non-executive directors:					
Liu Dong	—	—	—	—	—
Wang Xin	—	—	—	—	—
Pan Jian	—	—	—	—	—
	—	—	—	—	—

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Liu Dian Bo is the chief executive officer and an executive director of the Group.

The directors did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2015: Nil).

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

9. Five highest paid employees

The five highest paid employees of the Group during the year included 3 directors (2015: 2), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 2 (2015: 3) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	2,113	2,999
Performance related bonuses	496	848
Pension scheme contributions	59	138
	2,668	3,985

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
Nil to HK$1,000,000	—	—
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	1	2
	2	3

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

10. Income tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of Bermuda, the BVI and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2015: Nil).

Pursuant to the rules and regulations of Singapore, Malaysia, Switzerland and Germany, the Group is subject to 17%, 25%, 10.5% and 29.125% of taxable income in Singapore, Malaysia, Switzerland and Germany, respectively.

Pursuant to the rules and regulations of the USA, no provision for income tax has been made as the Group did not generate any taxable income in the USA during the year.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Shandong Luye, Nanjing Luye, WPU, Sichuan Luye and Nanjing Kanghai Phospholipid are qualified as High and New Technology Enterprises and were subject to a preferential income tax rate of 15% during the year.

Nanjing AIGE is exempted from income tax as it is involved in the production and trading of agricultural products.

	2016 **RMB'000**	2015 RMB'000
Current tax:		
Charge for the year	**158,126**	126,818
Overprovision in prior years	**(4,822)**	(1,617)
Deferred tax *(note 29)*	**(72,577)**	8,232
Total tax charge for the year	**80,727**	133,433

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

10. Income tax (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	**974,722**	898,132
At the PRC's statutory income tax rate of 25%	**243,681**	224,533
Effect of tax rate differences in other jurisdictions	**2,114**	2,567
Preferential income tax rates applicable to subsidiaries	**(102,553)**	(92,671)
Additional deductible allowance for research and development expenses	**(13,929)**	(12,768)
Effect of tax levied on a deemed income basis	**(249)**	(159)
Adjustments in respect of current tax of previous years	**(4,822)**	(1,617)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**(38,515)**	—
Effect of non-deductible expenses	**3,636**	3,868
Income not subject to tax	**(648)**	(746)
Tax losses utilised from previous years	**(15,209)**	(2,228)
Tax losses not recognised	**5,524**	3,913
Effect of withholding tax at 10% on the interest expense of the Group's PRC subsidiaries to be paid	**1,697**	8,741
Tax charge at the Group's effective rate	**80,727**	133,433

The effective tax rate of the Group for the year ended 31 December 2016 was 8.3% (2015: 14.9%).

11. Dividends

On 29 August 2016, the Company declared an interim dividend of RMB0.032 (equivalent to HK$0.037) per share (equivalent to RMB106,976,000) for the six months ended 30 June 2016 (2015: Nil).

On 29 March 2017, the board of directors proposed a final dividend of RMB0.035 (equivalent to HK$0.039) per share (equivalent to approximately RMB116,285,000) for the year ended 31 December 2016 (2015: Nil). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

12. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,321,073,843 (2015: 3,321,073,843) in issue during the year.

The following reflects the income and share data used in the basic earnings per share computation:

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**891,539**	754,523

	Number of shares	
	2016	2015
Shares		
Weighted average number of shares in issue during the year	**3,321,073,843**	3,321,073,843

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

13. Property, plant and equipment

	Land and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016:							
Cost	534,447	693,188	18,812	69,334	7,073	221,599	1,544,453
Accumulated depreciation and impairment	(94,228)	(214,439)	(7,182)	(31,834)	(508)	–	(348,191)
Net carrying amount	440,219	478,749	11,630	37,500	6,565	221,599	1,196,262
At 1 January 2016, net of accumulated depreciation and impairment	440,219	478,749	11,630	37,500	6,565	221,599	1,196,262
Additions	4,848	44,746	2,419	13,213	1,497	229,039	295,762
Acquisition of subsidiaries *(note 33)*	150,066	161,779	251	6,741	–	–	318,837
Disposals	(1,028)	(816)	(7)	(163)	–	–	(2,014)
Depreciation provided during the year	(22,211)	(69,378)	(2,182)	(8,864)	(3,168)	–	(105,803)
Transfers	202,277	65,345	–	382	334	(268,338)	–
Exchange realignment	(639)	(693)	(1)	23	5	–	(1,305)
At 31 December 2016, net of accumulated depreciation and impairment	773,532	679,732	12,110	48,832	5,233	182,300	1,701,739
At 31 December 2016:							
Cost	919,944	1,062,829	21,634	98,912	8,908	182,300	2,294,527
Accumulated depreciation and impairment	(146,412)	(383,097)	(9,524)	(50,080)	(3,675)	–	(592,788)
Net carrying amount	773,532	679,732	12,110	48,832	5,233	182,300	1,701,739

