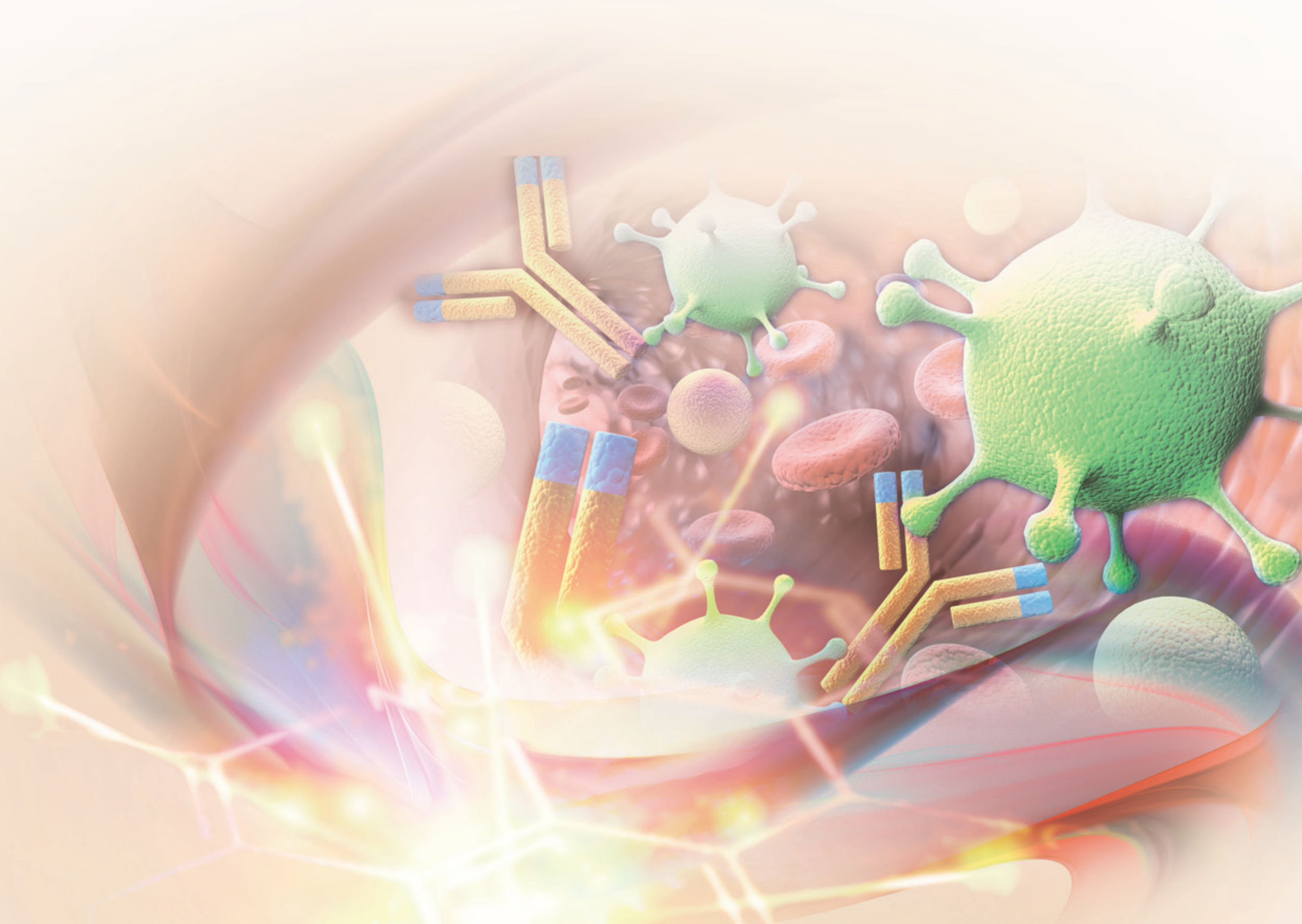
Lee's Pharmaceutical Holdings Limited
李氏大藥廠控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 950)



Oncolytic Virus and Checkpoint Inhibitor Combination
A Potential Paradigm-shifting Treatment for Cancer

Annual Report 2017

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Ms. Lee Siu Fong *(Chairman)*
Ms. Leelalertsuphakun Wanee *(Managing Director)*
Dr. Li Xiaoyi *(Chief Executive Officer)*

Non-executive Directors
Dr. Marco Maria Brughera
(resigned with effect from 29 December 2017)
Mr. Simon Miles Ball
(appointed with effect from 29 December 2017)

Independent Non-executive Directors
Dr. Chan Yau Ching, Bob
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

COMPANY SECRETARY

Mr. Chow Yiu Ming

AUDIT COMMITTEE

Dr. Chan Yau Ching, Bob *(Chairman)*
Mr. Lam Yat Cheong
Dr. Tsim Wah Keung, Karl

REMUNERATION COMMITTEE

Dr. Tsim Wah Keung, Karl *(Chairman)*
Ms. Leelalertsuphakun Wanee
Dr. Chan Yau Ching, Bob

AUDITOR

HLM CPA LIMITED
Certified Public Accountants

LEGAL ADVISERS

King & Wood Mallesons *(Hong Kong law)*
Beijing Wuhuan Law Firm *(PRC law)*

REGISTERED OFFICE

P. O. Box 309 GT, Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands

PLACE OF BUSINESS IN HONG KONG

Units 110-111, Bio-Informatics Centre
No. 2 Science Park West Avenue
Hong Kong Science Park, Shatin
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

AUTHORISED REPRESENTATIVES

Ms. Lee Siu Fong
Dr. Li Xiaoyi

WEBSITE

www.leespharm.com

STOCK CODE

950

CORPORATE PROFILE

Lee's Pharmaceutical Holdings Limited (the "Company", together with its subsidiaries, the "Group", Hong Kong stock code: 950) is a research-driven and market-oriented biopharmaceutical company with more than 20 years of operation in the pharmaceutical industry in the People's Republic of China (the "PRC" or "China").

The Group is fully integrated with solid infrastructures in drug development, clinical development, regulatory, manufacturing, sales and marketing based in Mainland China with global perspectives. The Group has established extensive partnerships with over 20 international companies and currently markets 17 proprietary and licensed-in pharmaceutical products in Mainland China, Hong Kong and Macau.

The Company focuses on several key disease areas such as cardiovascular, oncology, gynaecology, urology, dermatology and ophthalmology. It has more than 50 products under different development stages stemming from both internal research and development as well as from the licensing of development, commercialisation, and manufacturing rights from various United States, European and Japanese companies.

The Group carries out its sales and distribution activities in Hong Kong and Mainland China through Hong Kong office and branch offices in Guangzhou, Shanghai and Beijing with network covering most of the provinces and cities in Mainland China, marketing both domestic self-developed products and overseas licensed-in products. Zhaoke Pharmaceutical (Hefei) Company Limited, a subsidiary of the Group, is currently operating the manufacturing plant of the Group located in Hefei, Anhui Province of the PRC, comprising four GMP-compliant workshops for the production of topical gel, lyophilised powder for injection, small volume parenteral solutions and eye gel. Zhaoke Pharmaceutical (Guangzhou) Limited, a subsidiary of the Group, is currently developing the new manufacturing site in Nansha District, Guangzhou of the PRC which will enable the Group's expansion into solid-dose products such as tablets and capsules as well as ophthalmic products in the near future.

The mission of the Company is to become a successful biopharmaceutical group in Asia providing innovative products to fight diseases and improve health and quality of life.

CORPORATE PROFILE

Currently, the Group has the following products in the market:

	Country of origin	Market PRC	Market Hong Kong	Medical application
Proprietary products:				
* Livaracine®	PRC	✓		Heart and other cardiovascular diseases
Yallaferon®	PRC	✓		Viral-infected venereal diseases
* Slounase®	PRC	✓		Reduction of bleeding
* Eyprotor®	PRC	✓		Cornea ulcer
Licensed-in products:				
* Carnitene®	Italy	✓		Cardiac diseases
Ferplex®	Spain	✓		Treatment of sideropenic anaemias
* Zanidip®	Italy	✓	✓	Hypertension
Aloxi®	France		✓	Prevention of nausea and vomiting associated with emetogenic cancer chemotherapy
Veloderm®	Italy	✓		Burns and wounds healing
Gaslon N®	Japan	✓		Gastric ulcer and gastritis
UNIDROX®	Italy		✓	Treatment of urinary tract infections and respiratory tract infections
Levocarnitine oral solution	Italy	✓		Primary and secondary carnitine deficiency
Remodulin®	USA	✓		Treatment of pulmonary arterial hypertension and to diminish symptoms associated with exercise
Mictonorm®	Germany	✓		Urinary incontinence
Trittico®	Italy		✓	Insomnia/Depression
Oncaspar®	USA		✓	Leukemia
Dicoflor®	Italy		✓	Probiotics

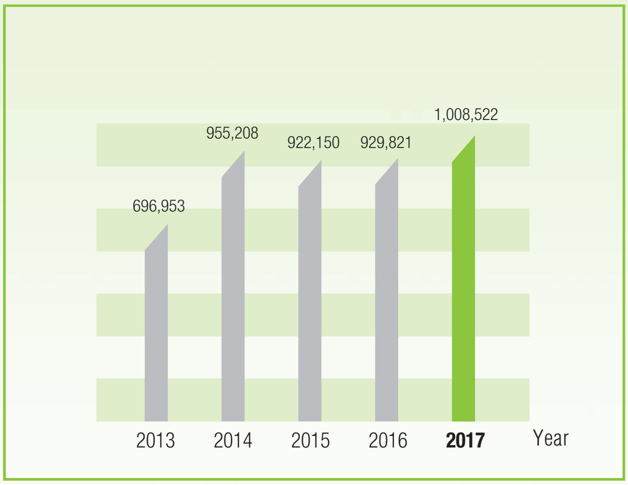
* *In the National Drug Reimbursement List of the PRC*

FINANCIAL HIGHLIGHTS

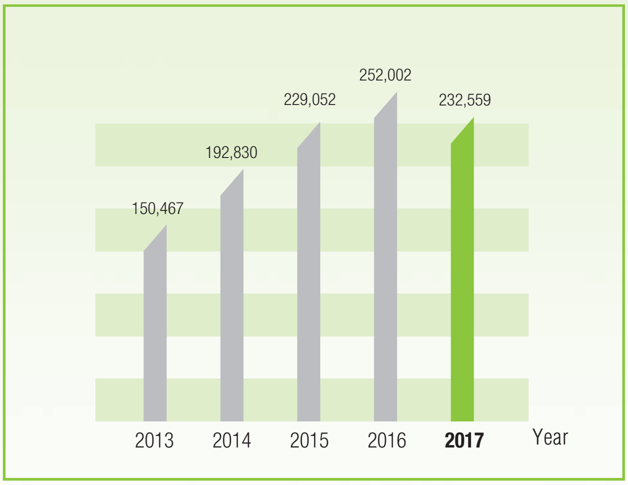
	2017 HK$'000	2016 HK$'000	Change
Revenue	**1,008,522**	929,821	+8.5%
Profit attributable to the owners of the Company	**232,559**	252,002	–7.7%
Total equity attributable to the owners of the Company	**1,804,346**	1,601,726	+12.7%
	HK cents	HK cents	
Earnings per share			
Basic	**39.38**	42.79	–8.0%
Diluted	**39.26**	42.60	–7.8%
Dividend per share			
Interim	**3.4**	3.3	
Final	**7.0**	7.9	
Total	**10.4**	11.2	–7.1%
Dividend payout ratio	**26.4%**	26.2%	

FINANCIAL HIGHLIGHTS

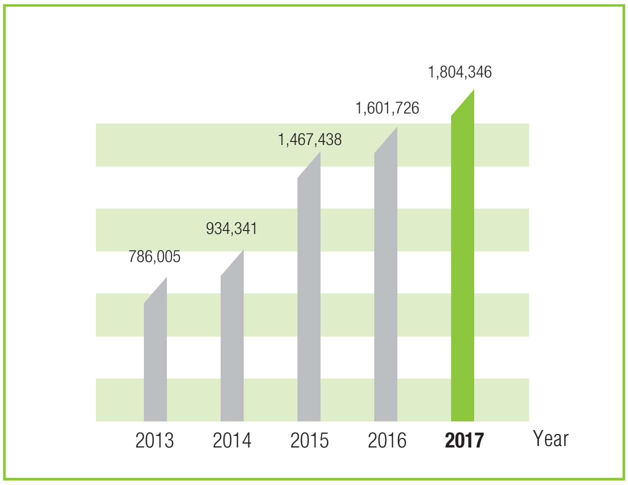
Revenue (HK$'000)



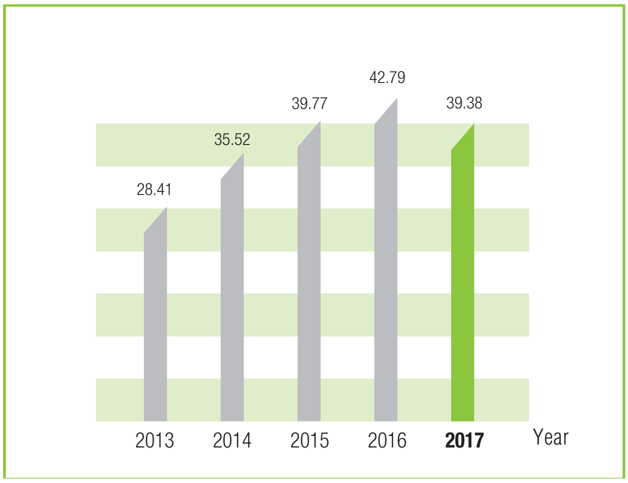
Profit Attributable to the Owners of the Company (HK$'000)



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



Basic Earnings Per Share (HK cents)



FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,008,522**	929,821	922,150	955,208	696,953
Cost of sales	**(326,118)**	(261,586)	(273,986)	(284,685)	(193,700)
Gross profit	**682,404**	668,235	648,164	670,523	503,253
Other income	**47,109**	72,137	12,194	17,572	10,731
Gain on deemed disposal of a subsidiary	**58,066**	–	–	–	–
Gain on deemed disposal of interest in an associate	**–**	–	31,825	–	–
Fair value changes of derivative financial instruments	**–**	–	10,092	(10,092)	–
Impairment of intangible assets	**(52,326)**	(23,324)	(8,192)	(5,649)	(6,094)
Selling and distribution expenses	**(214,150)**	(204,225)	(256,465)	(309,202)	(222,850)
Administrative expenses	**(159,218)**	(146,511)	(112,310)	(99,345)	(78,511)
Research and development expenses	**(85,057)**	(67,886)	(38,883)	(32,315)	(26,168)
Profit from operations	**276,828**	298,426	286,425	231,492	180,361
Finance costs	**(4,256)**	(3,803)	(3,040)	(2,671)	(1,853)
Share of results of associates	**(14,944)**	(12,019)	(29,450)	(668)	(2,418)
Profit before taxation	**257,628**	282,604	253,935	228,153	176,090
Taxation	**(54,689)**	(50,198)	(40,938)	(41,368)	(27,087)
Profit for the year	**202,939**	232,406	212,997	186,785	149,003
Attributable to:					
Owners of the Company	**232,559**	252,002	229,052	192,830	150,467
Non-controlling interests	**(29,620)**	(19,596)	(16,055)	(6,045)	(1,464)
Profit for the year	**202,939**	232,406	212,997	186,785	149,003

FIVE-YEAR FINANCIAL SUMMARY

FINANCIAL POSITION

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,451,206**	1,177,685	1,009,659	639,392	523,884
Current assets	**873,318**	883,712	841,469	729,988	641,771
Current liabilities	**(431,085)**	(358,375)	(281,956)	(308,179)	(272,157)
Net current assets	**442,233**	525,337	559,513	421,809	369,614
Non-current liabilities	**(96,507)**	(68,306)	(52,344)	(62,334)	(41,440)
Net assets	**1,796,932**	1,634,716	1,516,828	998,867	852,058
Total equity attributable to the owners of the Company	**1,804,346**	1,601,726	1,467,438	934,341	786,005
Non-controlling interests	**(7,414)**	32,990	49,390	64,526	66,053
Total equity	**1,796,932**	1,634,716	1,516,828	998,867	852,058

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of Lee's Pharmaceutical Holdings Limited (the "Company") and its board ("Board") of directors ("Directors"), I am pleased to report another successful year for the Company with solid performance. In 2017, we celebrated our 15 years anniversary of listing on the Hong Kong Stock Exchange with sales breaking the HK$1.0 billion ceiling for the first time in the Group's history. We also witnessed an accelerating pace of innovation, good progress on the construction works of our manufacturing facilities, strengthening of our research and development ("R&D") force and intensification of our efforts in pharmaceutical development activities.

Despite the trend towards stabilisation, the pharmaceutical business environment remained challenging throughout the entire year under review. On one hand, limited state-funded healthcare insurance led to continuous pressure on the prescription drug prices and demands. On the other hand, the inflationary increase in raw material costs and manufacturing overhead in China eroded our gross profit margin. Nevertheless, we marched on with our turnaround in revenue growth with the fourth quarter of the year under review marked our sixth consecutive quarter of revenue growth and second quarter in a row of double digit revenue growth. The record revenue of HK$1.0 billion represents a remarkable 100 times leaps of sales in fifteenth years since listing.

During the year of 2017, we continue to invest heavily in our R&D activities and already reached the level of 18.3% of our total revenue. By taking big steps forward, we have accelerated ourselves to reach the destinations of our near term opportunities in our pipeline portfolio. To date, we have over 50 projects in our pipeline which focusing on high unmet medical needs in various therapeutic areas such as cancer, cardiovascular disease and ophthalmology, and of which, we should expect at least 8 projects which will be completed their developing stages within the next 48 months.

We continue to strengthen our manufacturing capability in Nansha and Hefei. Our solid dose production facility in Nansha is fully operational and is currently in the final stage to obtain relevant GMP certifications. Our ophthalmology production facility in Nansha is in the installation and commissioning stage, and the preparation work to obtain manufacturing license is in progress. Our Hefei facility is currently equipped with the full spectrum of injection product manufacturing capability, and we are now working on the plan to move upstream by erecting facilities on site of active pharmaceutical ingredient ("API") sources to ensure product quality and save costs.