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

13. Property, plant and equipment (continued)

	Land and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 1 January 2015:							
Cost	524,622	593,474	17,508	59,938	–	186,839	1,382,381
Accumulated depreciation and impairment	(77,231)	(182,496)	(6,171)	(24,332)	–	–	(290,230)
Net carrying amount	447,391	410,978	11,337	35,606	–	186,839	1,092,151
At 1 January 2015, net of accumulated depreciation and impairment	447,391	410,978	11,337	35,606	–	186,839	1,092,151
Additions	17	69,282	2,695	9,554	7,073	102,720	191,341
Disposals	(358)	(350)	(206)	(36)	–	–	(950)
Depreciation provided during the year	(19,719)	(55,163)	(2,196)	(8,694)	(508)	–	(86,280)
Transfers	12,888	54,002	–	1,070	–	(67,960)	–
At 31 December 2015, net of accumulated depreciation and impairment	440,219	478,749	11,630	37,500	6,565	221,599	1,196,262
At 31 December 2015:							
Cost	534,447	693,188	18,812	69,334	7,073	221,599	1,544,453
Accumulated depreciation and impairment	(94,228)	(214,439)	(7,182)	(31,834)	(508)	–	(348,191)
Net carrying amount	440,219	478,749	11,630	37,500	6,565	221,599	1,196,262

As at 31 December 2016, the Group was applying for certificates of ownership for certain properties with a net book value of RMB1,773,000 (2015: RMB1,519,000). The directors of the Company are of the opinion that the use of the properties and the conduct of operating activities at those properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

14. Prepaid land lease payments

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**191,174**	196,446
Additions	**44,220**	—
Recognised during the year	**(5,639)**	(5,272)
Carrying amount at 31 December	**229,755**	191,174
Current portion included in prepayments, deposits and other receivables	**(6,250)**	(5,361)
Non-current portion	**223,505**	185,813

15. Goodwill

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**347,356**	347,356
Acquisition of subsidiaries *(note 33)*	**648,565**	—
Carrying amount at 31 December	**995,921**	347,356

There was no impairment charge made against goodwill for the year (2015: Nil).

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to seven individual cash-generating units for impairment testing as follows:

(a) CMNa cash-generating unit ("CMNa unit"), which relates to CMNa, one of the Group's key products;

(b) Pharmaceutical products other than CMNa cash-generating unit ("Other products unit"), which relates to Maitongna and Lutingnuo, of which Maitongna is one of the Group's key products;

(c) Solid Success Group cash-generating unit ("SSL unit"), which relates to Lipusu and Tiandixin, of which Lipusu is one of the Group's key products;

(d) Luye Pharma (Singapore) Pte. Ltd. ("LPPL") cash-generating unit ("LPPL unit"), which relates to HypoCol;

(e) WPU cash-generating unit ("WPU unit"), which relates to Xuezhikang, one of the Group's key products;

(f) Sichuan Luye cash-generating unit ("SL unit"), which relates to Bei Xi, one of the Group's key products; and

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

15. Goodwill (continued)

Impairment testing of goodwill (continued)

(g) Europe cash-generating unit ("EU unit"), which relates to products of advanced transdermal drug delivery systems, key products of the newly acquired business (note 33).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2016 RMB'000	2015 RMB'000
CMNa unit	38,444	38,444
Other products unit	5,954	5,954
SSL unit	114,185	114,185
LPPL unit	7,353	7,353
WPU unit	22,276	22,276
SL unit	159,144	159,144
EU unit	648,565	—
	995,921	347,356

The recoverable amounts of the cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period for the EU unit and other units. The pre-tax discount rates applied to cash flow projections were 9.7% (2015: Nil) for the EU unit and 15% (2015: 15%) for other units. The growth rate used to extrapolate the cash flows of the EU unit and other units beyond the five-year period is 2% (2015: Nil) and 3% (2015: 3%), respectively.

Key assumptions used in the value in use calculation

The calculation of value in use is based on assumptions of the following:

- Gross margins and operating expenses
- Discount rate
- Growth rate

Gross margins and operating expenses — Gross margins are based on the average gross margins achieved in the year immediately before the budget year and are increased over the budget period for anticipated efficiency improvements. Estimates on operating expenses reflect past experience and management's commitment to maintain them at an acceptable level.

Discount rate — the rate reflects management's estimate of the risks specific to each unit.

Growth rate — the rate is based on published industry research.

The values assigned to the key assumptions on gross margins and operating expenses, discount rates and growth rate are consistent with management's past experience and external information sources.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

16. Other intangible assets

	Trademarks RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2016					
At 1 January 2016:					
Cost	41,971	357,636	9,222	—	408,829
Accumulated amortisation	(20,869)	(259,857)	(1,887)	—	(282,613)
Net carrying amount	21,102	97,779	7,335	—	126,216
Cost at 1 January 2016 net of accumulated amortisation	21,102	97,779	7,335	—	126,216
Additions	—	213	9,952	1,345	11,510
Acquisition of subsidiaries *(note 33)*	—	636,058	970	111,352	748,380
Amortisation provided during the year	(3,179)	(25,025)	(1,274)	—	(29,478)
Exchange realignment	—	(465)	(4)	(483)	(952)
At 31 December 2016	17,923	708,560	16,979	112,214	855,676
At 31 December 2016:					
Cost	41,971	996,444	34,858	112,214	1,185,487
Accumulated amortisation	(24,048)	(287,884)	(17,879)	—	(329,811)
Net carrying amount	17,923	708,560	16,979	112,214	855,676

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

16. Other intangible assets (continued)

	Trademarks RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2015					
At 1 January 2015:					
Cost	41,971	370,434	5,586	—	417,991
Accumulated amortisation	(17,690)	(252,831)	(1,582)	—	(272,103)
Net carrying amount	24,281	117,603	4,004	—	145,888
Cost at 1 January 2015 net of accumulated amortisation	24,281	117,603	4,004	—	145,888
Additions	—	14	3,971	—	3,985
Amortisation provided during the year	(3,179)	(19,838)	(640)	—	(23,657)
At 31 December 2015	21,102	97,779	7,335	—	126,216
At 31 December 2015:					
Cost	41,971	357,636	9,222	—	408,829
Accumulated amortisation	(20,869)	(259,857)	(1,887)	—	(282,613)
Net carrying amount	21,102	97,779	7,335	—	126,216

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

17. Investment in an associate

	2016 RMB'000	2015 RMB'000
At 1 January	**4,350**	5,485
Share of profit/(loss)	**1,893**	(1,060)
Dividend received	**(693)**	—
Foreign currency translation differences	**290**	(75)
At 31 December	**5,840**	4,350

The Group's trade receivable balance with the associate is disclosed in note 36 to the consolidated financial statements.

Particulars of the associate are as follows:

Company	Place of incorporation/ registration and business	Nominal value of issued/ registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Steward Cross Pte. Ltd. ("Steward Cross")	Singapore	SG$620,002	36	Distribution and sale of pharmaceutical drugs

The Group's shareholdings in this associate all comprise equity shares held through a wholly-owned subsidiary of the Company.

The following table illustrates the financial information of the Group's associate that is not material:

	2016 RMB'000	2015 RMB'000
Share of the associate's profit for the year	**1,145**	276
Share of the associate's total comprehensive income	**1,145**	276
Carrying amount of the Group's investment in the associate	**5,840**	4,350

As at 31 December 2016, the unrealised profit from the related party transaction between Steward Cross and LPPL was RMB1,633,000 (2015: RMB3,711,000).

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

18. Available-for-sale investments

	2016 RMB'000	2015 RMB'000
Current		
Investment in bank financial products, at fair value	**1,473,284**	1,402,118
Non-current		
Listed equity investment, at fair value	**2,146**	2,842
Unlisted investment, at cost	**500**	500
	2,646	3,342

Current available-for-sale investments were structured financial products issued by banks with expected interest rates ranging from 2.3% to 3.4% per annum with a maturity period within one year in the PRC. The principals are all protected. The fair values of the financial products approximate to their costs plus expected interest.

Non-current available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value of the listed equity investment is derived from quoted price in an active market.

The fair value of the unlisted investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The investment was stated at cost less any impairment losses.

As at 31 December 2016, investment in bank financial products of RMB570,000,000 (2015: Nil) was pledged to secure intra-group notes payable.

19. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	**213,024**	117,214
Work in progress	**78,932**	61,989
Finished goods	**160,714**	106,406
	452,670	285,609

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

20. Trade and notes receivables

	2016 RMB'000	2015 RMB'000
Trade receivables	**954,469**	622,554
Notes receivable	**462,370**	572,673
	1,416,839	1,195,227
Less: Impairment of trade receivables	**(1,830)**	(2,124)
	1,415,009	1,193,103

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The movements in provision for impairment of trade receivables are as follows:

	Individually impaired RMB'000	Collectively impaired RMB'000	Total RMB'000
At 1 January 2016	**446**	**1,678**	**2,124**
Charge for the year	**137**	**125**	**262**
Reversal	**—**	**(384)**	**(384)**
Write-off	**(172)**	**—**	**(172)**
At 31 December 2016	**411**	**1,419**	**1,830**
At 1 January 2015	645	220	865
Charge for the year	—	2,071	2,071
Reversal	—	(613)	(613)
Write-off	(199)	—	(199)
At 31 December 2015	446	1,678	2,124

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

20. Trade and notes receivables (continued)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Less than 3 months	781,114	530,615
Between 3 and 6 months	100,586	50,876
Between 6 and 12 months	69,941	37,347
Between 1 and 2 years	1,091	2,145
Over 2 years	1,737	1,571
	954,469	622,554

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	837,071	515,336
Less than 3 months past due	66,493	91,986
Over 3 months past due	49,075	13,108
	952,639	620,430

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2016, the Group has pledged notes receivable of RMB1,600,000 (2015: Nil) to secure intra-group notes receivable of RMB1,600,000 (2015: Nil).

As at 31 December 2016, the Group has pledged notes receivable of RMB13,505,000 (2015: RMB15,805,000) to secure notes payable of RMB13,505,000 (2015: RMB10,235,000) (note 23).

As at 31 December 2016, the Group has pledged intra-group trade receivables of RMB178,074,000 (2015: RMB80,000,000) to secure short-term loans of RMB180,000,000 (2015: RMB80,000,000) (note 25).

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

20. Trade and notes receivables (continued)

As at 31 December 2016, the Group has pledged notes receivable of RMB20,663,000 (2015: Nil) to secure a short-term loan of EUR37,000,000 (2015: Nil) (note 25).

The notes receivable are due within six months. Intra-group notes receivable of RMB250,000,000 were discounted as at 31 December 2016 (2015: Nil).

21. Prepayments, deposits and other receivables

	2016 **RMB'000**	2015 RMB'000
Other receivables	**133,424**	80,427
Prepaid income tax	**1,297**	3,904
Prepaid other tax	**22,723**	—
Prepayments	**29,077**	36,918
	186,521	121,249
Less: Impairment of other receivables	**(3,000)**	(3,000)
	183,521	118,249

The movements in provision for impairment of other receivables are as follows:

	Individually impaired RMB'000
At 1 January 2016	**3,000**
Charge for the year	**—**
Reversal	**—**
At 31 December 2016	**3,000**
At 1 January 2015	3,000
Charge for the year	—
Reversal	—
At 31 December 2015	3,000

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

21. Prepayments, deposits and other receivables (continued)

The aged analysis of the prepayments, deposits and other receivables that are not considered to be impaired is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**183,521**	118,249

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to other receivables for which there was no recent history of default.