CHAIRMAN'S STATEMENT

Looking back, we are proud of the journey that we have been taking to grow the Company organically from a start-up to a fully integrated specialty pharma during the past 15 years as a public company.

Looking ahead, we are full of confident that the best is yet to come. Pharmaceutical industry in China is going through drastic structural adjustments and transformations. Nevertheless, we have already built a solid foundation to embrace competition and rise above the challenges. Science is our relentless pursuit and innovation is the cornerstone of our success and our future.

Finally, a vote of thanks to our business partners, management team and staff, as well as my fellow Board members is in order. We are committed to building value for our shareholders, and we will be single-minded in our pursuit of that objective.

Lee Siu Fong
Chairman

Hong Kong, 22 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2017 was a challenging yet exciting year for the pharmaceutical sector in China in general and the Group in specific. Chinese Government continued major medical reform during the year in order to ease the costly medical treatment and burden from both patients and the reimbursement system, together with the implementation of policies and measures such as two-invoice system, drug price negotiation, and pay by diseases. All those measures have put pressure on pricing.

On the other hand, the healthcare sector in China continued its transformation and liberalisation processes. The Government has introduced supportive and favourable policies on drugs and medical devices innovation, such as accelerated approval times and the recognition of international clinical trial data. New drug review and approval process is more in line with international standard that will quicken the time-to-clinic and time-to-market for innovative drugs and medical devices. Reimbursement policy is also under review that will provide more resources to drugs that address highly unmet medical need.

Against this backdrop, the Group continued to experience downward pressure on pricing during 2017, albeit it was to a lesser extent than previous year. Coupled with a reemergence of inflationary pressure on material costs such as active pharmaceutical ingredient ("**API**"), there was a squeeze on gross margin. In addition, the increasing spending in research and development ("**R&D**") heaped pressure on operating profit. Those factors resulted in a deceleration of net profit growth during the year under review.

On the brighter side, year 2017 marked the 15 year anniversary of the Group's listing on the Hong Kong Stock Exchange with important milestone as the Group finally reached the HK$1 billion annual sales level. Revenue growth has been in the positive territory for the past six quarters and the pace of recovery has been accelerated. Taking advantage of the new measures favoured innovation, the Group can have more peace of mind in adopting an aggressive yet prudent approach in its R&D budget on various development projects on hand as well as the licensing of new compounds and products activities to enrich the pipeline and expand the portfolio to fuel for future business growth. As a result, 2017 had become a banner year for the Group's R&D effort.

In addition, following the structural adjustments and transformation in the industry, the pharmaceutical investment and capital markets have also become increasingly hot towards the end of 2017 and beyond. Therefore, the Group capitalised the chance to raise capital for its Taiwan-based development arm in cardiovascular disease area in 2017.

Overall, the Group delivered a solid result in 2017 which provided sufficient resources to progress towards the path to become a successful specialty pharmaceutical company in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and Profit

The Group generated a revenue contribution of HK$1,008,522,000 from the sales of pharmaceutical products in 2017, representing a growth of 8.5% as compared to that of in 2016. Major six products contributed 94.9% of revenue in 2017, decreased by 1.3 percentage points as compared to that of in 2016, indicating progressive improvement of sales of other products. Sales of licensed-in products was HK$544,402,000 (2016: HK$489,748,000) and accounted for 54.0% (2016: 52.7%) of the Group's revenue while sales of proprietary products was HK$464,120,000 (2016: 440,073,000) and contributed 46.0% (2016: 47.3%) of the Group's revenue.

Overall revenue growth of licensed-in products resumed positive in 2017. *Ferplex*® achieved decent revenue growth of 25% and exceeded HK$100 million revenue in a year for the first time. Revenue growth of *Zanidip*® turned positive again to 17.0%, while that of *Carnitene*® fairly improved by 4.6%. Together with the increased revenue contribution from the sales of other licensed-in products such as *Remodulin*®, the Group has recorded revenue growth of 11.2% from its licensed-in products in 2017.

Proprietary products sustained a balanced revenue growth of 5.5% in 2017, improved by 0.4 percentage point as compared to that of in 2016. *Yallaferon*® and *Livaracine*® achieved modest revenue growth of 5.4% and 9.1%, respectively. Sale of *Slounase*® was underperformed in 2017 but the shortfall nevertheless compensated in full by the robust revenue growth from *Eyprotor*® during the year under review.

Overall gross profit margin was 67.7% in 2017, declined by 4.2 percentage points from 71.9% in 2016, reflecting the combined adverse effects of increased material purchase costs for the production of in-house products as well as increase in import costs of licensed-in products due to the appreciation of Euro throughout the year under review. The Group continued to put more resources into R&D of new drugs, especially in cardiovascular, oncology and ophthalmology therapeutic areas. Overall, HK$184,605,000 was spent in R&D activities during 2017 (2016: HK$169,198,000), representing 18.3% (2016: 18.2%) to the corresponding yearly revenue. Among which HK$85,057,000 (2016: HK$67,886,000) has been recognised as expenses and HK$99,548,000 (2016: HK$101,312,000) has been capitalised as intangible assets.

The Group continued to streamline its sales and marketing efficiency in 2017 and the selling expenses to revenue ratio has further lowered to 21.2% (2016: 22.0%). In addition, a one-time net positive impact of approximately HK$5,740,000 was recorded in 2017 which comprised the gain on deemed disposal of certain interest in CVie Therapeutics Limited ("**CVie Taiwan**") of HK$58,066,000 and the written off of certain intangible assets of HK$52,326,000.

Net profit attributable to the owners of the Company was HK$232,559,000 (2016: HK$252,002,000), and recorded net profit margin of 23.1% (2016: 27.1%).

Quality System, Production and Manufacturing Facilities

During the year under review, the Group continued to upgrade and enhance the production capability in Nansha and Hefei.

The Group's solid dose production facility in Nansha is already fully operational with valid manufacturing license. In 2017, the Group continued to work on the GMP compliance matters. To date, the GMP certificate for its outer packaging operations for *Mictonorm*® has been obtained, while the applications for the GMP certificates in respect of manufacturing of Azilsartan and Sodium Phenylbutyrate are still underway.

Ophthalmology product production facility in Nansha is now in installation and commissioning stage. In 2017, the Group commenced the preparation work for the application of manufacturing license.

In Hefei, the Group adopted the strategy to move up the value chain for proprietary products. The construction of facility on site of source of API production for *Eyprotor*® is in progress. In addition, the Group invested in snake farm and related facility in Huangshan for venom extraction and was already in operation. Those efforts will help control both quality and cost of API.

Drug Development

In March 2017, Powder Pharmaceuticals Incorporated ("**PPI**"), an associated company of the Group, has been granted by China Food and Drug Administration ("**CFDA**") priority review for the clinical trial application of its product, namely *Zingo*®, a needle-free local analgesia delivery platform technology for pediatric use. The approval of the clinical trial application was obtained in December 2017. Furthermore, in August 2017, *Zingo*® obtained product registration certificate from Hong Kong Department of Health. *Zingo*® will be launched in Hong Kong at the beginning of second quarter of 2018.

In June 2017, registration enabling global Phase Ib/IIa clinical study of Adapalene and Clindamycin combination hydrochloride gel for acne vulgaris (moderate to severe acne) was completed and positive results therefrom which met pre-specified endpoints was attained. The study demonstrated that patients treated with 0.1% Adapalene + 1% Clindamycin showed the best results in the percent reduction in both lesion and inflamed lesion count. The Group had held meeting with CFDA to discuss phase III protocol with positive conclusion. The Group will commence registration enabling Phase III study during the second quarter of 2018.

In July 2017, registration enabling global Phase III clinical trial for advanced liver cancer using its oncolytic immunotherapy called Pexa-Vec (formerly JX-594), the PHOCUS study, has been approved (Approval No. 2017L04441) by the CFDA. The clinical study will globally enroll 600 patients (300 in China, 300 in the rest of the world) and over 250 of the patients required from the rest of the world have been enrolled to date. In China, the study will be led by world-renowned oncologist Professor Qin and 26 major cancer centres around China have been confirmed to participate. The preparation work has been gearing up and first China patient is expected to enroll in second quarter of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

In January 2018, China Oncology Focus Limited ("**COFL**"), a 65% owned subsidiary of the Group, has been granted the approval to proceed with the clinical trials for ZKAB001, an anti PD-L1 monoclonal antibody, in three separate cancer indications. The trials will be anticipated to use a 3+3 design with 5mg/kg, 10mg/kg and 15mg/kg dosing regimens. Once the Maximum Tolerated Dose (MTD) has been established, addition patients are expected to be recruited in an expanded Phase I protocol. Clinical data from these studies is expected to be available by the end of 2019, and positive results could lead to conditional approval of the antibody prior to a confirmatory Phase III study.

During the year, the Group submitted three Investigational New Drugs ("**IND**") to the CFDA for TG02, Gimatecan and Tecarfarin respectively. These three products are new chemical entity (NCE) and will be developed for cancer treatment and anticoagulation treatment. Clinical studies will be initiated during the second half of 2018 in both Hong Kong and mainland China. The three NCE IND submissions rank the Group fourth in the nation in 2017 among 4,000 Pharma and Biotech companies, followed a second national ranking in 2015. It again affirms the Group's premium position as an R&D driven, innovative specialty pharma with biotech spirit.

International Partnerships

In June 2017, the Group made an exclusive licensing and collaboration agreement with Windtree Therapeutics, Inc. ("**WINT**") for the development and commercialisation of KL4 surfactant products in Asian countries. In addition, WINT granted the Group an exclusive license to manufacture KL4 surfactant in China. The Group is working on the technology transfer now and manufacture of the product will be made shortly. NDA submission is expected before the end of 2018.

In November 2017, the Group, via COFL, made another move in relations to combination therapy clinical trial in oncology area and entered a collaboration agreement with Beijing Shenogen Pharma Group Limited ("**Shenogen**") to jointly develop and commercialise a combination product which composed of the Group's license-in clinical compound, PD-L1 for treatment of late stage cancers.

In November 2017, the Group made an exclusive licensing and collaboration agreement with Eleison Pharmaceuticals, Inc. ("**Eleison**") for the development and commercialisation of Glufosfamide in China and Southeast Asia for the treatment of pancreatic cancer. A registration enabling global phase III study is ongoing with targeted enrolment of 400 patients, of which 200 will be from China. Clinical approval for China arm has been approved by CFDA and preparation is underway. It is expected that first patient will be enrolled in China during the second half of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

In December 2017, the Group entered into an agreement with Noden Pharma DAC ("**Noden**"), an Ireland-based company, pursuant to which the Group was awarded the exclusive agency and sales rights of Aliskiren tablet (trade name: Rasilez) in Mainland China, Hong Kong, Macau and Taiwan. Aliskiren is the only renin inhibitor drug in the world that is approved for marketing and the indication for Aliskiren is the treatment of essential hypertension. China IDL has been obtained for Aliskiren and the product is ready for launched into market. The Group is now working on pre-marketing preparation and planning to sell the product during the second half of 2018. As a direct kinin inhibitor and potent blood pressure lower agent, Rasilez will complement to the Group's effort on calcium channel blocker *Zanidip*®. With both Azilsartan and Rostafuroxin on the horizon, it is the Group's attention to build a strong franchise on hypertension, allowing the maximum leverage on the resources.

In December 2017, the Group made an exclusive licensing and collaboration agreement with GC Pharma for the development and commercialisation of GCC-4401C, an investigational oral Factor Xa inhibitor anticoagulant, in Greater China and Southeast Asia for the prevention and treatment of thromboembolic disease. As a market leader with its low molecular weight heparin *Livaracine*® in the anticoagulation area, the control of a Factor Xa inbibitor will significantly enhance the Group's position in the area. Besides the above-mentioned, the Group is developing a proprietary anti-platelet agent Anfibatide, a vitamin K antagonist Tecarfarin and others with the aim to offer a complete solution in the anticoagulation realm.

Corporate Development

As a result of good progress in the development of Rostafuroxin and Istaroxime, CVie Taiwan managed to attract a good set of Taiwan-based investors. In May 2017, CVie Taiwan successfully raised additional funding of US$7.5 million (approximately HK$58.5 million equivalent) by mean of the issuance of Series A Preferred Shares thereof to finance the ongoing clinical trials. The interests in CVie Taiwan held by the Group was diluted from 56.26% to 49.58% upon the completion in June 2017 and CVie Taiwan ceased to be an indirect non-wholly owned subsidiary and become an associated company of the Group. With respect to the abovementioned fund raising, the Group recorded a one-time gain of HK$58,066,000 which was arising from the deemed disposal of the Group's partial interests in CVie Taiwan. In order to tie in with the change of control of CVie Taiwan, HK$42,708,000 of R&D costs capitalised in the prior years in relation to Rostafuroxin and Istaroxime were written off during the period under review.

In November 2017, the Group has invested majority of shares in Windtree Therapeutics, Inc. (OTCQB: WINT) at a consideration of US$10 million, in which the major assets included certain products such as aerosolised KL4 surfactant therapies for respiratory diseases with near term potential. The transaction is expected to strengthen the Group's position in critical neonatal care, with the potential to expand also its acute pulmonary care portfolio. The investment marks an important milestone in the Group's development. The US biotech industry leads the world in innovation and cutting-edge technology. The investment in a US biotech company provides the Group professional managerial experiences and new prospective in new drug development, serving as springboard to launch the Group into the forefront of new drug development.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Net Profit Attributable to the Owners of the Company

The Group's revenue increased year-on-year by HK$78,701,000 or 8.5%, from HK$929,821,000 in 2016 to HK$1,008,522,000 in 2017. During the year, sales of proprietary products maintained steady growth of 5.5%, while the sales of licensed-in products managed to increase by 11.2%.

Revenue	2017 HK$'000	2016 HK$'000	Change
Proprietary products	**464,120**	440,073	+5.5%
Licensed-in products	**544,402**	489,748	+11.2%
Total	**1,008,522**	929,821	+8.5%

Net profit attributable to owners of the Company declined by 7.7%, from HK$252,002,000 in 2016 to HK$232,559,000 in 2017.

Gross Profit Margin

Gross profit margin for the financial year 2017 was 67.7% (2016: 71.9%), decreased by 4.2 percentage points as compared with year 2016.

Other Income

Other income for the financial year 2017 was HK$47,109,000, decreased by HK$25,028,000 as compared with the corresponding period of last year. Other income during the year included certain one-off items such as development grants from the local government, foreign exchange gain, and development upfront income from the co-development program of a combination product in oncology area.

Gain on Deemed Disposal of a Subsidiary

CVie Therapeutics Limited, a then non-wholly owned subsidiary company of the Group, raised capital by placement of its new shares in May 2017 at a price higher than net asset value per share, and the Group recognised a gain on deemed disposal of a subsidiary of HK$58,066,000.

Impairment of Intangible Assets

Impairment of intangible assets for the fiscal year 2017 was HK$52,326,000 (2016: HK$23,324,000). This represented certain licensing and R&D projects in which the developments were no longer continued during the year.

Selling and Distribution Expenses

Due to the Group's optimised cost structure in sales and marketing, selling and distribution expenses for the year ended 31 December 2017 further reduced by HK$9,925,000 as compared with the corresponding period of last year to HK$214,150,000, accounting for 21.2% of the Group's revenue, as compared with 22.0% for last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses for the year ended 31 December 2017 increased by HK$12,707,000 as compared with the corresponding period of last year to HK$159,218,000. This accounted for 15.8% of the Group's revenue during the year under review, same ratio as that of in last year. The increase in administrative expenses was mainly in line with the Group's ongoing business expansion in Nansha.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2017 increased by HK$17,171,000 as compared with the corresponding period of last year to HK$85,057,000. It accounted for 8.4% of the Group's revenue during the year under review, increased by 1.1 percentage points as compared with 7.3% for last year. The increase in expenditure was attributable to the Group's continuous investment in new drug development activities for long-term sustainable growth.

Taxation

The income tax expense for the year ended 31 December 2017 increased by HK$4,491,000 as compared with the corresponding period of last year to HK$54,689,000. The Group's effective tax rate was approximately 21.2% during the year under review, increased by 3.4 percentage points as compared with 17.8% for last year.

Liquidity and Financial Resources

The Group's principal sources of working capital in the current year mainly included cash flow from operating activities and bank borrowings.

As at 31 December 2017, the Group's current ratio (current assets divided by current liabilities) was 2.03 (2016: 2.47). As at 31 December 2017, the Group had net cash position of HK$378,317,000 (2016: net cash of HK$398,036,000) which represented cash and bank balances of HK$273,990,000 (2016: HK$295,282,000), pledged bank deposits of HK$27,915,000 (2016: HK$26,639,000), time deposits of HK$175,416,000 (2016: HK$209,693,000), and short term bank borrowings of HK$99,004,000 (2016: HK$133,578,000).

The calculation of Group's gearing ratio based on the net borrowings (after deducting cash and bank balances) to equity attributable to the shareholders of the Company was nil as at 31 December 2017 (2016: nil).

Taking into consideration the existing financial resources available to the Group, it is believed that the Group should have adequate financial resources to meet its operation and development requirements in the future.

Treasury Policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Exposure

Currently, the Group earns revenue and incurs costs in Renminbi, Hong Kong dollars, European Union euro, Japanese Yen, New Taiwan dollars and United States dollars. The Directors believe that the Group does not have foreign exchange problems in meeting its foreign exchange requirements. The Group will continue to monitor closely its foreign currency exposure and to consider hedging significant foreign currency exposure when necessary.

Pledge of Assets

At 31 December 2017, the Group has pledged bank deposits of HK$27,915,000 (2016: HK$26,639,000) to secure certain general banking facilities, as set out in note 45 to the consolidated financial statements.

The Group's obligations under finance leases are secured by the lessor's title to the motor vehicles with a carrying amount of HK$1,652,000 (2016: HK$1,874,000).

Contingent Liabilities

Details of the contingent liabilities of the Group as at 31 December 2017 are set out in note 46 to the consolidated financial statements.

Employee Information

As at 31 December 2017, the Group had 963 employees (2016: 851 employees) working in Hong Kong and mainland China.