22. Cash and cash equivalents and pledged time deposits

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**397,775**	843,674
Time deposits	**1,358,805**	1,227,091
	1,756,580	2,070,765
Less:		
Pledged time deposits for letters of credit	**(21,126)**	—
Pledged time deposits for bank loans	**(456,341)**	(266,500)
Pledged time deposits for notes payable	**(5,000)**	—
Non-pledged time deposits with original maturity of over three months when acquired	**(876,338)**	(960,591)
Cash and cash equivalents	**397,775**	843,674
Denominated in RMB	**126,239**	561,697
Denominated in US$	**194,164**	267,366
Denominated in others	**77,372**	14,611
Cash and cash equivalents	**397,775**	843,674

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

22. Cash and cash equivalents and pledged time deposits (continued)

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2016, time deposits of RMB456,341,000 (2015: RMB266,500,000) have been pledged to secure bank loans (note 25).

As at 31 December 2016, time deposits of RMB5,000,000 (2015: Nil) have been pledged to secure intra-group notes payable.

23. Trade and notes payables

	2016 RMB'000	2015 RMB'000
Trade payables	**102,637**	72,984
Notes payable	**13,505**	10,235
	116,142	83,219

An aged analysis of the trade and notes payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**85,792**	71,221
3 to 6 months	**26,463**	9,751
6 to 12 months	**2,300**	1,420
1 to 2 years	**1,297**	513
Over 2 years	**290**	314
	116,142	83,219

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

23. Trade and notes payables (continued)

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

As at 31 December 2016, notes payable of RMB13,505,000 (2015: RMB10,235,000) were secured by the Group's notes receivable with a carrying amount of RMB13,505,000 (2015: RMB15,805,000) (note 20). The maturity date of the notes payable is within six months.

24. Other payables and accruals

	2016 RMB'000	2015 RMB'000
Other payables	95,741	70,309
Deferred cash settlement for acquisition *(note 33)*	5,390	—
Accrued liabilities	24,703	25,856
Accrued payroll	83,741	66,654
Advances from customers	25,178	10,978
Taxes payable other than corporate income tax	88,221	94,489
Payables for purchases of property, plant and equipment and other intangible assets	126,063	98,171
	449,037	366,457

Other payables are non-interest-bearing.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

25. Interest-bearing loans and borrowings

2016

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB80,000,000 bank loan	3.48	22 March 2017	80,000
RMB100,000,000 bank loan	3.48	24 June 2017	100,000
RMB11,979,806 bank loan	3.70	24 June 2017	11,980
RMB250,000,000 bank loan	3.70	23 October 2017	250,000
EUR33,500,000 bank loan	3-Month LIBOR+0.7	24 June 2017	244,778
EUR23,000,000 bank loan	1.00	23 January 2017	168,056
EUR10,000,000 bank loan	0.70	28 February 2017	73,068
EUR37,000,000 bank loan	3-Month LIBOR+0.8	20 July 2017	270,352
EUR24,000,000 bank loan	1.85	25 July 2017	175,363
Discounted notes receivable	2.79	1 February 2017	100,000
	2.70	26 January 2017	150,000
Finance lease payables, current portion *(note 26)*	2.2	31 December 2017	144
			1,623,741
Non-current			
Finance lease payables *(note 26)*	2.2	1 January 2018 ~ 30 August 2020	372
			1,624,113

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

25. Interest-bearing loans and borrowings (continued)

2015

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB80,000,000 bank loan	3.77	15 March 2016	80,000
US$25,000,000 bank loan	3-Month LIBOR+1.8	1 April 2016	162,340
US$40,000,000 bank loan	12-Month LIBOR+0.75	28 July 2016	259,744
Finance lease payables, current portion *(note 26)*	2.2	31 December 2016	138
			502,222
Non-current			
Finance lease payables *(note 26)*	2.2	1 January 2017 ~ 30 August 2020	493
			502,715

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**1,623,741**	502,222
In the second year	**144**	138
In the third to fifth years, inclusive	**228**	355
Beyond five years	**—**	—
	1,624,113	502,715

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits of RMB456,341,000 (2015: RMB266,500,000) (note 22);

(ii) the pledge of certain of the Group's intra-group trade receivables of RMB178,074,000 (2015: RMB80,000,000) (note 20); and

(iii) the pledge of certain of the Group's notes receivable of RMB20,663,000 (2015: Nil) (note 20).