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme, retirement benefit scheme and medical insurance, employees share options may also award to employees according to the assessment of individual performance.

PROSPECTS

The medical reform in 2017 has already brought significant improvements to the business environment from various aspects, including policy, market, capital, and investment, and this trend is expected to continue into 2018. While persistent challenges is expected to the sales of existing products, favourable environment and conditions should be expected for innovation activities. The Group continues to view its strong balance sheet, full spectrum of manufacturing capability, comprehensive product pipeline and variety of partnerships, enhanced sales and marketing efficiency, and strengthened regulatory expertise as significant competitive advantages for the road ahead.

The open-up of new capital market for innovative company in the biotech area in Hong Kong will provide alternative funding to the Group's R&D effort, spurring its development. The Group has several business units that are specialised in areas such as ophthalmology, oncology, cardiovascular and medical device could take advantage of this new opportunity through spin-off exercise in the near future. It is the Group's belief that such exercise will not only make additional resources available, but also result in recognition of the value of the Group's development assets.

Thus, the Group remains confident that the intense focus on R&D activities on innovative products will eventually pay off.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

EXECUTIVE DIRECTORS

Lee Siu Fong

Chairman, aged 61

Ms. Lee Siu Fong joined the Group in April 1997 and has since been responsible for the Group's financial affairs. She is an entrepreneur and had since 1992 established and run several companies with primary responsibility in financial affairs. She is the sister of Ms. Leelalertsuphakun Wanee and Dr. Li Xiaoyi.

Leelalertsuphakun Wanee

Managing Director, Chief Marketing & Sales Officer & member of remuneration committee, aged 64

Ms. Leelalertsuphakun Wanee joined the Group in April 1997. She was appointed the Chief Marketing & Sales Officer in September 2003 and has been responsible for the Group's sales and marketing activities since then. She is the sister of Ms. Lee Siu Fong and Dr. Li Xiaoyi.

Li Xiaoyi

Chief Executive Officer & Chief Technical Officer, aged 55, PhD

Dr. Li Xiaoyi holds a PhD in Pharmacology from the University of Illinois at Chicago and was a postdoctoral fellow with Parke-Davis Research Division of Warner-Lambert company in the United States. He is an Honourary Fellow and Adjunct Professor at the Hong Kong University of Science and Technology. He has also been appointed as a member of the Chinese People's Political Consultative Conference of Anhui Province in China in January 2018. He is the founder of the Group and has been responsible for the daily operations and research and development of the Group since 1994. He is the brother of Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

NON-EXECUTIVE DIRECTOR

Simon Miles Ball, *aged 39*

Mr. Simon Miles Ball joined the Board on 29 December 2017. He has more than 17 years of business and management experience within the pharmaceutical industry. He is currently the Global Head of Business Development of the Leadiant Biosciences Group (formerly Sigma Tau Group). He also serves as Country General Manager in United Kingdom, Ireland and Nordics in Leadiant Biosciences Limited and he is a member of the board of directors of Leadiant Biosciences Limited in United Kingdom and Exelead Inc. in the United States of America (formerly known as PharmaSource Inc., the manufacturing company within the Leadiant Biosciences Group). Mr. Ball is also a consultant of Qualister S.A., which is a substantial shareholder of the Company. Mr. Ball obtained his degree in physiology from the University of Leeds. Save as the above, he does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Yau Ching, Bob

Chairman of audit committee & member of remuneration committee, aged 55, PhD, MBA, BBA, CFA, MHKSI

Dr. Chan Yau Ching, Bob joined the independent Board on 14 January 2002. Dr. Chan has extensive experience in corporate development and financial management of high-growth companies. He had been a finance professor, researcher and consultant. He had also served directorship at various listed and privately held companies in Hong Kong and in the United States. Currently, he is the managing director of KBR Capital Limited, a company engaged in advising clients on management and investment activities in China and Hong Kong. He is also an independent non-executive director of China High Speed Transmission Equipment Group Co., Ltd., which is a listed company on the main board of the Stock Exchange of Hong Kong Limited. He does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Lam Yat Cheong

Member of audit committee, aged 56, CPA (Practising), FCCA, BBA

Mr. Lam Yat Cheong joined the independent Board on 1 July 2004. Mr. Lam is a sole proprietor of an audit firm and has over 30 years of auditing and accounting experience. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He had also served directorship at various listed companies in Hong Kong. He does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

Tsim Wah Keung, Karl

Chairman of remuneration committee and member of audit committee, aged 59, PhD, MPhil, BSc

Dr. Tsim Wah Keung, Karl joined the independent Board on 20 September 2004. He currently serves as Chair Professor of Life Science at the Hong Kong University of Science and Technology. He holds a Bachelor of Science degree and a Master degree in Biochemistry from the Chinese University of Hong Kong, and a Doctorate in Molecular Neurobiology from the University of Cambridge. He has published numerous articles in biological sciences and traditional Chinese medicines. He also serves in several local committees in advising the development of traditional Chinese medicine as health food products. He does not have any relationship with any Director, substantial shareholder or controlling shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT

Chow Yiu Ming

Chief Financial Officer & Company Secretary, aged 44

Mr. Chow Yiu Ming holds a bachelor's degree of business administration from the University of Hong Kong, and he is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He has more than 21 years of experience in finance and accounting. Prior to joining the Group in October 2014, he had held various senior positions with listed and private companies in Hong Kong.

Jiao Zhongyu

Chief Officer of Enterprise Development Department of the Group, aged 48

Mr. Jiao Zhongyu is responsible for the government affair and legal affairs of the Group in the PRC. He was appointed as the legal adviser of PRC investment by the Group in 1999 in his capacity as a practising lawyer in PRC. He has been appointed as the director of Zhaoke Pharmaceutical (Hefei) Company Limited ("Zhaoke") since 2010 and has extensive experience in the government affair and legal affairs. In 2012, the Group established the Enterprise Development Department and he has been appointed as the Chief Officer thereof and responsible for the Group's strategic planning and development.

Lau Lit-Fui

Head of Research and Development of the Group, aged 55, PhD

Dr. Lau Lit-Fui holds the PhD from the University of Connecticut Health Center. Before joining the Group, he served as the associate director for the American GlaxoSmithKline R&D China, and had been responsible for the research and development of new drugs for over 23 years. He has extensive experience in management of the research and development of new drugs. He joined the Group in 2012 as the General Manager of Shanghai branch of Zhaoke and was responsible for the business development of East China region. He is currently served as the Head of Research and Development of the Group and is responsible for the management of the research and development of drugs. He is also the President and General Manager of CVie Therapeutics Limited, an associated company of the Group in Taiwan.

Victor Tsui

Chief Manufacturing Officer, Licensed Professional Engineer, aged 51, P.E. MSc

Mr. Victor Tsui graduated from The Hong Kong Polytechnics University and University of Wisconsin with a master degree in Engineering. Before joining the Group, he worked for various pharmaceuticals companies in the United States for over 25 years and was responsible for production management. He joined the Group in 2009 as Chief Operating Officer of Powder Pharmaceuticals Incorporated ("PPI", an associated company of the Group). He has been appointed as Chief Manufacturing Officer of the Group since 2012 to oversee the Group's manufacturing operations. He has also been appointed as director of PPI since 22 March 2013.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Yang Zhongqiang

Executive Deputy General Manager of Zhaoke Pharmaceutical (Hefei) Company Limited, aged 43

Mr. Yang Zhongqiang holds a master's degree in Pharmaceutical Engineering of Shandong University and has a practicing pharmacist certification. He has been working for the Group for more than 20 years, and has been working in the Department of Research and Development of New Drugs and Quality Department of Zhaoke. He has extensive experience in the research and development of new drug, project management and quality management. He had served as the quality authorised person of Zhaoke since 2012 to oversee the company's drug quality management and protection works. In 2017, he has been appointed as the Executive Deputy General Manager of Zhaoke.

Dai Xiangrong

Senior Director of Research and Development Centre of the Group, aged 38

Mr. Dai Xiangrong holds a bachelor's degree of biochemistry and molecular biology, and a master's degree of biochemistry of Anhui Agricultural University. He also holds a practising pharmacist certification. He joined the Group in 2007 and is responsible for the research and development of new drugs. He has extensive experience in preclinical studies, clinical research and registration of new drugs. He was responsible for various new drug development programs and succeeded in bringing the programs to clinical research studies. In 2017, he has been appointed as Senior Director of Research and Development Centre of the Group and is fully responsible to the new drug development and registration.

Zhang Guohui

Deputy General Manager of Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited, aged 44, MBA, BSc

Mr. Zhang Guohui has been working in Zhaoke for more than 20 years. He was responsible for the research and development of new drugs, production control and GMP management. He has extensive experience in the research and development and registration of new drugs and technology project management. The Research and Development Centre of the Group was established in 2012, and he had served as the director and is responsible for new drug pre-clinical studies and clinical research, the additional development of launched products, drug registration affairs, science and technology project reporting and monitoring work of adverse drug reactions. In 2017, he has been appointed as the Deputy General Manager of Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Zhang Zhenhua

Director of Human Resources and Development of the Group, aged 45

Ms. Zhang Zhenhua holds a master's degree of business administration of the Southern Cross University Australia. She has more than 25 years of working experience in multinational corporations and with broad knowledge and experience in human resources management. In September 2017, she has been appointed as the Director of Human Resources and Development of the Group and is responsible for the management of human resources and development of the Group.

Li Dingwen

Director of Administration in China, aged 58, MBA, MIA

Mr. Li Dingwen joined the Group in December 2012 and is currently responsible for the Group's administrative management in the PRC. He has extensive experience in the management of human resources and in the operational management of pharmaceutical companies. Prior to joining the Group, he had been responsible for human resources management and operational management in various sizeable PRC pharmaceutical companies for more than 35 years.

Chen Yueshen

Deputy General Manager of Zhaoke Pharmaceutical (Guangzhou) Limited, aged 59

Mr. Chen Yueshen had been working for the Group for more than 20 years as the Director and Deputy General Manager of Zhaoke, a wholly-owned subsidiary of the Company. He was responsible for the daily operations of Zhaoke, including being responsible for the production and quality management of Zhaoke. He has extensive experience in quality management systems and GMP production. He was the Chief Operating Officer of the Group. In 2017, he has been appointed as the Deputy General Manager of Zhaoke Pharmaceutical (Guangzhou) Limited.

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

BUSINESS REVIEW AND PERFORMANCE

A review and outlook of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chairman's Statement and Management Discussion and Analysis respectively from pages 9 to 10 and pages 11 to 18 of this annual report.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the Group is principally engaged in the development of, manufacturing of and sale and marketing of pharmaceutical products.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 48 to the consolidated financial statements.

ASSOCIATED COMPANIES

Particulars of the Group's principal associated companies are set out in note 20 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 54.

The Board has resolved to recommend a final dividend for the year ended 31 December 2017 (the "Final Dividend") equivalent to HK$0.070 per share (2016: HK$0.079 per share) to the shareholders whose names appear on the register of members of the Company as at the close of business on 25 May 2018. Upon approval by shareholders, the final dividend will be paid on 13 June 2018.

Together with the interim dividend of HK$0.034 per share (2016: HK$0.033 per share) paid on 27 September 2017, total distribution of dividend by the Company for the year ended 31 December 2017 will be HK$0.104 per share (2016: HK$0.112 per share).

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the owners of the Company by reason of their holding of the Company's securities.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 7.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 34 to the consolidated financial statements.

SHARE OPTIONS

Details of movements in the share options of the Company and its subsidiaries during the year are set out in note 39 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

DONATIONS

During the year, the Group made charitable donations amounting to HK$1,804,000 (2016: HK$341,000).

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 58. Details of the movements in the reserves of the Company during the year are set out in note 35 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserve available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$740,617,000 (2016: HK$779,059,000). This includes the Company's share premium account in the amount of HK$724,868,000 (2016: HK$721,154,000) at 31 December 2017, which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 15.70% in aggregate for the Group's total revenue for the year (2016: 15.57%).

Purchase from the Group's five largest suppliers accounted for approximately 81.53% in aggregate for the Group's total purchases for the year (2016: 82.18%). The largest supplier of the Group accounted for approximately 26.66% of the Group's total purchases (2016: 31.40%).

None of the Directors, their associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Lee Siu Fong, *Chairman*

Leelalertsuphakun Wanee, *Managing Director*

Li Xiaoyi, *Chief Executive Officer*

Non-executive Directors

Marco Maria Brughera (resigned with effect from 29 December 2017)

Simon Miles Ball (appointed with effect from 29 December 2017)

Independent Non-executive Directors

Chan Yau Ching, Bob

Lam Yat Cheong

Tsim Wah Keung, Karl

In accordance with Articles 95 and 112 of the Company's Articles of Association, Ms. Leelalertsuphakun Wanee, Mr. Simon Miles Ball and Mr. Lam Yat Cheong will retire at the forthcoming annual general meeting and, being eligible, have agreed to offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No Director has a service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Each of Ms. Lee Siu Fong ("Ms. Lee") and Ms. Leelalertsuphakun Wanee ("Ms. Leelalertsuphakun") has entered into a service contract both dated 14 January 2002 with the Company under which each of them has been appointed to act as an executive Director on a continuous basis until terminated by either party by giving to the other party not less than three months' notice in writing. During the year, the monthly salaries and allowance for Ms. Lee and Ms. Leelalertsuphakun have been revised to HK$283,433 and HK$305,554 respectively.

REPORT OF THE DIRECTORS

Dr. Li Xiaoyi ("Dr. Li") has a service contract with the Company since 1 September 2003 and after that the contract has been renewed. During the year, the monthly salaries and allowance has been revised to HK$422,058. Both the Company and Dr. Li shall be entitled to terminate the contract by giving three months' prior written notice. If both of the substantial shareholders, namely Ms. Lee and Ms. Leelalertsuphakun, and Dr. Li together, holding less than 30% of the issued share capital of the Company, Dr. Li shall in his absolute discretion terminate the contract and shall be entitled to the payment equivalent to the aggregate of his monthly salary for the remaining term as compensation or damages for or in respect of such termination.

Ms. Lee, Ms. Leelalertsuphakun and Dr. Li are executive Directors. In accordance with supplementary agreement dated 16 April 2017 signed between the Company and each of the executive Directors, employment terms of executive Directors have been revised as follows:

1. Executive Directors are entitled to annual management bonus 1.5% to 3.0% (determined based on the growth in net profits of the Group) on the net profit of the Group for the preceding financial year. Such sum of the management bonus will be shared between all the executive Directors in such proportion with reference to their monthly salary in the final month of the complete financial year.

2. The annual salary increment shall be equal to official inflation rate if the growth in net profits of the Group is equal to or less than 15%, or should the growth exceed 15%, the sum of the official inflation rate and half of the positive difference between the growth in net profits and the 15% threshold.

3. Each of executive Directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Company for certain years.

Each of Mr. Lam Yat Cheong ("Mr. Lam") and Dr. Tsim Wah Keung, Karl ("Dr. Tsim") has been appointed on 1 July 2004 and 20 September 2004 respectively as an independent non-executive Director. Contract with Mr. Lam and Dr. Tsim has been renewed for three years from 1 July 2016 and 20 September 2016 respectively. Director's fees for both of Mr. Lam and Dr. Tsim are HK$144,000 per annum and bonus will not be paid.

Dr. Chan Yau Ching, Bob has a three-year service contract with the Company from 12 October 2007. The contract has been renewed for three years from 12 October 2016. Director's fee is HK$144,000 per annum and bonus will not be paid.

Mr. Simon Miles Ball has a three-year service contract with the Company from 29 December 2017. Director's fee is HK$144,000 per annum and bonus will not be paid.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the senior management are set out on pages 19 to 23.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has also purchased and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors.

KEY RISKS AND UNCERTAINTIES

The Board acknowledges its responsibility for the effectiveness of the internal control and risk management systems of the Group, which are designed to manage the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement or loss.

Business Risk

The Group's business risks include rapid change in the general market conditions, downturn pressure on the overall economy of China and price competition from other market players. The Board is responsible for the overall management of the business and review of material business decisions involving material risks exposures from time to time.

Financial Risk

The Group adopts financial risk management policies to manage its currency risk, interest rate risk, credit risk, and liquidity risk. The Board also reviews monthly management accounts, capital structure and key operating data of the Group.

Compliance Risk

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

REPORT OF THE DIRECTORS

Operational Risk

The Group adopts procedures to manage its operational risk such as inadequate management efficiency, inefficient raw material procurement and production facilities utilisation. The Board has reviewed the effectiveness of the Group's internal control and risk management systems covering business, financial, compliance and operational risks of the Group and is satisfied that such systems are effective and adequate.

SOCIAL RESPONSIBILITIES AND SERVICES AND ENVIRONMENTAL POLICY

The Group is committed to the long-term sustainability of its businesses and the communities with which it engages. The Group pursues this business approach by managing its business prudently and executing management decisions with due care and attention. Over the years, the Group has been fully committed to environmental protection. Periodic internal control meetings are held to review environmental issues in the production plants to update environmental laws and regulations and to make valuable suggestions and recommendations for improvement.

COMPLIANCE WITH REGULATIONS

The Group is not aware of any instances of material breach of or non-compliance with the applicable laws and regulations such as the Hong Kong Companies Ordinance (Cap. 622), Listing Rules, and other applicable local laws and regulations in various jurisdictions during the year ended 31 December 2017 and up to the date of this annual report.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The sustainability of the Group's business relies on the growth of the Group's employees. Remuneration packages of the employees are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group.

Relationship is the fundamentals of business. The Group fully understand this principal and thus maintain good relationship with the customers to fulfil their immediate and long-term need.

The Group strives to maintain fair and co-operating relationship with the suppliers.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE REPORT

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

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all shareholders of the Company on 26 June 2002, the Company adopted a share option scheme (the "2002 Share Option Scheme"). At the annual general meeting of the Company held on 10 May 2012, a new share option scheme of the Company (the "New Share Option Scheme") was adopted upon expiry of the 2002 Share Option Scheme.

The total number of shares of the Company (the "Shares") which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall be subject to a maximum limit of 10% of the Shares in issue on 10 May 2012, the date on which the New Share Option Scheme is conditionally adopted and approved by the shareholders at the annual general meeting, which is 47,023,543 Shares. The total number of Shares available for issue under the New Share Option Scheme as at 31 December 2017 was 27,999,543 Shares.