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

26. Finance lease payables

The Group has certain finance leases for motor vehicles, equipment and machinery. As at 31 December 2016 , the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2016 RMB'000	Minimum lease payments 2015 RMB'000	Present value of minimum lease payments 2016 RMB'000	Present value of minimum lease payments 2015 RMB'000
Amounts payable:				
Within one year	176	168	144	138
In the second year	176	168	144	138
In the third to fifth years, inclusive	278	435	228	355
After five years	—	—	—	—
Total minimum finance lease payments	630	771	516	631
Future finance charges	(114)	(140)		
Total net finance lease payables	516	631		
Portion classified as current liabilities *(note 25)*	(144)	(138)		
Non-current portion *(note 25)*	372	493		

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

27. Government grants

	2016 RMB'000	2015 RMB'000
At 1 January	**140,305**	143,654
Grants received during the year	**54,721**	20,156
Amount released	**(16,653)**	(23,505)
At 31 December	**178,373**	140,305
Current	**56,778**	25,155
Non-current	**121,595**	115,150
	178,373	140,305

The grants are related to the subsidies received from the government for the purpose of compensation for expenses arising from research expenses and improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

28. Deferred revenue

	2016 RMB'000	2015 RMB'000
At 1 January	**—**	—
Acqusition of subsidiaries *(note 33)*	**26,300**	—
Amount released	**(520)**	—
Exchange realignment	**(112)**	—
At 31 December	**25,668**	—

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

28. Deferred revenue (continued)

The deferred revenue represents the grants received from Bayer Shering Pharma AG ("BSP"). LPAG and BSP have entered into an agreement that BSP finances EUR17,000,000 for the depreciation of the production facilities of LPAG, which could manufacture special hormone products for BSP from the use of the production facilities for at least 20 years. LPAG has recognised 50% of the grants received of EUR1,700,000 per year (EUR850,000) as deferred revenue since 2013, which will be recognised to the statement of profit or loss on a straight-line basis over 20 years.

29. Deferred tax

The movements in deferred tax assets and liabilities during the year are as follows:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	**93,760**	69,377
Deferred tax liabilities	**(121,435)**	(92,321)
	(27,675)	(22,944)

Deferred tax assets

	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Losses available for offsetting against future taxable profits RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Unrealised profit from inter-company transactions RMB'000	Total deferred tax assets RMB'000
At 1 January 2016	20,143	710	994	479	814	18,449	27,788	69,377
Deferred tax credited/(charged) to the statement of profit or loss during the year *(note 10)*	3,922	(173)	(994)	(49)	(66)	5,411	9,086	17,137
Acquisition of subsidiaries *(note 33)*	–	7,278	–	–	–	–	–	7,278
Exchange realignment	–	(32)	–	–	–	–	–	(32)
At 31 December 2016	24,065	7,783	–	430	748	23,860	36,874	93,760

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

29. Deferred tax (continued)

Deferred tax assets (continued)

	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Losses available for offsetting against future taxable profits RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Unrealised profit from inter-company transactions RMB'000	Total deferred tax assets RMB'000
At 1 January 2015	39,108	368	—	779	560	17,990	24,454	83,259
Deferred tax (charged)/credited to the statement of profit or loss during the year *(note 10)*	(18,965)	342	994	(300)	254	459	3,334	(13,882)
At 31 December 2015	20,143	710	994	479	814	18,449	27,788	69,377

Deferred tax liabilities

	Withholding taxes RMB'000	Fair value adjustment on acquisition RMB'000	Accelerated depreciation and amortisation for tax purposes RMB'000	Fair value adjustments arising from available-for-sale investments RMB'000	Total deferred tax liabilities RMB'000
At 1 January 2016	(57,251)	(34,111)	(705)	(254)	(92,321)
Deferred tax (charged)/credited to the statement of profit or loss during the year *(note 10)*	38,515	6,642	(217)	–	44,940
Deferred tax transferred to tax payable *(note 10)*	10,500	–	–	–	10,500
Acquisition of subsidiaries *(note 33)*	–	(68,982)	(14,305)	–	(83,287)
Exchange realignment	–	–	63	–	63
Deferred tax charged to other comprehensive income during the year	–	–	–	(1,330)	(1,330)
At 31 December 2016	(8,236)	(96,451)	(15,164)	(1,584)	(121,435)

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

29. Deferred tax (continued)

Deferred tax liabilities (continued)

	Withholding taxes RMB'000	Fair value adjustment on acquisition RMB'000	Accelerated depreciation and amortisation for tax purposes RMB'000	Fair value adjustments arising from available-for-sale investments RMB'000	Total deferred tax liabilities RMB'000
At 1 January 2015	(57,251)	(38,845)	(882)	(739)	(97,717)
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	–	4,734	177	739	5,650
Deferred tax charged to other comprehensive income during the year	–	–	–	(254)	(254)
At 31 December 2015	(57,251)	(34,111)	(705)	(254)	(92,321)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2016, the directors of the Company, based on the Group's expansion plan in Mainland China and the cash flow needs overseas at the end of each year, estimated that part of the retained earnings of its subsidiaries established in Mainland China amounting to RMB164,720,000 (2015: RMB572,510,000) would be subject to future dividend distributions, and a 5% deferred tax liability amounting to RMB8,236,000 (2015: RMB57,251,000) was recognised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The Group has tax losses arising in Singapore, Hong Kong and Germany of RMB65,144,000 (2015: RMB52,096,000) that are available indefinitely for offsetting against future taxable profits.

The Group has tax losses arising in Switzerland of RMB6,439,000 (2015: Nil) that are available for offsetting against future taxable profits in seven years.

The Group has tax losses arising in USA of RMB12,059,000 (2015: RMB760,000) that are available for offsetting against future taxable profits in twenty years.