As at 31 December 2017, the number of Shares in respect of which options had been granted and remained outstanding under the 2002 Share Option Scheme and New Share Option Scheme was 15,345,000 (2016: 13,217,000) Shares, representing 2.6% (2016: 2.2%) of the Shares in issue at that date.

Details of the Company's share option schemes are set out in note 39 to the consolidated financial statements.

SHARE OPTION SCHEME OF A SUBSIDIARY

A share option scheme of a subsidiary of the Company, CVie Therapeutics Company Limited, was approved by the shareholders of the Company on 12 November 2012 ("CVie's Scheme"). Details of the CVie's Scheme are set out in note 39 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as the interests disclosed in the section headed "Directors' and Chief Executive's Interests in Securities" below, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company or their respective spouses or children under 18 years of age or their associates to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2017, the Directors and the chief executive of the Company and their associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules:

(a) *Long position in Shares*

Name of Director	Nature of interest	Number of ordinary shares held	Total	Approximate percentage of shareholding
Lee Siu Fong	Beneficial owner	2,171,375		
	Interest held jointly with Leelalertsuphakun Wanee	1,600,000		
	Interest of a controlled corporation *(Note 1)*	114,000,625	117,772,000	19.93%
Leelalertsuphakun Wanee	Beneficial owner	3,868,000		
	Interest held jointly with Lee Siu Fong	1,600,000		
	Interest of a controlled corporation *(Note 1)*	114,000,625	119,468,625	20.22%
Li Xiaoyi	Beneficial owner	39,653,766		
	Family interest *(Note 2)*	16,000,000		
	Others *(Note 3)*	2,185,551	57,839,317	9.79%
Chan Yau Ching, Bob	Beneficial owner	1,060,000		0.18%
Lam Yat Cheong	Beneficial owner	300,000		0.05%
Tsim Wah Keung, Karl	Beneficial owner	300,000		0.05%

Notes:

(1) 114,000,625 Shares are held through Huby Technology Limited ("Huby Technology"). Huby Technology is an investment holding company jointly owned by Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee.

(2) These Shares are held by High Knowledge Investments Limited ("High Knowledge") which is wholly owned by Dr. Li Xiaoyi's spouse, Ms. Lue Shuk Ping, Vicky ("Ms. Lue"). The interest held by Ms. Lue is deemed to be part of the interest of Dr. Li Xiaoyi.

(3) These pro-rata portion of the Shares was held by a fund in which Dr. Li Xiaoyi is a limited partner holding approximately 5.56% of the total investment in the fund.

(b) Long position in underlying shares – share options of the Company

Under the share option schemes of the Company, the following Directors of the Company have personal interest in options to subscribe for the Shares. Details of the share options granted to them are as follows:

Name of Director	Date of grant	Exercisable period (*Notes*)	Balance as at 1 January 2017	Granted during the year	Exercised during the year	Balance as at 31 December 2017	Exercise price per share HK$
Lee Siu Fong	30 December 2013	(1)	538,000	–	–	538,000	7.300
	31 March 2015	(2)	446,000	–	–	446,000	11.200
	31 March 2016	(3)	587,000	–	–	587,000	5.754
	13 April 2017	(4)	–	590,000	–	590,000	7.548
			1,571,000	590,000	–	2,161,000	
Leelalertsuphakun Wanee	30 December 2013	(1)	338,000	–	–	338,000	7.300
	31 March 2015	(2)	446,000	–	–	446,000	11.200
	31 March 2016	(3)	587,000	–	–	587,000	5.754
	13 April 2017	(4)	–	590,000	–	590,000	7.548
			1,371,000	590,000	–	1,961,000	
Li Xiaoyi	31 March 2015	(2)	446,000	–	–	446,000	11.200
	31 March 2016	(3)	587,000	–	–	587,000	5.754
	13 April 2017	(4)	–	590,000	–	590,000	7.548
			1,033,000	590,000	–	1,623,000	

Notes:

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

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

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

(4) Divided into 2 tranches exercisable from 13 October 2017 and 13 July 2018 respectively to 12 April 2027.

(c) As at 31 December 2017, Dr. Li Xiaoyi had beneficial interest in (a) 12,740 ordinary shares in Powder Pharmaceuticals Incorporated; and (b) 830 share options which can be converted into 830 ordinary shares of Powder Pharmaceuticals Incorporated when exercised.

(d) Save as disclosed above, no interests and short positions were held or deemed to be taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the Shares and the underlying shares of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2017, the following parties (other than a Director or chief executive of the Company) who had interests or short positions in the Shares and underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO:

(a) Long position in Shares

Name	Capacity	Number of ordinary shares held	Approximate percentage of shareholding
Huby Technology Limited	Beneficial owner	114,000,625	19.29%
Assicurazioni Generali S.p.A	Interest of a controlled corporation	81,405,000	13.78%
Li Zhenfu	Interest of a controlled corporation	81,405,000	13.78%
Lion River I N.V.	Interest of a controlled corporation	81,405,000	13.78%
GL Partners Capital Management Limited	Interest of a controlled corporation	76,165,488	12.89%
FMR LLC	Investment manager	59,032,334	9.99%
Apta Finance S.A.	Interest of a controlled corporation	56,821,398	9.62%
Cavazza Paolo	Interest of a controlled corporation	56,821,398	9.62%
Paponi Claudia	Family interest	56,821,398	9.62%
GSR Capital Joy Corporation	Beneficial owner	39,339,935	6.66%
GSR Capital Ltd	Interest of a controlled corporation	39,339,935	6.66%
Wu Sonny	Interest of a controlled corporation	39,339,935	6.66%
High Knowledge Investments Limited	Beneficial owner *(Note 1)*	16,000,000	2.71%
Lue Shuk Ping, Vicky	Interest of a controlled corporation *(Note 1)*	16,000,000	2.71%
	Family interest *(Note 2)*	41,839,317	7.08%

Notes:

(1) These Shares are legally owned by High Knowledge Investments Limited, which is entirely and beneficially owned by Dr. Li Xiaoyi's spouse, Ms. Lue Shuk Ping, Vicky.

(2) These Shares, share options and conversion right are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

(b) *Long position in underlying shares – share options of the Company*

Name	**Capacity**	**Number of underlying shares held**	**Approximate percentage of shareholding**
Lue Shuk Ping, Vicky	Family interest *(Note 1)*	1,623,000	0.27%

Notes:

(1) These Shares, share options and conversion right are owned by Ms. Lue Shuk Ping, Vicky's spouse, Dr. Li Xiaoyi.

(c) *Short Position in Shares*

No short positions of other persons and substantial shareholders in the Shares or underlying shares of the Company and its associated corporations were recorded in the register.

Saved as disclosed above, as at 31 December 2017, the Directors are not aware of any other person or corporation having an interest or short position in Shares and underlying shares of the Company which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2017, the Group conducted certain transactions with parties deemed as "related parties" under applicable accounting standards. The details of these transactions are set out in note 47 to the consolidated financial statements. Save for the transactions mentioned in the section headed "Connected Transactions and Continuing Connected Transactions" which is subject to announcement and disclosure requirements under Chapter 14A of the Listing Rules, certain transactions mentioned in note 47 to the consolidated financial statements also constituted connected transactions or continuing connecting transactions as defined in Chapter 14A of the Listing Rules but are exempt from the disclosure requirements under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

Connected Transactions

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

During the year ended 31 December 2017, the following shareholder loans were provided by the Group to COFL:

Advance Date	Term	Interest rate per annum	Loan amount original currency	Loan amount
25 April 2017	1 year	4%	HK$10,000,000	HK$10,000,000
13 June 2017	1 year	4%	HK$10,000,000	HK$10,000,000

Details of these transactions have been disclosed in the Company's announcement dated 25 April 2017, 26 April 2017 and 13 June 2017.

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

2. *Advance of shareholder loan to Zhaoke (Guangzhou) Oncology Pharmaceutical Limited ("ZKON"), a subsidiary of the Group*

On 6 December 2017, the shareholder loan in the principle amount of RMB1,300,000 was provided by the Group to ZKON for one year at an interest rate of 5% per annum. Details of this transaction have been disclosed in the Company's announcement dated 29 December 2017.

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

3. *Issue of subsidiary's shares to Lee's International, a subsidiary of the Group*

On 19 September 2014, each of Lee's International and Perfect Concept subscribed for 7,799 and 4,200 shares of COFL at the consideration of US$7,799 and US$4,200, respectively. Upon completion of the subscription, the entire issued shares of COFL were held by Lee's International and Perfect Concept as to 65% and 35% respectively. Subsequently, each of Lee's International and Perfect Concept further subscribed, on pro-rata basis, an aggregate of 33,150 and 17,850 shares of COFL during the period between 13 October 2014 and 23 February 2017 at the aggregate consideration of US$2,386,800 and US$1,285,200, respectively. Details of the above transactions have been disclosed in the Company's announcement dated 3 January 2018.

Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi are the Directors and substantial shareholders of the Company who are connected persons of the Company under the Listing Rules. They hold 90% of the equity interest in Perfect Concept and therefore, Perfect Concept is the associate of Ms. Leelalertsuphakun Wanee, Ms. Lee Siu Fong and Dr. Li Xiaoyi, and is then a connected person of the Company under the Listing Rules.

As at the date of each of the subscriptions of COFL shares by Lee's International, COFL was a non-wholly owned subsidiary of the Company which was owned as to 65% by Lee's International and 35% by Perfect Concept, which is a connected person of the Company. As Perfect Concept exercises and controls 10% or more of the voting power of COFL, COFL is a connected subsidiary of the Company under the Listing Rules. Accordingly, the subscriptions of COFL shares by Lee's International constituted connected transaction of the Company under Chapter 14A of the Listing Rules.

4. *Advance of shareholder loans to Powder Pharmaceuticals Incorporated ("PPI"), an associate of the Group*

On 21 July 2017, the shareholder loan in the principle amount of HK$20,056,000 was provided by the Group to PPI for one year at an interest rate of 4% per annum. Details of this transaction have been disclosed in the Company's announcement dated 21 July 2017.

GL Partners Capital Management Limited ("GL Partners") became a substantial shareholder of the Company on 31 March 2017. The Company and GL Partners are both shareholders of PPI at the same time, while GL Partners, being a connected person of the Company, is entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of PPI. Therefore PPI is a commonly held entity under the Listing Rules. Therefore, advance of shareholder loans to PPI constitutes a connected transaction.

As at 31 December 2017, the Group had interest in 33.92% of issued share capital of PPI.

Continuing Connected Transactions

1. *Provision of financial guarantee to PPI, as associate of the Group*

On 21 July 2017, the Company as guarantor entered into a corporate guarantee in favour of a bank as a security for the provision of a revolving demand loan facility of up to HK$8,000,000 and an overdraft facility of up to HK$2,000,000 (the "Facility"), provided that the total outstanding balance of the Facility shall not at any time exceed HK$8,000,000 to PPI for the purpose of funding its normal commercial operation.

The above continuing connected transactions have been reviewed by the independent non-executive Directors and they have confirmed that the transactions:

a. have been entered into in the usual and ordinary course of businesses of the Company and its subsidiaries.

b. are conducted on normal commercial terms.

c. are entered into in accordance with the terms of relevant agreements that are fair and reasonable and in the interests of Shareholders as a whole.

d. have not exceeded the cap disclosed in previous announcements.

REPORT OF THE DIRECTORS

The Company's auditor, HLM CPA Limited, also has confirmed that the above continuing connected transactions:

a. have received the approval of the Company's Board of Directors;

b. have been entered into in accordance with the relevant agreement governing the transactions; and

c. have not exceeded the cap disclosed in previous announcements.

Save as disclosed above, there was no other transaction requiring disclosure of connected transactions and continuing connected transactions in accordance with the requirements of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules during the year and up to the date of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017 (2016: nil).

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

STAFF RETIREMENT SCHEME

The group companies operated in Hong Kong are required to participate in a defined contribution retirement scheme set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance (Cap. 485). Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,500 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK$1,500 (the "Mandatory Contributions"), and are charged to the profit or loss as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement at the age of 65 years old, death or total incapacity.

In addition, pursuant to the government regulations in the PRC, the employees of the group companies operated in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. Those group companies are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement is to make the specified contributions.

Executive Directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if they have engaged in continuous service with the Company for certain years.

Particulars of the scheme of the Group are set out in note 37 to the consolidated financial statements.

REPORT OF THE DIRECTORS

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Special enquiries have been made by the Company to confirm that all Directors have been complied with the Model Code for the year ended 31 December 2017.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the corporate governance report on pages 40 to 45.

AUDIT COMMITTEE

The Company established an audit committee with written terms of references adopted in compliance with the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules. The members of the audit committee are the three independent non- executive Directors, and Dr. Chan Yau Ching, Bob, an independent non-executive Director, is the chairman of the audit committee.

The audit committee is to serve as a focal point for communication between other Directors, the external auditors, the internal auditors (where an internal audit function exists) of the Company, and the management as regards their duties relating to financial and other reporting, risk management, internal controls, external and internal audits and such other financial and accounting matters as the Board determines from time to time.

The audit committee is to assist the Board in providing an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time.

The audit committee has reviewed the Group's interim and annual consolidated financial statements for the year 2017, including the accounting principles and practices adopted by the Group.

AUDITOR

The consolidated financial statements have been audited by HLM CPA Limited who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Lee Siu Fong
Chairman

Hong Kong, 22 March 2018

CORPORATE GOVERNANCE REPORT

The Board believes that corporate governance is essential to the success of the Company and has adopted various measures to uphold good corporate governance to safeguard the interests of our shareholders, investors, customers and staff.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2017, with deviations from provision A.5 of the Code.

Under provision A.5 of the Code, a nomination committee should be established to make recommendations to the Board on the appointment and reappointment of Directors. The Board as a whole is responsible for the appointment of its own members. The Board does not establish a nomination committee and is not considering to establish the same in view of the small size of the Board. The Chairman of the Board is responsible for identifying appropriate candidate and proposing qualified candidate to the Board for consideration. The Board will review profiles of the candidates recommended by the Chairman and make recommendation the appointment, re-election and retirement of the Directors. Candidates are appointed to the Board on the basis of their skill, competence, experience and diversity of perspectives that they can contribute to the Company.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2017, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries of all the Directors and the Company was not aware of any non-compliance with such Model Code and required standard of dealing throughout the year ended 31 December 2017.

BOARD OF DIRECTORS

The non-executive Director provides the Group with a wide range of expertise and knowledge in the pharmaceutical sector. The independent non-executive Directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, financial and pharmaceutical field. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board.

The list of Directors and their roles and functions is posted on the websites of the Company and the Stock Exchange.

The Chairman and Chief Executive Officer of the Company is Ms. Lee Siu Fong and Dr. Li Xiaoyi respectively.

The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment, controls over business operations and ensures good corporate governance and compliance with legal and regulatory requirements. Responsibility in relation to daily operations and execution of the strategic business plans are delegated to each of the executive Directors and management.

During the year ended 31 December 2017, 18 Board meetings and 1 shareholders meeting were held and the attendance of individual Director at these meetings is set out below:

Attendees	**Number of Board meetings attended/Total**	**Number of shareholders meeting attended/Total**
Executive Directors		
Lee Siu Fong *(Chairman)*	18/18	0/1
Leelalertsuphakun Wanee *(Managing Director)*	18/18	1/1
Li Xiaoyi *(Chief Executive Officer)*	18/18	1/1
Non-executive Directors		
Marco Maria Brughera (resigned with effect from 29 December 2017)	4/18	0/0
Simon Miles Ball* (appointed with effect from 29 December 2017)	0/0	0/0
Independent non-executive Directors		
Chan Yau Ching, Bob	14/18	0/1
Lam Yat Cheong	12/18	0/1
Tsim Wah Keung, Karl	13/18	0/1

* No Board meeting and shareholders meeting was held after Simon Miles Ball was appointed as an non-executive Director on 29 December 2017.

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

NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Group regularly updates Directors on the latest development regarding the Listing Rules and other applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties. In addition, the Group has been encouraging Directors to attend training courses or via online aids or reading relevant materials on the latest development of applicable laws, rules and regulations so that they can continuously update and further enhance their knowledge and skills.

Records of the Directors' training during 2017 are as follows:

Directors	Type of continuous professional development training
Executive Directors	
Lee Siu Fong *(Chairman)*	(i) & (ii)
Leelalertsuphakun Wanee *(Managing Director)*	(i) & (ii)
Li Xiaoyi *(Chief Executive Officer)*	(i) & (ii)
Non-executive Directors	
Marco Maria Brughera (resigned on 29 December 2017)	(i) & (ii)
Simon Miles Ball (appointed on 29 December 2017)	(i) & (ii)
Independent non-executive Directors	
Chan Yau Ching, Bob	(i) & (ii)
Lam Yat Cheong	(i) & (ii)
Tsim Wah Keung, Karl	(i) & (ii)

(i) Attending seminar(s) or training session(s).

(ii) Reading newspapers, journals and updates relating to the Company's business or Directors' duties and responsibilities, the latest development of the Listing Rules and other applicable regulatory requirements, etc.

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Group, which give a true and fair view of the financial position of the Group on a going concern basis.

The Company set up an audit committee with written terms of reference in compliance with Rules 3.21 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control and risks management system of the Group.

The audit committee comprises three members, Dr. Chan Yau Ching, Bob (chairman of the audit committee), Mr. Lam Yat Cheong and Dr. Tsim Wah Keung, Karl, who are the independent non-executive Directors of the Company. In the financial year ended 31 December 2017, four audit committee meetings were held to review and comment on the Group's draft annual, interim and quarterly financial reports, met with external auditor and provided advices and recommendations to the Board. The individual attendance record of each member is as follows:

Attendees	**Number of audit committee meetings attended/Total**	**Attendance percentage**
Chan Yau Ching, Bob	4/4	100%
Lam Yat Cheong	4/4	100%
Tsim Wah Keung, Karl	4/4	100%

REMUNERATION COMMITTEE

A remuneration committee has been established in February 2012 in accordance with the requirement of Appendix 14 of the Listing Rules. The remuneration committee of the Company comprises two independent non-executive Directors and one executive Director.