The Group also has tax losses arising in Mainland China of RMB4,840,000 (2015: RMB62,708,000) that will expire in one to five years for offsetting against future taxable profits.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

29. Deferred tax (continued)

Deferred tax assets have not been recognised in respect of these losses arisen in Singapore, Hong Kong, the USA, Germany, Switzerland and Mainland China as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

30. Issued capital

	2016 RMB'000	2015 RMB'000
Issued and fully paid:		
3,321,073,843 (2015: 3,321,073,843) ordinary shares of US$0.02 each		
US$'000	**66,421**	66,421
RMB'000	**427,269**	427,269

A summary of movements in the Company's issued share capital and share premium is as follows:

	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2015, 31 December 2015 and 31 December 2016	3,321,073,843	427,269	2,936,817	3,364,086

31. Reserves

Statutory surplus reserves

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

32. Partly-owned subsidiary with material non-controlling interests

Financial information of the subsidiary that has material non-controlling interests is provided below:

Percentage of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	2016	2015
WPU	PRC/Mainland China	30.45%	30.45%

	2016 RMB'000	2015 RMB'000
Accumulated balances of material non-controlling interests:		
WPU	133,458	135,570
Profit allocated to material non-controlling interests:		
WPU	2,456	10,176
Dividends paid to material non-controlling interests:		
WPU	4,568	4,568

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2016 RMB'000	2015 RMB'000
Revenue	320,802	247,715
Total expenses	(291,192)	(224,157)
Profit for the year	29,610	23,558
Total comprehensive income for the year	29,610	23,558
Current assets	198,212	177,739
Non-current assets	342,144	332,234
Current liabilities	(44,980)	(24,896)
Non-current liabilities	(29,590)	(33,899)
Net cash flows from operating activities	32,816	30,996
Net cash flows used in investing activities	(25,741)	(19,994)
Net cash flows used in financing activities	(15,000)	(15,000)
Net foreign exchange difference	103	62
Net decrease in cash and cash equivalents	(7,822)	(3,936)

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

32. Partly-owned subsidiary with material non-controlling interests (continued)

As at 31 December 2016, the unrealised profit from the inter-company transaction between WPU and Luye Trading was RMB27,499,000 (2015: RMB5,954,000).

33. Business combination

On 25 July 2016, Luye Pharma (Germany) GmbH and Luye Pharma Switzerland AG (the "Buyers", each an indirectly wholly-owned subsidiary of the Company), the Company and Acino International AG and Acino Pharma AG (the "Sellers") entered into a share purchase agreement, pursuant to which the Buyers have conditionally agreed to purchase, and the Sellers have conditionally agreed to sell, the entire issued share capital of Acino AG and Acino Supply AG (the "Acquisition").

On 30 November 2016, the Acquisition was completed with all conditions fulfilled. Acino AG and Acino Supply AG have changed their names to Luye Pharma AG and Luye Supply AG, respectively. Following completion, each of Luye Pharma AG and Luye Supply AG has become a subsidiary of the Company.

Luye Pharma AG is engaged in developing and producing therapeutic systems for drug release, which in particular include transdermal systems and implants. Luye Supply AG is engaged in distribution of pharmaceutical products. Luye Pharma AG and Luye Supply AG (the "Acino Group") is a Europe based global leader in advanced transdermal drug delivery systems ("TDS") and is one of the largest independent TDS manufacturers in Europe. The Acquisition was made as part of the Group's international expansion strategy and plan to leverage the Acino Group's expertise to achieve various strategic goals. The purchase consideration for the Acquisition was in the form of cash, with EUR243,833,000 (equivalent to RMB1,789,388,000) paid at the acquisition date and the remaining EUR734,000 (equivalent to RMB5,390,000) will be paid in 2017.

The fair values of the identifiable assets and liabilities of the Acino Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment *(note 13)*	318,837
Other intangible assets *(note 16)*	748,380
Deferred tax assets *(note 29)*	7,278
Inventories	124,007
Trade and notes receivables	106,018
Prepayments, deposits and other receivables	24,372
Cash and cash equivalents	114,899
Trade and notes payables	(30,855)
Tax payable	(44,815)
Other payables and accruals	(112,321)
Deferred revenue *(note 28)*	(26,300)
Deferred tax liabilities *(note 29)*	(83,287)
Total identifiable net assets at fair value	1,146,213
Goodwill on acquisition *(note 15)*	648,565
Total consideration	1,794,778

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

33. Business combination (continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB106,018,000 and RMB10,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB106,018,000 and RMB10,000, respectively. None of the trade receivables and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

The Group incurred transaction costs of RMB12,160,000 for the Acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

The goodwill of RMB648,565,000 recognised above comprises the value of expected synergies arising from the Acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the Acquisition is as follows:

	RMB'000
Cash consideration	(1,794,778)
Deferred cash settlement for the Acquisition *(note 24)*	5,390
Cash and bank balances acquired	114,899
Net outflow of cash and cash equivalents included in cash flows from investing activities	(1,674,489)
Transaction costs of the Acquisition included in cash flows from operating activities	(12,160)
	(1,686,649)

Since the acquisition, the Acino Group contributed RMB40,676,000 to the Group's revenue and RMB13,983,000 to the consolidated profit for the year ended 31 December 2016.