Dr. Tsim Wah Keung, Karl is the chairman of the remuneration committee and Ms. Leelalertsuphakun Wanee and Dr. Chan Yau Ching, Bob are members of the remuneration committee. The Company has adopted the model to make recommendations to the Board to determine the remuneration packages of individual executive Director and senior management. The major roles and functions of the Company's remuneration committee are as follows:

a. Establish and apply a formal and transparent procedure for setting policy on remuneration for executive Directors and senior management, and for fixing the remuneration packages for all Directors and senior management; and

b. Ensure that procedures and principles for fixing packages of all Directors and senior management are proper so that the levels of remuneration of Directors commensurate with their qualifications and competencies, and that such remuneration is sufficient to attract and retain the Directors and senior management but not excessive.

The terms of reference of the remuneration committee are posted on the websites of the Company and the Stock Exchange. The remuneration committee meets at least once a year. During the year ended 31 December 2017, 3 meetings are held by the remuneration committee and all the committee member attended the meeting to approve the annual bonus payable to executive Directors for the financial year 2016 and the monthly salary of executive Directors during the year.

Please refer to note 11 to the consolidated financial statements for details of the remuneration payable to the Directors.

CORPORATE GOVERNANCE REPORT

Pursuant to code provision B.1.5 of the corporate governance code ("CG Code"), the remuneration of the members of the senior management (other than Directors) whose particulars are contained in the section headed "Directors and Senior Management Profiles" in this annual report for the year ended 31 December 2017 by band is set out below:

Remuneration Bands	Number of Senior Management
Nil to HK$1,000,000	8
HK$1,000,001 to HK$2,000,000	2

COMPANY SECRETARY

The company secretary's biography is set out in the section under "Directors and Senior Management Profiles" of this annual report. During the year ended 31 December 2017, the company secretary has taken no less than 15 hours of professional training to update his skills and knowledge.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control and risk management systems over the Group's asset and shareholders' interests, as well as for reviewing such systems' effectiveness. Such systems are designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems. The systems include a well-established organisational structure with clearly defined lines of responsibility and authority, which is designed to safeguard assets from inappropriate use, maintain proper accounts, ensure compliance with regulations and regulate the handling and dissemination of inside information of the Group.

For the year ended 31 December 2017, the Board has, through the audit committee with the Group's internal audit team and the assistance of the management, conducted a review of the Group's internal control and risk management system, including without limitation to financial control, operational control, and compliance control. The Board assesses the effectiveness of internal controls by considering reviews performed by the audit committee, executive management and auditors.

The Board is of the view that the internal control and risk management systems are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

AUDITOR'S REMUNERATION

Total auditor's remuneration for the financial year 2017 in relation to statutory audit work of the Group amounted to HK$1,033,000 of which a sum of HK$960,000 was paid to HLM CPA Limited.

CONVENING OF EXTRAORDINARY GENERAL MEETINGS ON REQUISITION BY SHAREHOLDERS

Shareholders shall have the right to request the Board to convene an extraordinary general meeting ("EGM") of the Company. Two or more shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company which carries the right of voting at the general meeting of the Company may send a written request to the Board of the Company to request for an EGM. The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

Shareholders who wish to move a resolution at general meetings may follow the procedures set out in the preceding paragraph.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary whose contact details are as follows:

Lee's Pharmaceutical Holdings Limited
Units 110-111, Bio-Informatics Centre, No. 2 Science Park West Avenue,
Hong Kong Science Park, Shatin, Hong Kong
Telephone: (852) 2314 1282
Fax: (852) 2314 1708
Email: investor@leespharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017, there was no significant change in the Company's constitutional documents, and these documents are published on the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
Email 電郵: info@hlm.com.hk

TO THE MEMBERS OF LEE'S PHARMACEUTICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Lee's Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 54 to 152, which comprise the consolidated statement of financial position as at 31 December 2017, and consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

Revenue recognition
(refer to note 5 to the consolidated financial statements)

The Group's revenue amounted to HK$1,009 million for the year ended 31 December 2017. Sales of goods are recognised as revenue when goods are delivered and title has been passed.

We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue.

Our response
Our main procedures in relation to revenue recognition included:

- Obtaining evidence regarding the transfer of effective control of ownership.

- Testing the key internal controls over revenue recognition, and assessing whether the accounting policy related to revenue recognition was applied appropriately and consistently throughout the year.

- On a sample basis, making selections from sales records and delivery records, and tracing to their contracts, delivery orders and customer acknowledge of receipts, and paying special attention to samples before and after the end of the reporting period to assess whether the relevant revenue was recognised in the correct period.

Based on our procedures described, we found that the amount and timing of the revenue recorded were supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Valuation of retirement benefits on defined benefit plan
(refer to note 37 to the consolidated financial statements)

The Group entered into service contracts with the executive directors to provide certain retirement benefits. There is judgement in determining valuation of the retirement benefits as recorded at the end of the reporting period. The valuation is based on a number of assumptions including discount rate, growth rate of salary and life expectancy.

Our response
Our main procedures in relation to the valuation of the retirement benefits on defined benefit plan included:

– Assessing the independence and competence of the independent external valuer appointed by the Group to calculate the fair value of the retirement benefits.

– Assessing the accuracy and relevance of the input data provided by management to the independent external valuer by challenging and corroborating the market data and information from similar transactions from independent sources.

– Evaluating appropriateness of the methodology and assumptions used by independent external valuer.

– Testing mathematical accuracy of the underlying valuation.

We found the methodology and key assumptions to be reasonable.

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

As at 31 December 2017, the Group reported intangible assets of HK$449 million, of which HK$295 million were capitalised development expenditure and HK$154 million were license fees.

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

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

Our response

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

– Gaining an understanding of the business process undertaken by management to assess the appropriate accounting treatment for each project.

– Assessing the recognition and eligibility criteria for intangible assets by challenging the key assumptions used or estimates made in capitalising the cost.

– Testing on a sample basis the expenditure being capitalised against source documents and signed contracts.

– Assessing the ownership of license fees.

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

– Assessing management's determination of the impairment based on our understanding of the nature of the Group's business.

– Assessing whether there are any indicators of impairment by understanding the business, rationale for the developing products.

– Discussing with and interviewing the responsible staff and managers on the progress and future prospects on respective development projects.

– Selecting products with significant development cost and request for independent valuation to be done to substantiate their carrying amounts.

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

INDEPENDENT AUDITOR'S REPORT

Impairment assessment of goodwill
(refer to notes 19 and 20 to the consolidated financial statements)

Management is required to assess at the end of each reporting period whether there is any indicator that goodwill may be impaired. If any such indicator exists, the management shall estimate the recoverable amount of the asset.

Our response
Our main procedures in relation to the impairment assessment of goodwill included:

– Assessing management's determination of the Group's cash-generating units based on our understanding of the nature of the business and the economic environment in which the cash-generating units operate.

– Based on our knowledge of the business and industry, challenging the reasonableness of the underlying key assumptions and data used in the cash flow forecasts (including revenue growth rate, operating profit, and discount rate used).

Based on our procedures described, we found the estimations of management in relation to goodwill is supported by plausible evidence.

Impairment assessment of available-for-sale financial assets
(refer to note 22 to the consolidated financial statements)

As at 31 December 2017, the Group reported available-for-sale financial assets of HK$203 million, of which HK$113 million being measured at cost less impairment.

Management concluded that there was no impairment on the available-for-sale financial assets carried at cost based on the circumstances of the investees, including any significant changes with an adverse effect that have taken place in technological, market, economic or legal environment in which the investees operate.

We identified the impairment assessment of available-for-sale financial assets carried at cost as a key audit matter as it requires management to exercise significant judgement on determining whether any impairment indicator in relation to the Group's investments existed at the end of the reporting period, and was assessed by us to be a significant risk of material misstatement.

Our response

Our main procedures in relation to the impairment assessment of available-for-sale financial assets carried at cost included:

– Understanding the investees' operations and latest developments.

– Assessing the financial performance of the investees.

– Challenging the reasonableness of management's key assumptions (including market and business information) adopted in the impairment assessment based on our knowledge of the business and industry.

Based on our procedures described, we found the impairment assessment on available-for-sale financial assets adopted by management to be reasonable.

OTHER INFORMATION

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. 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 skepticism throughout the audit. We also:

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

HLM CPA Limited
Certified Public Accountants

Ho Pak Tat
Practising Certificate Number: P05215

Hong Kong, 22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	1,008,522	929,821
Cost of sales		(326,118)	(261,586)
Gross profit		682,404	668,235
Other income	8	47,109	72,137
Gain on deemed disposal of a subsidiary	38	58,066	–
Impairment of intangible assets	17	(52,326)	(23,324)
Selling and distribution expenses		(214,150)	(204,225)
Administrative expenses		(159,218)	(146,511)
Research and development expenses		(85,057)	(67,886)
Profit from operations	9	276,828	298,426
Finance costs	10	(4,256)	(3,803)
Share of results of associates	20	(14,944)	(12,019)
Profit before taxation		257,628	282,604
Taxation	13	(54,689)	(50,198)
Profit for the year		202,939	232,406
Attributable to:			
Owners of the Company		232,559	252,002
Non-controlling interests		(29,620)	(19,596)
		202,939	232,406
		HK cents	HK cents
Earnings per share			
Basic	15	39.38	42.79
Diluted	15	39.26	42.60

The notes on pages 62 to 152 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	202,939	232,406
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	66,005	(49,054)
Fair value changes of available-for-sale financial assets	(17,705)	(11,817)
Reclassification of other reserves upon deemed disposal of a subsidiary	(19,576)	–
Reclassification of exchange reserve upon deemed disposal of a subsidiary	(94)	–
Share of other comprehensive income of associates	859	–
Other comprehensive income (expense) for the year, net of tax	29,489	(60,871)
Total comprehensive income for the year	232,428	171,535
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	261,170	190,883
Non-controlling interests	(28,742)	(19,348)
	232,428	171,535

The notes on pages 62 to 152 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current Assets			
Property, plant and equipment	16	565,662	437,092
Intangible assets	17	448,638	421,853
Lease premium for land	18	142,520	134,583
Goodwill	19	3,900	3,900
Interests in associates	20	87,363	46,820
Held-to-maturity financial assets	21	–	5,659
Available-for-sale financial assets	22	203,123	127,778
		1,451,206	1,177,685
Current Assets			
Lease premium for land	18	3,077	2,844
Inventories	23	160,637	134,910
Trade receivables	24	85,801	87,069
Other receivables, deposits and prepayments	25	101,320	106,223
Convertible instrument	26	3,165	–
Advance to associates	27	24,639	20,524
Tax recoverable		11,532	528
Held-to-maturity financial assets	21	5,826	–
Pledged bank deposits	28	27,915	26,639
Time deposits	28	175,416	209,693
Cash and bank balances	28	273,990	295,282
		873,318	883,712
Current Liabilities			
Trade payables	29	26,148	42,301
Other payables	30	281,150	172,340
Obligations under license contracts		4,441	490
Bank borrowings	31	99,004	133,578
Obligations under finance leases	32	485	467
Tax payables		19,857	9,199
		431,085	358,375

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Net Current Assets		442,233	525,337
Total Assets less Current Liabilities		1,893,439	1,703,022
Capital and Reserves			
Share capital	34	29,547	29,503
Reserves	35	1,774,799	1,572,223
Equity Attributable to the Owners of the Company		1,804,346	1,601,726
Non-controlling interests	36	(7,414)	32,990
Total Equity		1,796,932	1,634,716
Non-current Liabilities			
Deferred tax liabilities	33	39,981	25,290
Retirement benefits	37	56,010	42,015
Obligations under finance leases	32	516	1,001
		96,507	68,306
		1,893,439	1,703,022

The notes on pages 62 to 152 form part of these consolidated financial statements.

The consolidated financial statements on pages 54 to 152 were approved and authorised for issue by the board of directors on 22 March 2018 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to the Owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Investments revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	29,503	721,154	9,200	11,671	59,512	(12,716)	(96,842)	880,244	1,601,726	32,990	1,634,716
Employee share option benefits	–	–	–	4,440	–	–	–	–	4,440	–	4,440
Exercise of share options	44	3,714	–	(766)	–	–	–	–	2,992	–	2,992
Share of share-based compensation reserve of a subsidiary	–	–	–	23	–	–	–	–	23	17	40
Share of reserve of associates	–	–	–	–	56	–	–	–	56	–	56
Share options lapsed in associate	–	–	–	–	(110)	–	–	110	–	–	–
Deemed disposal of a subsidiary *(Note 38)*	–	–	–	–	–	–	–	–	–	(12,577)	(12,577)
Gain on partial disposal of interests in a subsidiary	–	–	–	–	666	–	–	–	666	(666)	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	1,564	1,564
Profit (loss) for the year	–	–	–	–	–	–	–	232,559	232,559	(29,620)	202,939
Other comprehensive (expense) income for the year											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	65,127	–	65,127	878	66,005
– Fair value changes of available-for-sale financial assets	–	–	–	–	–	(17,705)	–	–	(17,705)	–	(17,705)
– Reclassification of other reserves upon deemed disposal of a subsidiary	–	–	–	–	(19,576)	–	–	–	(19,576)	–	(19,576)
– Reclassification of exchange reserve upon deemed disposal of a subsidiary	–	–	–	–	–	–	(94)	–	(94)	–	(94)
– Share of other comprehensive income of associates	–	–	–	–	859	–	–	–	859	–	859
Total comprehensive income (expense) for the year	–	–	–	–	(18,717)	(17,705)	65,033	232,559	261,170	(28,742)	232,428
2016 final dividend paid	–	–	–	–	–	–	–	(46,635)	(46,635)	–	(46,635)
2017 interim dividend paid	–	–	–	–	–	–	–	(20,092)	(20,092)	–	(20,092)
At 31 December 2017	29,547	724,868	9,200	15,368	41,407	(30,421)	(31,809)	1,046,186	1,804,346	(7,414)	1,796,932

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to the Owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger difference HK$'000	Share-based compensation reserve HK$'000	Other reserves HK$'000	Investments revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Attributable to non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	29,340	717,925	9,200	8,718	59,344	(899)	(47,540)	691,350	1,467,438	49,390	1,516,828
Employee share option benefits	–	–	–	3,901	–	–	–	–	3,901	–	3,901
Exercise of share options	163	3,229	–	(971)	–	–	–	–	2,421	–	2,421
Share of share-based compensation reserve of a subsidiary	–	–	–	23	–	–	–	–	23	17	40
Share of reserve of associates	–	–	–	–	168	–	–	–	168	–	168
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	2,931	2,931
Profit (loss) for the year	–	–	–	–	–	–	–	252,002	252,002	(19,596)	232,406
Other comprehensive (expense) income for the year											
– Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	(49,302)	–	(49,302)	248	(49,054)
– Fair value changes of available-for-sale financial assets	–	–	–	–	–	(11,817)	–	–	(11,817)	–	(11,817)
Total comprehensive income (expense) for the year	–	–	–	–	–	(11,817)	(49,302)	252,002	190,883	(19,348)	171,535
2015 final dividend paid	–	–	–	–	–	–	–	(43,645)	(43,645)	–	(43,645)
2016 interim dividend paid	–	–	–	–	–	–	–	(19,463)	(19,463)	–	(19,463)
At 31 December 2016	29,503	721,154	9,200	11,671	59,512	(12,716)	(96,842)	880,244	1,601,726	32,990	1,634,716

The notes on pages 62 to 152 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Operating activities			
Profit before taxation		257,628	282,604
Adjustments for:			
Share of results of associates		14,944	12,019
Gain on deemed disposal of a subsidiary	38	(58,066)	–
Retirement benefits	37	13,995	8,820
Depreciation of property, plant and equipment	16	44,714	33,050
Interest expenses	10	3,857	3,395
Interest income	8	(6,496)	(1,651)
Interest from advance to associates	8	(803)	(817)
Interest from held-to-maturity financial assets	8	(167)	(168)
Amortisation of intangible assets	17	13,394	12,678
Amortisation of lease premium for land	18	2,962	3,423
Impairment of intangible assets	17	52,326	23,324
Foreign exchange (gain) loss, net	9	(12,538)	26,970
Share-based payments	9	4,480	3,941
Write-off of other receivables		1,551	81
Provision for allowance for bad and doubtful debts	24	141	143
Loss on disposal of property, plant and equipment	9	340	246
Provision for slow moving stock		1,597	–
Write-off of expired stock		330	4,028
Operating cash flows before movements in working capital		334,189	412,086
(Increase) decrease in inventories		(16,855)	24,856
Decrease in trade receivables		7,340	14,961
Decrease (increase) in other receivables, deposits and prepayments		3,471	(4,662)
Increase in pledged bank deposits		(1,235)	(26,639)
(Decrease) increase in trade payables		(16,181)	4,697
Increase in other payables		102,400	5,762
Cash from operations		413,129	431,061
Interest paid		(3,857)	(3,395)
Income tax refund		48	106
Income tax paid		(43,637)	(33,236)
Net cash generated from operating activities		365,683	394,536

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Investing activities			
Interest received		6,496	1,651
Purchase of plant and equipment		(28,682)	(28,638)
Payment for construction in progress		(108,482)	(110,412)
Proceeds from disposal of property, plant and equipment		140	47
Decrease in amount due from a related party		–	37,275
Additions of development costs and license fees		(130,308)	(130,620)
Increase in convertible instrument		(3,165)	–
Repayment from associates		5,512	2,881
Decrease (increase) in time deposits with initial terms of over three months		111,593	(99,990)
Additions of available-for-sale financial assets		(93,050)	(40,566)
Capital contribution from non-controlling interests		1,564	2,931
Net cash outflow from deemed disposal of a subsidiary	38	(3,137)	–
Net cash used in investing activities		(241,519)	(365,441)
Financing activities			
New loans raised	42	70,486	147,942
Repayment of loans	42	(78,503)	(80,130)
Proceeds from obligations under finance leases		–	782
Repayment of obligations under finance leases	42	(467)	(485)
Net proceeds from issue of ordinary shares upon exercise of share options	34	2,992	2,421
Dividend paid	14	(66,727)	(63,108)
Net cash (used in) generated from financing activities		(72,219)	7,422
Net increase in cash and cash equivalents		51,945	36,517
Cash and cash equivalents at 1 January		347,967	337,129
Effect of foreign exchange rate changes		(3,768)	(25,679)
Cash and cash equivalents at 31 December		396,144	347,967
Analysis of cash and cash equivalents			
Cash and bank balances		273,990	295,282
Time deposits		175,416	209,693
		449,406	504,975
Less: Time deposits with maturity over three months		(53,262)	(157,008)
		396,144	347,967

The notes on pages 62 to 152 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

Lee's Pharmaceutical Holdings Limited (the "Company") is a limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in this annual report.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the development of, manufacturing of and sales and marketing of pharmaceutical products.

The consolidated financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

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

Amendments to HKASs and HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle relating to Amendments to HKFRS 12 Disclosure of Interests in Other Entities

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 42. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 42, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and amendments to HKASs and HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRSs	Annual Improvement to HKFRSs 2014 – 2016 Cycle except Amendments to HKFRS 12[1]
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted
2 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted
3 Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted
4 Effective for annual periods beginning on or after a date to be determined

The Group is assessing the full impact of these new and amendments to HKASs and HKFRSs. According to management's preliminary assessment, other than the impact of HKFRS 9, 15 and 16 stated below, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

HKFRS 9 Financial Instruments

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

New and amendments to HKASs and HKFRSs issued but not yet effective *(continued)*

HKFRS 9 Financial Instruments (continued)

The Group's investment in equity instruments currently classified as available-for-sale ("AFS") financial assets and measured at cost less impairment will be qualified for designation as measured at fair value through other comprehensive income ("FVTOCI") under HKFRS 9 and the Group will measure these securities at fair value at the end of the subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve.

The Group's other financial assets include:

- equity instruments currently classified as AFS financial assets and measured at fair value for which FVTOCI election is available;

- convertible instrument currently designated as fair value will continue to be measured on the same basis under HKFRS 9; and

- financial instrument currently classified as held-to-maturity and measured at amortised cost meet the conditions for classification at amortised cost under HKFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realiesd on the sale of financial assets at FVTOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the investments revaluation reserve to retained earnings. During the year ended 31 December 2017, there was no disposal of AFS financial assets and thus no such gain or loss being recognised in profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVTOCI, contract assets under HKFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects there would be no significant change in allowance for bad and doubtful debts for trade debtors.

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

New and amendments to HKASs and HKFRSs issued but not yet effective *(continued)*

HKFRS 9 Financial Instruments (continued)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15 Revenue from Contracts with Customers

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of goods or services is transferred to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's consolidated financial statements and does not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-to-use leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interest. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries (continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. Gain or loss on derecognition is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interests in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if these interests were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indicator that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in associates. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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

Service income is recognised when services are provided.

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

Leasing

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

The Group as lessee

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land for own use

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purposes of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits

Defined contribution plan

Retirement benefits are provided to eligible staff of the Group. Hong Kong employees enjoy retirement benefits under the Mandatory Provident Fund Scheme. The employer's monthly contribution is 5% of each employee's monthly salary with maximum amount of HK$1,500 per month for each employee.

The pension schemes covering all the Group's employees in the People's Republic of China (the "PRC") and Taiwan are defined contribution schemes at various funding rates, and are in accordance with the local practices and regulations.

Payments to defined contribution retirement benefit plans (including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme) are recognised as an expense when employees have rendered service entitling them to the contributions.

Defined benefit plan

For defined retirement benefits plan, the cost of providing benefits is determined by the valuation conducted by independent valuer at the end of the reporting period, amortised over the expected average remaining working lives of the participating employees.

The retirement benefit recognised in the consolidated statement of financial position represents the cost of providing benefits, based on the valuation.

Short-term employee benefits

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

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 39 to the consolidated financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based compensation reserve.

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained profits.

Taxation

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

Current tax

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

Deferred tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reserve in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use (including obtaining the requisite production certificate). Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method, at the following rates per annum:

Buildings	5% – 20%
Leasehold improvement	20% – 33%
Plant and machinery	20% – 33%
Office and laboratory equipment and electronic equipment	20% – 33%
Motor vehicles	10% – 33%

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

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

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

Intangible assets

License fees (intangible assets acquired separately)

License fees are consideration paid for the license contracts and are carried at cost less accumulated amortisation and accumulated impairment losses. License fees with finite useful lives are amortised from the date they are ready for intended use over the remaining license period. The license period ranges from 3 to 10 years, with certain licenses contain renewal clause.

License fees with indefinite useful lives are carried at cost less accumulated impairment losses, if any.

Both the period and method of amortisation are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Development cost (internally-generated intangible assets – research and development expenditure)

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

An internally-generated intangible asset arising from development of licensed-in products or from the development phase of internal projects is recognised if, and only if, all of the following have been demonstrated:

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

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation commences when the development of products completes. Amortisation of development cost of internal projects is over the estimated useful life of 5 years, while amortisation of development cost of licensed-in products is on the same basis as license fees.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

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

Impairment of tangible and intangible assets other than goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indicator that they may be impaired.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity financial assets, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Financial assets at FVTPL (continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 41.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below). Gain or losses are recognised in profit or loss when the held-to-maturity financial assets are derecognised, impaired, or amortised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

AFS financial assets

AFS financial assets are non-derivative that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividend on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, advance to associates, other receivables, deposits and prepayments, time deposits, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (continued)

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

- significant financial difficult of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

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

When an AFS financial asset is considered to be impaired, cumulative gain or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (continued)

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in equity.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 41.

Financial liabilities at amortised cost

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

Effective interest method

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

Interest expenses is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract issued by the Group is initially measured at their fair values and, if not designated as at FVTPL, is subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risk and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirely, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit of loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and time deposits with banks and other financial institutions, having been within three months of maturity at acquisition.

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) the entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the other entity is a member) and vice versa;

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

(iv) the entity is a joint venture of a third entity and the Group is an associate of the third entity, and vice versa;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;

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

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

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

Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Held-to-maturity investments

The directors of the Company have reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. As at 31 December 2017, the aggregate carrying amount of the held-to-maturity financial assets was HK$5,826,000 (31 December 2016: HK$5,659,000). Details of these assets are set out in note 21.

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill is HK$3,900,000 (net of impairment loss of nil) (31 December 2016: HK$3,900,000 (net of the impairment loss of nil)). Details of the recoverable amount calculation are disclosed in note 19.

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

Key sources of estimation uncertainty *(continued)*

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables is HK$85,801,000 (net of allowance for doubtful debts of HK$561,000) (31 December 2016: carrying amount of HK$87,069,000, net of allowance for doubtful debts of HK$384,000).

Fair value measurements and valuation process

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Certain of the fair values are determined by independent professional valuers. Such valuation was based on certain assumptions subject to uncertainty and might materially differ from the actual results.

In making the estimation, consideration has been given to assumptions that are mainly based on market condition existing at the end of the reporting period and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Estimated impairment of intangible assets

Being part of the principal activities, the Group acquired certain license fees and capitalised development cost relating to the development of pharmaceutical products, since these costs meet the recognition criteria of HKAS 38. The Group reviews the carrying amount of all intangible assets held at the end of the reporting period and HK$52,326,000 (2016: HK$23,324,000) impairment was considered necessary for these assets.

Share-based payments

The Group recognises share-based payments expense on options granted. Share-based payments expense is based on the estimated fair value of each option at its grant date, the estimation of which requires the directors to make assumptions about future volatility of the Group's stock price, future interest rates and the timing with respect to exercise of the options. The effects of a change in one or more of these variables could result in a materially different fair value. The fair value of the share options granted during the year was estimated at HK$$10,096,000 (2016: HK$4,960,000) and the amount associated with share-based payments for the year ended 31 December 2017 is HK$4,480,000 (2016: HK$3,941,000).

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

Key sources of estimation uncertainty *(continued)*

Income taxes

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

Depreciation

The Group's net carrying amount of property, plant and equipment as at 31 December 2017 was approximately HK$565,662,000 (31 December 2016: approximately HK$437,092,000). The Group depreciates the property, plant and equipment, using the straight-line method, at the rate 5% to 33% per annum, commencing from the date the assets is placed into productive use. The estimated useful lives and dates that the Group places the assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the assets.

5. REVENUE

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

6. SEGMENT INFORMATION

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance focuses on the types of good delivered. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Proprietary products	–	Manufacturing and sales of self-developed pharmaceutical products
Licensed-in products	–	Trading of licensed-in pharmaceutical products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENT INFORMATION *(continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Proprietary products		Licensed-in products		Consolidated	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Segment revenue	464,120	440,073	544,402	489,748	1,008,522	929,821
Segment operating results	207,113	209,695	102,548	139,456	309,661	349,151
Impairment of intangible assets	–	(2,121)	(52,326)	(21,203)	(52,326)	(23,324)
Gain on deemed disposal a subsidiary	–	–	58,066	–	58,066	–
Segment results	207,113	207,574	108,288	118,253	315,401	325,827
Unallocated income					7,299	1,651
Unallocated expenses					(45,872)	(29,052)
Profit from operations					276,828	298,426
Finance costs					(4,256)	(3,803)
Profit before share of results of associates					275,572	294,623
Share of results of associates					(14,944)	(12,019)
Profit before taxation					257,628	282,604
Taxation					(54,689)	(50,198)
Profit for the year					202,939	232,406

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2016: nil).

6. SEGMENT INFORMATION *(continued)*

Segment revenue and results *(continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represents the profit earned by each segment without allocation of central administration costs including directors' emoluments, interest income, finance costs, share of results of associates, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	Proprietary products		Licensed-in products		Consolidated	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Segment assets	358,678	258,895	1,232,755	1,104,866	1,591,433	1,363,761
Unallocated assets					733,091	697,636
Total assets					2,324,524	2,061,397
Segment liabilities	135,039	85,420	276,705	264,757	411,744	350,177
Unallocated liabilities					115,848	76,504
Total liabilities					527,592	426,681

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than interests in associates, part of lease premium for land, advance to associates, tax recoverable, time deposits and cash and bank balances. Pledged bank deposits is not allocated to operating segments in 2017 since it relates to the Group's security given to a bank for an associate. Goodwill is allocated to segment of proprietary products. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segment; and

- all liabilities are allocated to operating segments other than tax payables, deferred tax liabilities, and retirement benefits. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENT INFORMATION *(continued)*

Other segment information (included in the measure of segment profit or loss or segment assets or regularly provided to the chief operating decision maker)

	Proprietary products		Licensed-in products		Consolidated	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Depreciation of property, plant and equipment	27,186	26,289	17,528	6,761	44,714	33,050
Amortisation of intangible assets	–	–	13,394	12,678	13,394	12,678
Additions to non-current assets (Property, plant and equipment, and intangible assets) during the year	59,756	52,331	207,716	217,339	267,472	269,670
Impairment of intangible assets	–	2,121	52,326	21,203	52,326	23,324

Geographical information

During the years ended 31 December 2017 and 2016, more than 90% of the Group's revenue was derived from activities conducted in the PRC, no geographical information on revenue is presented. The Group's assets and liabilities for the year, analysed by geographical market, are as follows:

	The PRC		Hong Kong and others		Total	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Total assets	1,549,776	1,167,680	774,748	893,717	2,324,524	2,061,397
Total liabilities	248,085	157,941	279,507	268,740	527,592	426,681

7. INFORMATION ABOUT MAJOR CUSTOMERS

For both the years ended 31 December 2017 and 2016, no single customer accounted for 10% or more of the Group's total revenue.

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8. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Interest income on:		
Bank deposits	6,496	1,651
Held-to-maturity financial assets	167	168
Advance to associates	803	817
Total interest income	7,466	2,636
Development grants	11,574	10,230
Development milestone income	–	4,501
Development upfront income	7,870	29,260
Compensation on termination of products license	2,815	23,769
Foreign exchange gain, net	12,538	–
Sales of research materials	1,862	–
Sundry income	2,984	1,741
	47,109	72,137

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

9. PROFIT FROM OPERATIONS

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

	2017 HK$'000	2016 HK$'000
Depreciation of property, plant and equipment	44,714	33,050
Amortisation of intangible assets (included in Cost of Sales)	13,394	12,678
Total depreciation and amortisation	58,108	45,728
Auditors' remuneration	1,033	1,138
Foreign exchange (gain) loss, net	(12,538)	26,970
Listing costs	669	747
Staff costs	195,796	153,794
Share-based payments	4,480	3,941
Research and development costs	85,057	67,886
Operating lease payments in respect of rented premises	10,256	8,706
Provision for allowance for bad and doubtful debts	141	143
Loss on disposal of property, plant and equipment	340	246
Cost of inventories charged to profit or loss	303,544	242,404

10. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	3,811	3,322
Finance leases	46	73
Total interest expenses for financial liabilities not classified as FVTPL	3,857	3,395
Bank charges	399	408
	4,256	3,803

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Performance bonus HK$'000	Employer's contributions to pension schemes HK$'000	Sub-total HK$'000	Retirement benefits HK$'000	Equity-settled share option expense HK$'000	2017 Total emoluments HK$'000
Executive Directors								
Lee Siu Fong	–	5,651	989	18	6,658	6,152	686	13,496
Leelalertsuphakun Wanee	–	6,289	1,066	18	7,373	4,713	620	12,706
Li Xiaoyi *(CEO)*	–	8,687	1,472	18	10,177	3,130	506	13,813
Non-executive Directors								
Marco Maria Brughera *(Note 1)*	96	–	–	–	96	–	–	96
Simon Miles Ball *(Note 2)*	–	–	–	–	–	–	–	–
Independent Non-executive Directors								
Chan Yau Ching, Bob	144	–	–	–	144	–	–	144
Lam Yat Cheong	144	–	–	–	144	–	–	144
Tsim Wah Keung, Karl	144	–	–	–	144	–	–	144
Total	528	20,627	3,527	54	24,736	13,995	1,812	40,543

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

	Fees HK$'000	Salaries, allowances, and other remuneration HK$'000	Performance bonus HK$'000	Employer's contributions to pension schemes HK$'000	Sub-total HK$'000	Retirement benefits HK$'000	Equity-settled share option expense HK$'000	2016 Total emoluments HK$'000
Executive Directors								
Lee Siu Fong	–	3,025	1,080	18	4,123	3,636	390	8,149
Leelalertsuphakun Wanee	–	3,584	1,164	18	4,766	4,795	390	9,951
Li Xiaoyi *(CEO)*	–	4,951	1,607	18	6,576	389	390	7,355
Non-executive Director								
Marco Maria Brughera	96	–	–	–	96	–	–	96
Independent Non-executive Directors								
Chan Yau Ching, Bob	107	–	–	–	107	–	–	107
Lam Yat Cheong	120	–	–	–	120	–	–	120
Tsim Wah Keung, Karl	109	–	–	–	109	–	–	109
Total	432	11,560	3,851	54	15,897	8,820	1,170	25,887

Note 1: Resigned with effect from 29 December 2017.

Note 2: Appointed with effect from 29 December 2017.

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2016: nil).

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

During the year, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share options scheme are set out in note 39 to the consolidated financial statements.

Transactions, arrangements or contracts in which directors of the Company have material interests

No transactions, arrangements and contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: nil).

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

Loans, quasi-loans and other dealings in favour of directors

No loans, quasi-loans and other dealings in favour of directors of the Company or body corporate controlled by such directors, or entities connected with such directors, subsisted at the end of the year or at any time during the year (2016: nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2016: three) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining two (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and other benefits	3,891	4,485
Employer's contributions to retirement benefit schemes	36	43
Equity-settled share option expense	700	315
	4,627	4,843

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

	2017 Number of employees	2016 Number of employees
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	1
	2	2

During the year, certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 39 to the consolidated financial statements.

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. TAXATION

	2017 HK$'000	2016 HK$'000
Current tax		
Hong Kong Profits Tax	4,741	18,538
PRC Enterprise Income Tax	35,255	23,318
	39,996	41,856
Under (over) provision in prior years		
Hong Kong Profits Tax	3,191	119
PRC Enterprise Income Tax	(1,004)	(62)
	2,187	57
Deferred tax		
Origination and reversal of temporary differences	12,506	8,285
	54,689	50,198

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries range from 15% to 25% (2016: 15% to 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

13. TAXATION *(continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2017 HK$'000	2016 HK$'000
Profit before taxation	257,628	282,604
Notional tax at the rates applicable to results in regions concern	41,975	46,197
Tax effect of share of results of associates	2,466	1,983
Tax effect of expenses not deductible for tax purpose	6,172	4,748
Tax effect of income not taxable for tax purpose	(11,332)	(5,373)
Under provision in prior years	2,187	57
Tax effect on temporary differences not recognised	(1,785)	(3,102)
Tax effect of tax losses not recognised	17,961	13,912
Tax effect of PRC preferential tax allowance	(5,645)	(5,969)
Tax at other jurisdictions	2,690	455
Utilisation of tax losses previously not recognised	–	(2,710)
Tax charge for the year	54,689	50,198

As at 31 December 2017, the Group has estimated unused tax losses of approximately HK$151 million (2016: HK$161 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profits streams.

14. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 Interim – HK$0.034 (2016: 2016 interim dividend HK$0.033) per share	20,092	19,463
2016 Final – HK$0.079 (2016: 2015 final dividend HK$0.074) per share	46,635	43,645
	66,727	63,108

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FOR THE YEAR ENDED 31 DECEMBER 2017

14. DIVIDENDS *(continued)*

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of HK7.0 cents per share (2016: final dividend in respect of the year ended 31 December 2016 of HK7.9 cents per share), in an aggregate amount of HK$41,336,000 (2016: HK$46,635,000) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting ("AGM"), and is not included as a dividend payable in the consolidated statement of financial position as at 31 December 2017.