Had the Acquisition taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 31 December 2016 would have been RMB3,399,546,000 and RMB1,099,911,000, respectively.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

34. Operating lease arrangements

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years. As at 31 December 2016 and 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**12,003**	8,495
In the second to fifth years, inclusive	**2,636**	7,943
After five years	**2,558**	2,625
	17,197	19,063

35. Commitments

In addition to the operating lease commitments detailed in note 34, the Group had the following capital commitments at the end of the reporting period:

	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**110,421**	75,467
Plant and machinery	**131,435**	106,215
	241,856	181,682

36. Related party transactions

Details of the Group's principal related parties are as follows:

Company	**Relationship**
Steward Cross	Associate
Shandong Boan Biological Technology Co., Ltd. ("Shandong Boan")	An entity controlled by a director of the Company

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

36. Related party transactions (continued)

(a) The Group had the following transactions with related parties during the year:

	Notes	2016 RMB'000	2015 RMB'000
Sales of products to Steward Cross	*(i)*	**8,556**	4,886
Sales of inventories to Shandong Boan	*(ii)*	**2,513**	2,873

Notes:

(i) The sales to Steward Cross were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The sales to Shandong Boan were made on terms equivalent to those that prevail in arm's length transactions.

(b) Outstanding balances with related parties:

The Group had the following balances with its related parties:

(i) Due from related parties

	2016 RMB'000	2015 RMB'000
Steward Cross	**1,393**	1,600
	1,393	1,600

(ii) Due to related parties

	2016 RMB'000	2015 RMB'000
Shandong Boan	**808**	3,428
	808	3,428

The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	**14,030**	15,629
Pension scheme contributions	**810**	851
Total compensation paid to key management personnel	**14,840**	16,480

Further details of directors' and chief executive's remuneration are included in note 8.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

37. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2016

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	1,475,930	1,475,930
Trade and notes receivables	1,415,009	—	1,415,009
Financial assets included in prepayments, deposits and other receivables	133,424	—	133,424
Cash and cash equivalents	397,775	—	397,775
Time deposits with original maturity of over three months	876,338	—	876,338
Pledged time deposits	482,467	—	482,467
Due from related parties	1,393	—	1,393
	3,306,406	1,475,930	4,782,336

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	116,142	116,142
Financial liabilities included in other payables and accruals	251,897	251,897
Interest-bearing loans and borrowings	1,624,113	1,624,113
	1,992,152	1,992,152

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

37. Financial instruments by category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2015

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	1,405,460	1,405,460
Trade and notes receivables	1,193,103	—	1,193,103
Financial assets included in prepayments, deposits and other receivables	80,427	—	80,427
Cash and cash equivalents	843,674	—	843,674
Time deposits with original maturity of over three months	960,591	—	960,591
Pledged time deposits	266,500	—	266,500
Due from related parties	1,600	—	1,600
	3,345,895	1,405,460	4,751,355

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	83,219	83,219
Financial liabilities included in other payables and accruals	194,336	194,336
Interest-bearing loans and borrowings	502,715	502,715
	780,270	780,270

Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

37. Financial instruments by category (continued)

Financial instruments carried at fair value

The Group has carried all investment securities that are classified as available-for-sale investments at their fair values as required by IAS 39, except for unlisted investment which was stated at cost (note 18).

At 31 December 2016, the Group endorsed certain notes receivable accepted by the certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB73,725,000 (2015: RMB73,157,000) (the "Endorsement"). In addition, the Group discounted certain notes receivable accepted by certain banks in the PRC (the "Discounted Notes") with a carrying amount in aggregate of RMB250,000,000 (2015: Nil) (the "Discount"). The Endorsed Notes and the Discounted Notes have a maturity from one to six months as at 31 December 2016. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with amount of RMB39,163,000 (2015: RMB44,662,000) (the "Derecognised Notes"). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade payables settled by the Endorsed Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade payables settled with an amount of RMB34,562,000 as at 31 December 2016 (2015: RMB28,495,000), and recognised the proceeds received from the discount of the Discounted Notes with an amount of RMB250,000,000 (2015: Nil) as short-term loans as at 31 December 2016 because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

38. Fair value and fair value hierarchy of financial instruments

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investment	2,146	—	—	2,146
Investment in bank financial products	—	1,473,284	—	1,473,284
	2,146	1,473,284	—	1,475,430

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investment	2,842	—	—	2,842
Investment in bank financial products	—	1,402,118	—	1,402,118
	2,842	1,402,118	—	1,404,960

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

The Group did not have any financial liabilities measured at fair value as at 31 December 2016 (2015: Nil).

38. Fair value and fair value hierarchy of financial instruments (continued)

Financial instruments whose carrying amounts approximate to their fair values

Management has determined that the carrying amounts of cash and cash equivalents, pledged time deposits, trade and notes receivables, deposits and other receivables, amounts due from/to related parties, trade and notes payables, other payables and short-term interest-bearing loans and borrowings, based on their notional amounts, reasonably approximate to their fair values because these financial instruments are mostly short term in nature. The carrying amounts of long term interest-bearing loans and borrowings, which incur interest at floating interest rate, also approximate to their fair values as the interest rate is periodically adjusted to market rate.

39. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing loans and borrowings and cash and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB, EUR and US$ interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

39. Financial risk management objectives and policies (continued)

Interest rate risk (continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2016			
RMB	**50**	**—**	**—**
RMB	**(50)**	**—**	**—**
EUR	**50**	**(16)**	**(16)**
EUR	**(50)**	**16**	**16**
2015			
RMB	50	—	—
RMB	(50)	—	—
US$	50	(16)	(16)
US$	(50)	16	16

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

39. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2016			
If RMB weakens against US$	5	71	49
If RMB strengthens against US$	(5)	(71)	(49)
If US$ weakens against SG$	5	(309)	(309)
If US$ strengthens against SG$	(5)	309	309
If US$ weakens against HK$	5	(1)	(1)
If US$ strengthens against HK$	(5)	1	1
If HK$ weakens against SG$	5	4	4
If HK$ strengthens against SG$	(5)	(4)	(4)
If US$ weakens against EUR	5	(49,509)	(49,202)
If US$ strengthens against EUR	(5)	49,509	49,202
2015			
If RMB weakens against US$	5	(14,481)	(14,493)
If RMB strengthens against US$	(5)	14,481	14,493
If US$ weakens against SG$	5	(881)	(881)
If US$ strengthens against SG$	(5)	881	881
If US$ weakens against HK$	5	(14)	(14)
If US$ strengthens against HK$	(5)	14	14
If HK$ weakens against SG$	5	4	4
If HK$ strengthens against SG$	(5)	(4)	(4)

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

39. Financial risk management objectives and policies (continued)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged time deposits, available-for-sale financial assets, other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 20 and 21 to the consolidated financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing loans and borrowings.

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

39. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

31 December 2016

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing loans and borrowings	—	331,731	1,305,997	454	—	1,638,182
Trade and notes payables	19,560	93,867	2,715	—	—	116,142
Financial liabilities included in other payables and accruals	93,045	154,650	4,202	—	—	251,897
	112,605	580,248	1,312,914	454	—	2,006,221

31 December 2015

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing loans and borrowings	—	82,523	423,556	603	—	506,682
Trade and notes payables	11,998	71,221	—	—	—	83,219
Financial liabilities included in other payables and accruals	93,270	101,066	—	—	—	194,336
	105,268	254,810	423,556	603	—	784,237

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

39. Financial risk management objectives and policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to maintain the gearing ratio below 30%. Net debt includes interest-bearing loans and borrowings, trade and notes payables, other payables and accruals and amounts due to related parties, less cash and cash equivalents, time deposits with original maturity of over three months and pledged time deposits. Total capital represents equity attributable to the owners of the parent less the net unrealised gain reserves. The gearing ratios as at the end of the reporting periods were as follows:

	2016 RMB'000	2015 RMB'000
Interest-bearing loans and borrowings	1,624,113	502,715
Trade and notes payables	116,142	83,219
Other payables and accruals	449,037	366,457
Due to related parties	808	3,428
Less: Cash and cash equivalents	(397,775)	(843,674)
Time deposits with original maturity of over three months	(876,338)	(960,591)
Pledged time deposits	(482,467)	(266,500)
Net debt/(cash)	433,520	(1,114,946)
Equity attributable to owners of the parent	6,428,543	5,663,961
Less: Net unrealised gain reserves	(4,121)	(2,042)
Total capital	6,424,422	5,661,919
Total capital and net debt	6,857,942	4,546,973
Gearing ratio	6%	(25%)

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

40. Event after the reporting period

On 10 January 2017, the board of directors approved the adoption of the "Luye Pharma Share Award Scheme" (the "Scheme") to recognise contributions by certain Group's employees and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. Subject to any early termination as may be determined by the board of directors in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of ten years commencing on the 10 January 2017 (the "Adoption Date"). The Company did not grant any shares under the Scheme since its Adoption Date up to the date of this report.

41. Statement of financial position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 **RMB'000**	2015 RMB'000 (Restated)
NON-CURRENT ASSETS		
Investments in subsidiaries	**10,557**	10,535
CURRENT ASSETS		
Due from subsidiaries	**4,822,690**	3,508,626
Prepayments, deposits and other receivables	**214,627**	40,836
Time deposits with original maturity of over three months	**—**	290,591
Cash and cash equivalents	**126,487**	250,286
Total current assets	**5,163,804**	4,090,339
CURRENT LIABILITIES		
Interest-bearing loans and borrowings	**686,839**	259,744
Due to subsidiaries	**896,853**	436,898
Other payables and accruals	**4,495**	3,355
Total current liabilities	**1,588,187**	699,997
NET CURRENT ASSETS	**3,575,617**	3,390,342
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,586,174**	3,400,877
Net assets	**3,586,174**	3,400,877
EQUITY		
Issued capital	**427,269**	427,269
Share premium *(note)*	**2,936,817**	2,936,817
Reserves *(note)*	**222,088**	36,791
Total equity	**3,586,174**	3,400,877

Notes to the Consolidated Financial Statements (Continued)

31 December 2016

41. Statement of financial position of the Company (continued)

Note:

A summary of the Company's share premium account and reserves is as follows:

	Share premium account RMB'000	Retained earnings RMB'000	Foreign currency translation reserves RMB'000	Total RMB'000
At 1 January 2015	2,936,817	1,282	(142,440)	2,795,659
Loss for the year	—	(9,683)	—	(9,683)
Other comprehensive income for the year:				
Currency realignment	—	—	187,632	187,632
Total comprehensive income for the year	—	(9,683)	187,632	177,949
At 31 December 2015 and 1 January 2016	2,936,817	(8,401)	45,192	2,973,608
Profit for the year	—	60,076	—	60,076
Other comprehensive income for the year:				
Currency realignment	—	—	232,197	232,197
Total comprehensive income for the year	—	60,076	232,197	292,273
Interim 2016 dividend	—	(106,976)	—	(106,976)
At 31 December 2016	**2,936,817**	**(55,301)**	**277,389**	**3,158,905**

42. Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2017.

LUYE PHARMA
绿叶制药

Luye Pharma Group Ltd.

www.luye.cn