15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2017 HK$'000	2016 HK$'000
Earnings:		
Net profit attributable to owners of the Company for the purpose of basic and diluted earnings per share	232,559	252,002

	2017 Share (s) '000	2016 Share (s) '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	590,505	588,923
Effect of dilutive potential ordinary shares:		
Options	1,824	2,688
Weighted average number of ordinary shares for the purposes of diluted earnings per share	592,329	591,611

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Office and laboratory equipment and electronic equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2016	55,084	3,356	59,051	33,114	9,938	262,258	422,801
Exchange rate adjustments	(9,706)	(653)	(4,009)	(1,724)	(399)	(12,693)	(29,184)
Additions	108	10,779	5,724	10,543	1,484	110,412	139,050
Transfer in (out)	147,137	3,863	8,898	–	–	(159,898)	–
Disposals	(39)	–	–	(46)	(540)	–	(625)
At 31 December 2016 and 1 January 2017	192,584	17,345	69,664	41,887	10,483	200,079	532,042
Exchange rate adjustments	17,192	1,232	6,482	3,142	575	17,020	45,643
Reclassification	2	–	270	(272)	–	–	–
Additions	138	1,953	8,207	16,294	2,090	108,482	137,164
Transfer in (out)	37,022	327	14,337	2,585	–	(54,271)	–
Disposals	(315)	–	(302)	(190)	(736)	(471)	(2,014)
Deemed disposal of a subsidiary *(Note 38)*	–	(66)	–	(1,065)	–	–	(1,131)
At 31 December 2017	246,623	20,791	98,658	62,381	12,412	270,839	711,704
DEPRECIATION							
At 1 January 2016	14,948	2,899	23,014	20,144	5,856	–	66,861
Exchange rate adjustments	(1,159)	(110)	(1,935)	(1,116)	(309)	–	(4,629)
Charge for the year	6,965	2,638	14,044	8,013	1,390	–	33,050
Write-off upon disposal	(16)	–	–	(46)	(270)	–	(332)
At 31 December 2016 and 1 January 2017	20,738	5,427	35,123	26,995	6,667	–	94,950
Exchange rate adjustments	2,268	332	3,499	1,922	446	–	8,467
Reclassification	2	–	91	(93)	–	–	–
Charge for the year	15,006	3,648	16,296	8,334	1,430	–	44,714
Write-off upon disposal	(306)	–	(302)	(190)	(736)	–	(1,534)
Deemed disposal of a subsidiary *(Note 38)*	–	(50)	–	(505)	–	–	(555)
At 31 December 2017	37,708	9,357	54,707	36,463	7,807	–	146,042
CARRYING AMOUNTS							
At 31 December 2017	208,915	11,434	43,951	25,918	4,605	270,839	565,662
At 31 December 2016	171,846	11,918	34,541	14,892	3,816	200,079	437,092

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

The buildings are situated in the PRC under medium-term leases.

The net book value of motor vehicles of HK$4,605,000 (2016: HK$3,816,000) includes an amount of HK$1,652,000 (31 December 2016: HK$1,874,000) in respect of assets held under finance leases.

17. INTANGIBLE ASSETS

	License fees	Development cost	Total
	HK$'000	HK$'000	HK$'000
COST			
At 1 January 2016	155,327	217,978	373,305
Exchange rate adjustments	(2,132)	(9,069)	(11,201)
Additions	29,308	101,312	130,620
Impairment	(8,885)	(14,439)	(23,324)
At 31 December 2016 and 1 January 2017	173,618	295,782	469,400
Exchange rate adjustments	3,783	19,106	22,889
Additions	30,760	99,548	130,308
Impairment	(2,628)	(49,698)	(52,326)
Deemed disposal of a subsidiary *(Note 38)*	(1,396)	(58,434)	(59,830)
At 31 December 2017	204,137	306,304	510,441
AMORTISATION			
At 1 January 2016	25,339	10,141	35,480
Exchange rate adjustments	–	(611)	(611)
Charge for the year	12,381	297	12,678
At 31 December 2016 and 1 January 2017	37,720	9,827	47,547
Exchange rate adjustments	–	862	862
Charge for the year	12,836	558	13,394
At 31 December 2017	50,556	11,247	61,803
CARRYING AMOUNTS			
At 31 December 2017	153,581	295,057	448,638
At 31 December 2016	135,898	285,955	421,853

18. LEASE PREMIUM FOR LAND

	2017 HK$'000	2016 HK$'000
Carrying amounts at 1 January	137,427	13,707
Exchange rate adjustments	11,132	(6,601)
	148,559	7,106
Additions for the year	–	133,744
Amortisation for the year	(2,962)	(3,423)
Carrying amounts at 31 December	145,597	137,427
Current portion of non-current assets	(3,077)	(2,844)
Non-current portion	142,520	134,583

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

19. GOODWILL

	2017 HK$'000	2016 HK$'000
At Cost		
Balance at beginning and at the end of the year	3,900	3,900

The goodwill tested for impairment is allocated to the cash-generating unit that constitutes Proprietary Products Business. The recoverable amount of proprietary products unit is determined based on a value in use calculated and represented by the management using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 10% per annum (2016: 10% per annum).

The value calculated by using the discount rate is higher than the carrying amount of the cash-generating unit; accordingly, the management of the Group determined that there is no impairment of the goodwill.

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20. INTERESTS IN ASSOCIATES

Details of the Group's interests in associates are as follows:

	2017 HK$'000	2016 HK$'000
Cost of investment, unlisted	145,780	91,208
Share of post-acquisition loss and other comprehensive income, net of dividends received	(58,531)	(44,556)
Share of associates' reserves	114	168
	87,363	46,820

Details of the Group's associates at the end of the reporting period are as follow:

Name of associate	Place of incorporation/ operations	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		2017	2016	2017	2016	
Powder Pharmaceuticals Incorporated ("PPI") *(Note 1)*	British Virgin Islands/ Hong Kong	33.92%	33.92%	33.92%	33.92%	Development, manufacture and sale of pharmaceutical products
RIT Biotech (Holding) Company Limited ("RIT") *(Note 2)*	British Virgin Islands/ Hong Kong	33.33%	33.33%	33.33%	33.33%	Operate a central pharmacy for compounding radiopharmaceuticals
CVie Therapeutics Limited ("CVie Taiwan")	Taiwan/Taiwan	49.58%	– *(Note 38)*	49.58%	– *(Note 38)*	Development of pharmaceuticals products

Notes:

1. PPI has a wholly-owned subsidiary, Powder Pharmaceuticals (HK) Co., Limited, which is incorporated in Hong Kong and has not yet commenced business.
2. RIT has a wholly-owned subsidiary, RIT Biotech Company Limited, which is incorporated in Hong Kong and engaged in operating a central pharmacy for compounding radiopharmaceuticals.

20. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

	PPI		RIT		CVie Taiwan	
	31 December		31 December		31 December	
	2017	2016	2017	2016	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Current assets	9,383	31,399	10,692	13,375	4,873	N/A
Non-current assets	29,668	32,693	7,605	–	140,374	N/A
Current liabilities	23,107	21,477	2,592	361	41,731	N/A
Non-current liabilities	–	–	4,200	–	–	N/A

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20. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

	PPI		RIT		CVie Taiwan	
	Year ended		Year ended			
					1/6/2017 –	Year ended
	2017	2016	2017	2016	31/12/2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	322	2,315	25	18	–	N/A
Loss from operations	(25,818)	(31,076)	(5,345)	(3,584)	(8,530)	N/A
Loss for the year/period	(26,638)	(31,914)	(5,395)	(3,584)	(8,290)	N/A
Other comprehensive income	–	–	–	–	1,733	N/A
Total comprehensive expense for the year	(26,638)	(31,914)	(5,395)	(3,584)	(6,557)	N/A
Dividend received during the year	–	–	–	–	–	N/A

20. INTERESTS IN ASSOCIATES *(continued)*

Summarised financial information of material associates *(continued)*

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

	PPI		RIT		CVie Taiwan	
	31 December		31 December		31 December	
	2017	2016	2017	2016	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net assets	15,944	42,415	11,506	15,014	103,516	N/A
Proportion of the Group's ownership	33.92%	33.92%	33.33%	33.33%	49.58%	N/A
Goodwill	23,995	23,995	–	–	–	N/A
Carrying amount of the Group's interests	29,402	38,382	6,640	8,438	51,321	N/A

As at 31 December 2017 and 31 December 2016, there was outstanding capital premium in RIT though shares were fully issued pursuant to the underlying agreement. Therefore, the carrying amount of the Group's interests in RIT as at 31 December 2017 and 31 December 2016 cannot be directly calculated by multiplying its net assets with the proportion of the Group's ownership interests.

21. HELD-TO-MATURITY FINANCIAL ASSETS

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

	2017	2016
	HK$'000	HK$'000
Unlisted investments	5,826	5,659

The investments referred to the guaranteed investments issued by financial institution with maturity on August 2018, and are grouped under current assets (2016: non-current assets). The investments carry effective interest rate at 3.28% (2016: 3.28%) per annum. None of these investments has been past due or impaired at the end of the reporting period.

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22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2017 HK$'000	2016 HK$'000
Equity securities listed outside Hong Kong *(Note 1)*	87,067	15,198
Unlisted equity securities *(Note 2)*	48,850	46,671
Unlisted partnership investment *(Note 3)*	65,909	65,909
Unlisted warrants *(Note 4)*	1,297	–
	203,123	127,778

Notes:

1. The fair values of listed securities are based on quoted market closing prices available on the relevant exchanges as at the end of the reporting period.

2. The above unlisted equity investments represent investments in unlisted equity securities issued by private entities and public entity incorporated in Switzerland and the United States of America. Unlisted equity investments issued by public entity are measured at fair value with reference to the quoted market closing price of the underlying listed securities. Unlisted equity investments issued by private entities are measured at cost less impairment at the end of the reporting period as the fair value of these financial assets cannot be reliably measured.

3. The above unlisted investment represents partnership interest in a private fund, Lee's Healthcare Industry Fund L.P. ("Fund"), incorporated in the Cayman Islands. It is measured at cost less impairment at the end of the reporting period. The fair value of the financial asset cannot be reliably measured.

4. The unlisted warrants are issued by a public entity incorporated in the United States of America and the investment is measured at fair value.

23. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	9,963	16,050
Work-in-progress	23,313	14,265
Finished goods	127,361	104,595
	160,637	134,910

No inventories are carried at net realisable value at 31 December 2017 (2016: nil).

24. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	86,362	87,453
Less: Allowances for bad and doubtful debts	(561)	(384)
	85,801	87,069

The credit period on sales of goods is 30 – 120 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 365 days because historical experience has been that receivables that are past due beyond 365 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables over 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

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

	2017 HK$'000	2016 HK$'000
0 – 30 days	41,782	47,314
31 – 120 days	41,234	38,368
121 – 180 days	2,544	1,073
181 – 365 days	223	225
Over 365 days and under 3 years	18	89
	85,801	87,069

The fair value of the Group's trade receivables at 31 December 2017 approximates to their corresponding carrying amount.

Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has not recognised an allowance for bad and doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

24. TRADE RECEIVABLES *(continued)*

Ageing analysis of receivables that are past due but not impaired

	2017 HK$'000	2016 HK$'000
Overdue by:		
1 – 180 days	26,321	16,674
181 – 365 days	130	202
	26,451	16,876

Movement in allowance for bad and doubtful debts

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	384	262
Exchange rate adjustments	36	(21)
Provision for allowance for bad and doubtful debts	141	143
Balance at the end of the year	561	384

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Ageing analysis of receivables that are past due and impaired

	2017 HK$'000	2016 HK$'000
Overdue by:		
181 – 365 days	130	203
Over 365 days and under 3 years	431	181
	561	384

25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENT

	2017 HK$'000	2016 HK$'000
Utilities and rental deposits	3,258	3,174
Prepayment for plant and equipment and services	23,773	47,518
Prepaid other tax	35,333	16,501
Others *(Note)*	38,956	39,030
	101,320	106,223

Note: Others includes deposit for purchase and receivables from other debtors.

26. CONVERTIBLE INSTRUMENTS

The amount represents the three convertible loan receivables issued by an unlisted overseas company ("Issuer"). Each convertible loan consisted of principal amount of CHF132,000 (approximate HK$1,055,000) at interest rate of 1% per annum and will be matured after 1 year of advancement.

Assuming the conversion rights attaching to the convertible loans are exercised in full at the conversion price of CHF16 per conversion share, up to 25,000 conversion shares of the Issuer will be allotted and issued. The Issuer is an biotechnology company. As at 31 December 2017, the fair values of the convertible loans were same as their principal amounts and no fair value changes were recognised in profit or loss for the year ended 31 December 2017.

The convertible instruments were designated at fair value and the fair value was valued by Peak Vision Appraisal Limited, an independent qualified professional valuer not connected with the Group, using partial differential equations, specifically the Crank-Nicolson finite-difference method. The inputs into the model of each convertible loan as at 31 December 2017 were as follows:

	Convertible loan 1	**Convertible loan 2**	**Convertible loan 3**
Stock price	CHF 34.80	CHF 34.80	CHF 34.80
Conversion price	CHF 16.00	CHF 16.00	CHF 16.00
Volatility	35.72%	37.04%	40.33%
Dividend yield	0%	0%	0%
Option life (years)	0.45	0.62	0.87
Discount rate	10.76%	10.79%	10.84%

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FOR THE YEAR ENDED 31 DECEMBER 2017

27. ADVANCE TO ASSOCIATES

As at 31 December 2017, the amount due from an associate with carrying amount of HK$20,414,000 (2016: HK$20,524,000) which bore interest rate of 4% (2016: 4%) per annum and are repayable within one year. The amount due from an associate with carrying amount of HK$4,225,000 (2016: nil) which is interest-free and has no fixed term of repayment.

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

As at 31 December 2017, pledged bank deposits represent the Group's security given to a bank for the facilities granted to an associate. The pledged deposits would be released with one year and therefore are classified as current assets (2016: Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group, and deposits given by bank on behalf of the Group to service provided for service).

Bank balances carry interest at market rates which are in range of 0.01% to 0.50% (2016: 0.01% to 0.50%) per annum. Time deposits carry interest rates in the range of 0.78% to 1.82% (2016: 0.40% to 1.65%) per annum. Pledged bank deposits carry interest rate of 1.91% (2016: 0.13% to 0.95%) per annum.

29. TRADE PAYABLES

The fair value of the Group's trade payables at 31 December 2017 approximates to their corresponding carrying amount.

The following is an ageing analysis of trade payables at 31 December 2017 and 2016:

	2017 HK$'000	2016 HK$'000
0 – 90 days	26,090	36,631
91 – 180 days	–	–
181 – 365 days	–	5,618
Over 365 days	58	52
	26,148	42,301

The average credit period on purchases of certain goods is 90 days. The Group has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Bills payables	–	7,024
Other tax payables	14,441	13,519
Prepayment from customers	147,334	79,634
Sales guarantee deposits	35,228	27,934
Other payables for plant and equipment and services	43,475	14,925
Others *(Note)*	40,672	29,304
	281,150	172,340

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

31. BANK BORROWINGS

	2017 HK$'000	2016 HK$'000
Secured bank borrowings classified as current liabilities (1)	99,004	133,578
Carrying amount of the borrowings are repayable:(2)		
Within one year	58,291	78,053
More than one year but not exceeding two years	23,027	27,331
More than two years but not exceeding five years	17,686	28,194
	99,004	133,578

Notes:

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

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

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

	2017	2016
Bank borrowings	2.05% – 4.79%	2.00% – 4.79%

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31. BANK BORROWINGS *(continued)*

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

	Hong Kong Dollars	Euro	Renminbi	New Taiwan Dollars
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2017	87,022	–	11,982	–
As at 31 December 2016	90,142	1,574	21,462	20,400

32. OBLIGATIONS UNDER FINANCE LEASES

The Group leases motor vehicles under finance leases. The lease term is five years (2016: five years). Interest rate underlying the obligations under finance leases is 3.72% (2016: 3.72%) per annum. At the end of the lease term, the Group has an option to purchase the motor vehicles. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts payable under finance leases:				
Within one year	514	514	485	467
In the second to fifth year inclusive	529	1,042	516	1,001
	1,043	1,556	1,001	1,468
Less: Future finance charges	(42)	(88)	N/A	N/A
Present value of lease obligations	1,001	1,468	1,001	1,468
Less: Amount due for settlement within 12 months (shown under current liabilities)			(485)	(467)
Amounts due for settlement after 12 months			516	1,001

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. DEFERRED TAXATION

The following is the major deferred tax balances recognised and movements thereon during the current and prior years:

Deferred tax (assets) liabilities

	Accelerated tax depreciation HK$'000	**Intangible assets** HK$'000	**Deferred revenue** HK$'000	**Total** HK$'000
At 1 January 2016	148	23,675	(5,542)	18,281
Exchange difference	–	(1,276)	–	(1,276)
Charge (credit) to profit or loss	258	9,697	(1,670)	8,285
At 31 December 2016 and 1 January 2017	406	32,096	(7,212)	25,290
Exchange difference	–	2,185	–	2,185
Charge (credit) to profit or loss	131	12,538	(163)	12,506
At 31 December 2017	537	46,819	(7,375)	39,981

For the purpose of presentation in the consolidated statement of financial position, deferred tax assets and liabilities have been offset and shown under deferred tax liabilities.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits earned by the PRC subsidiaries amounting to HK$528 million (2016: HK$428 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

34. SHARE CAPITAL

	Number of shares		Share capital	
	2017	2016	2017 HK$'000	2016 HK$'000
Authorised:				
Ordinary shares of HK$0.05 each	1,000,000,000	1,000,000,000	50,000	50,000
Issued and fully paid:				
At beginning of the year	590,051,343	586,795,343	29,503	29,340
Exercise of share options (a)	892,000	3,256,000	44	163
At end of the year	590,943,343	590,051,343	29,547	29,503

During the year ended 31 December 2017, the movement in the Company's share capital is as follows:

(a) During the year ended 31 December 2017, a total of 892,000 new shares were issued upon exercise of 892,000 share options under the Company's share option schemes (note 39) at an aggregate consideration of HK$2,992,000 (net of issuance cost) of which HK$44,000 was credited to share capital and the remaining balance of HK$2,948,000 was credited to the share premium account. In addition, an amount attributable to the related share options of HK$766,000 has been transferred from share-based compensation reserve to the share premium account.

35. RESERVES

Share premium

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

Merger difference

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

Share-based compensation reserve

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

Other reserves

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

35. RESERVES *(continued)*

Investments revaluation reserve

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

Exchange reserve

Exchange reserve relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss upon the disposal of the foreign subsidiaries.

36. NON-CONTROLLING INTERESTS

	Share of net assets of subsidiaries	Share-based compensation reserve of subsidiaries	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2016	49,340	50	49,390
Capital contribution from non-controlling interests	2,931	–	2,931
Share of loss for the year	(19,596)	–	(19,596)
Share of other comprehensive income for the year			
– Exchange differences on translation of financial statements of overseas subsidiaries	248	–	248
Share of employee share options benefits	–	17	17
At 31 December 2016 and at 1 January 2017	32,923	67	32,990
Capital contribution from non-controlling interests	1,564	–	1,564
Share of loss for the year	(29,620)	–	(29,620)
Share of other comprehensive income for the year			
– Exchange differences on translation of financial statements of overseas subsidiaries	878	–	878
Share of employee share options benefits	–	17	17
Additional non-controlling interests arising from partial disposal of interests in a subsidiary *(Note 48(3))*	(666)	–	(666)
Deemed disposal of a subsidiary *(Note 38)*	(12,577)	–	(12,577)
At 31 December 2017	(7,498)	84	(7,414)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. RETIREMENT BENEFITS

Defined contribution plan

The Group operates a Mandatory Provident Fund Scheme ("Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme with maximum amount of HK$1,500 (2016: HK$1,500) per month for each employee, which contribution is matched by employees.

The total cost recognised in profit or loss of HK$727,000 (2016: HK$651,000) represents contributions payable to the Scheme by the Group in respect of the current accounting period. As at 31 December 2017, contributions of HK$68,000 (2016: HK$61,000) due in respect of the reporting period had not been paid over to the Scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits is to make the specified contributions.

Defined benefit plan

Retirement benefit scheme represents the retirement benefits provided to the executive directors of the Company.

Each of the executive directors will be entitled to lump sum payment upon retirement and monthly pension payment after retirement if he/she has engaged in continuous service with the Group for certain years.

The carrying value of the retirement benefits represents the cost of providing benefits determined by valuation conducted by independent valuer at the end of the reporting period, amortised over the expected average remaining working lives of the participating employees. The fair value of the retirement benefits at 31 December 2017 was valued by Peak Vision Appraisal Limited, an independent professional valuer not connected to the Group. The valuation was carried out on a fair value basis. The term "fair value" is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of retirement benefits was accrued in the consolidated financial statements but the retirement benefit scheme was not established up to the date of this report. Thus, no actuarial gain or loss will be considered.

During the year, the total cost recognised in profit or loss of HK$13,995,000 represented provision for retirement benefits (2016: 8,820,000).

38. DEEMED DISPOSAL OF A SUBSIDIARY

On 24 May 2017, CVie Therapeutics Limited ("CVie Taiwan"), a then indirect non-wholly owned subsidiary of the Company which focused on the development of the two cardiovascular assets, namely Rostafuroxin and Istaroxime, entered into the series A shares purchase agreement with two independent third parties (the "Investors"), pursuant to which the Investors subscribed for 2,750,387 series A preferred shares of CVie Taiwan at the consideration of US$7.5 million (approximately HK$58,500,000 equivalent). The transaction was completed in June 2017, and the Group's shareholding in CVie Taiwan was diluted from 56.26% to 49.58% and CVie Taiwan ceased to be a subsidiary and become an associated company of the Group.

	HK$'000
Analysis of assets and liabilities over which control was lost	
Plant and equipment	576
Intangible assets	59,830
Other receivables, deposits and prepayments	4,528
Cash and bank balances	3,137
Other payables	(1,040)
Amounts due to fellow subsidiaries	(8,737)
Bank borrowings	(29,541)
Net asset value	28,753
Gain on deemed disposal of a subsidiary	
Investment retained in the former subsidiary at fair value	54,572
Net asset disposed of	(28,753)
Non-controlling interests	12,577
Cumulative other reserve and exchange reserve in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	19,670
Gain on deemed disposal	58,066
Net cash outflow arising on deemed disposal	
Cash consideration	–
Less: Cash and bank balances	(3,137)
	(3,137)

39. SHARE OPTION SCHEMES

The Company

The Company's share option scheme (the "2002 Share Option Scheme") and new share option scheme (the "New Share Option Scheme") were adopted on 26 June 2002, and 10 May 2012 respectively for the primary purpose of providing incentives to directors, eligible employees, advisers and consultants.

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Share Options Scheme and the New Share Option Scheme was 15,345,000 shares (2016: 13,217,000 shares) representing 2.6% (2016: 2.2%) of the shares of the Company in issue at that date.

For the 2002 Share Option Scheme, the total number of shares in respect of which options may be granted under the scheme is not permitted to exceed 10% of the shares of the Company ("Shares") in issue at the time of listing, without prior approval from the Company's shareholders. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares in issue, without prior approval from the Company's shareholders.

For the New Share Option Scheme, the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall be subject to a maximum limit of 10% of the Shares in issue on the date on which the New Share Option Scheme is conditionally adopted and approved by the shareholders at the AGM, unless the Company obtains an approval from the shareholders in general meeting to refresh such 10% in accordance with the Listing Rules. Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating such 10%. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes must not exceed 30% of the Shares in issue from time to time.

The exercise price is determined by the directors, and will not be less than the highest of (i) the closing price of the Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

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

		During the year					
Date of grant	Outstanding at 01.01.2017	Granted	Exercised	Lapsed	Outstanding at 31.12.2017	Exercise period	Exercise price per share
Category I:							
Directors							
30.12.2013	876,000	–	–	–	876,000	30.06.2014-29.12.2023	HK$7.300
31.03.2015	1,338,000	–	–	–	1,338,000	30.09.2015-30.03.2025	HK$11.200
31.03.2016	1,761,000	–	–	–	1,761,000	30.09.2017-30.03.2026	HK$5.754
13.04.2017	–	1,770,000	–	–	1,770,000	13.10.2017-12.04.2027	HK$7.548
Category II:							
Employees							
02.01.2008	320,000	–	(320,000)	–	–	02.07.2008-01.01.2018	HK$0.492
12.01.2010	240,000	–	–	–	240,000	12.07.2010-11.01.2020	HK$2.200
20.12.2010	300,000	–	–	–	300,000	20.06.2011-19.12.2020	HK$3.750
08.10.2012	4,708,000	–	(572,000)	–	4,136,000	08.10.2013-07.10.2022	HK$4.996
05.04.2013	300,000	–	–	–	300,000	05.10.2013-04.04.2023	HK$5.620
30.12.2013	2,024,000	–	–	–	2,024,00	30.12.2014-29.12.2023	HK$7.300
07.10.2014	600,000	–	–	–	600,000	30.06.2015-06.10.2024	HK$10.340
07.10.2014	750,000	–	–	–	750,000	03.10.2015-06.10.2024	HK$10.340
03.10.2017	–	1,250,000	–	–	1,250,000	03.10.2018-02.10.2027	HK$6.190
	13,217,000	3,020,000	(892,000)	–	15,345,000		
Exercisable at the end of the year					13,210,000		
Weighted average exercise price	HK$6.602	HK$6.986	HK$3.380	–	HK$6.865		

The weighted average share price on which the options were exercised in current year is HK$6.50.

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39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

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

Date of grant	Outstanding at 01.01.2016	During the year Granted	During the year Exercised	During the year Lapsed	Outstanding at 31.12.2016	Exercise period	Exercise price per share
Category I:							
Directors							
30.12.2013	876,000	–	–	–	876,000	30.06.2014-29.12.2023	HK$7.300
31.03.2015	1,338,000	–	–	–	1,338,000	30.09.2015-30.03.2025	HK$11.200
31.03.2016	–	1,761,000	–	–	1,761,000	30.09.2016-30.03.2026	HK$5.754
Category II:							
Employees							
02.06.2006	500,000	–	(500,000)	–	–	02.12.2006-01.06.2016	HK$0.175
02.01.2008	320,000	–	–	–	320,000	02.07.2008-01.01.2018	HK$0.492
12.01.2010	240,000	–	–	–	240,000	12.07.2010-11.01.2020	HK$2.200
20.12.2010	300,000	–	–	–	300,000	20.06.2011-19.12.2020	HK$3.750
08.10.2012	4,964,000	–	(256,000)	–	4,708,000	08.10.2013-07.10.2022	HK$4.996
05.04.2013	300,000	–	–	–	300,000	05.10.2013-04.04.2023	HK$5.620
30.12.2013	2,024,000	–	–	–	2,024,00	30.12.2014-29.12.2023	HK$7.300
07.10.2014	600,000	–	–	–	600,000	30.06.2015-06.10.2024	HK$10.340
07.10.2014	750,000	–	–	–	750,000	03.10.2015-06.10.2024	HK$10.340
Category III:							
Consultants							
02.06.2006	500,000	–	(500,000)	–	–	02.12.2006-01.06.2016	HK$0.175
02.01.2008	2,000,000	–	(2,000,000)	–	–	02.07.2008-01.01.2018	HK$0.492
	14,712,000	1,761,000	(3,256,000)	–	13,217,000		
Exercisable at the end of the year					12,086,500		
Weighted average exercise price	HK$5.409	HK$5.754	HK$0.749	–	HK$6.602		

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

39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of grant	Exercise period	Exercise price per share HK$
02.06.2006	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.12.2006-01.06.2016 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.09.2007-01.06.2016	0.175
02.01.2008	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 02.07.2008-01.01.2018 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 02.04.2009-01.01.2018	0.492
12.01.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 12.07.2010-11.01.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 12.04.2011-11.01.2020	2.200
20.12.2010	(i) 50% exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 20.06.2011-19.12.2020 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 20.03.2012-19.12.2020	3.750
08.10.2012	(i) 259,500 options exercisable not less than 6 months from date of grant but not more than 10 years, i.e. 08.04.2013-07.10.2022 (ii) 259,500 options exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 08.01.2014-07.10.2022 (iii) 1,160,000 options exercisable during the period from 08.10.2013-07.10.2022 (iv) 2,230,000 options exercisable during the period from 08.10.2014-07.10.2022 (v) 2,650,000 options exercisable during the period from 08.10.2015-07.10.2022	4.996

39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of grant	Exercise period	Exercise price per share HK$
05.04.2013	(i) 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 05.10.2013-04.04.2023 (ii) unexercised balance thereof be exercisable not less than 15 months from date of grant but not more than 10 years, i.e. 05.07.2014-04.04.2023	5.620
30.12.2013	(i) 1,614,000 options: 50% exercisable not less than 6 months but not more than 10 years from the date of grant, i.e. 30.06.2014-29.12.2023; and in respect of the unexercised balance thereof be exercisable not less than 15 months but not more than 10 years from the date of grant, i.e. 30.03.2015-29.12.2023 (ii) 669,000 options will be exercisable during the period from 30.12.2014 to 29.12.2023 (iii) 669,000 options will be exercisable during the period from 30.12.2015 to 29.12.2023 (iv) 702,000 options will be exercisable during the period from 30.12.2016 to 29.12.2023.	7.300
07.10.2014	(i) 600,000 options: 50% will be exercisable during the period from 30.06.2015 to 06.10.2024; and 50% will be exercisable during the period from 30.06.2016 to 06.10.2024 (ii) 250,000 options will be exercisable during the period from 03.10.2015 to 06.10.2024 (iii) 250,000 options will be exercisable during the period from 03.10.2016 to 06.10.2024 (iv) 250,000 options will be exercisable during the period from 03.10.2017 to 06.10.2024	10.340
31.03.2015	(i) 669,000 options will be exercisable during the period from 30.09.2015 to 30.03.2025 (ii) 669,000 options will be exercisable during the period from 30.06.2016 to 30.03.2025	11.200

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39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

Particulars of share options:

Date of grant	Exercise period		Exercise price per share HK$
31.03.2016	(i)	880,500 options will be exercisable during the period from 30.09.2016 to 30.03.2026	5.754
	(ii)	880,500 options will be exercisable during the period from 30.06.2017 to 30.03.2026	
13.04.2017	(i)	885,000 options will be exercisable during the period from 13.10.2017 to 12.04.2027	7.548
	(ii)	885,000 options will be exercisable during the period from 13.07.2018 to 12.04.2027	
03.10.2017	(i)	250,000 options will be exercisable during the period from 02.10.2018 to 02.10.2027	6.190
	(ii)	250,000 options will be exercisable during the period from 02.10.2019 to 02.10.2027	
	(iii)	250,000 options will be exercisable during the period from 02.10.2020 to 02.10.2027	
	(iv)	500,000 options will be exercisable during the period from 02.10.2021 to 02.10.2027	

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

	Outstanding at 01.01.2017	During the year Granted	Exercised	Lapsed	Outstanding at 31.12.2017
Directors					
Lee Siu Fong	1,571,000	590,000	–	–	2,161,000
Leelalertsuphakun Wanee	1,371,000	590,000	–	–	1,961,000
Li Xiaoyi	1,033,000	590,000	–	–	1,623,000
Directors' total	3,975,000	1,770,000	–	–	5,745,000
Employees	9,242,000	1,250,000	(892,000)	–	9,600,000
Grand total	13,217,000	3,020,000	(892,000)	–	15,345,000

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39. SHARE OPTION SCHEMES *(continued)*

The Company *(continued)*

The Company issues equity-settled share options to certain employees and consultants. Equity-settled share options are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually become vested and adjusted for the effect of non market-based vesting conditions.

The fair value of the total options granted during the year measured as at the date of grant on 13 April 2017 and 3 October 2017 is HK$7,246,000 and HK$2,850,000 respectively.

The following significant assumptions were used to derive the fair value using the Binomial Model:

1. exercise price HK$7.548 and HK$6.190;

2. expected volatility 35.2% to 56.0%;

3. the options life is 10 years;

4. annualised dividend yield range of 1.09% to 1.82%; and

5. the risk free rate of 1.60% to 1.72%.

The fair value of the share options granted during the year was valued by Messrs. Ascent Partners Valuation Service Limited and Peak Vision Appraisal Limited, independent professional valuers not connected to the Group. The valuation was derived by the Binomial Model taking into account the terms and conditions upon which the options were granted.

The Subsidiary – CVie Therapeutics Company Limited

A subsidiary of the Company, CVie Therapeutics Company Limited ("CVie"), also operates a share option scheme (the "CVie's Scheme"). The CVie's Scheme was adopted pursuant to a resolution on 5 November 2012 for the primary purpose of providing incentives to eligible employees of CVie. The share option was granted on 30 November 2012 and will expire on 30 November 2022. Under the CVie's Scheme, the board of directors of CVie may grant options to eligible employees and eligible grantees.

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the CVie's Scheme was 440,000 (2016: 440,000), representing 3.26% (2016: 3.26%) of the shares of CVie in issue at that date. The total number of shares in respect of which options may be granted under the CVie's Scheme shall not exceed 500,000 shares of CVie. The overall limit on the number of shares of CVie which may be issued upon exercise of all outstanding options granted and yet to be exercised under the CVie scheme and any other share option schemes of CVie must not exceed 30% of the shares of CVie in issue from time to time, without prior approval from the shareholders of CVie.

39. SHARE OPTION SCHEMES *(continued)*

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

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of CVie, and will not be less than the fair value of each share of CVie on the date of grant.

Details of the CVie's Scheme during the current year are summarised as follows:

Date of grant	Outstanding at 01.01.2017	During the year Granted	Exercised	Lapsed	Outstanding at 31.12.2017	Exercise period	Exercise price per share
Tranche 1							
30.11.2012	133,000	–	–	–	133,000	Note a	HK$1.628
Tranche 2							
30.11.2012	267,000	–	–	–	267,000	Note b	HK$1.628
Tranche 3							
30.11.2012	40,000	–	–	–	40,000	01.12.2014-30.11.2022	HK$1.628
	440,000	–	–	–	440,000		
Exercisable at the end of the year					40,000		
Weighted average exercise price	HK$1.628	–	–	–	HK$1.628		

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39. SHARE OPTION SCHEMES *(continued)*

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

Details of the CVie's Scheme during the prior year are summarised as follows:

Date of grant	Outstanding at 01.01.2016	During the year Granted	Exercised	Lapsed	Outstanding at 31.12.2016	Exercise period	Exercise price per share
Tranche 1							
30.11.2012	133,000	–	–	–	133,000	Note a	HK$1.628
Tranche 2							
30.11.2012	267,000	–	–	–	267,000	Note b	HK$1.628
Tranche 3							
30.11.2012	40,000	–	–	–	40,000	01.12.2014-30.11.2022	HK$1.628
	440,000	–	–	–	440,000		
Exercisable at the end of the year					40,000		
Weighted average exercise price	HK$1.628	–	–	–	HK$1.628		

Note:

a. Upon the successful completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

b. One year after the successful completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant.

39. SHARE OPTION SCHEMES *(continued)*

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

Particulars of share options:

Date of Grant	Exercise period		Exercise price per share HK$
Tranche 1 30.11.2012	(i)	133,000 options will be exercisable upon the successful completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	1.628
Tranche 2 30.11.2012	(i)	267,000 options will be exercisable one year after the successful completion of Phase II study of either Rostafuroxin or Istaroxime but not more than ten years from the date of grant	1.628
Tranche 3 30.11.2012	(i)	40,000 options will be exercisable during the period 01.12.2014-30.11.2022	1.628

The Group has recognised an expense of HK$4,480,000 for the year ended 31 December 2017 (2016: HK$3,941,000) in relation to share options granted by the Company and CVie.

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt (which includes borrowings and obligations under finance leases net of cash and cash equivalents) and equity attributable to the owners of the Company (comprising issued share capital, share premium, reserves and retained profits).

Gearing ratio

The gearing ratio at end of the reporting period was as follows:

	2017 HK$'000	2016 HK$'000
Debts *(Note 1)*	100,005	135,046
Cash and cash equivalents	(396,144)	(347,967)
Net debts	(296,139)	(212,921)
Equity *(Note 2)*	1,804,346	1,601,726
Net debt to equity ratio	N/A	N/A

Notes:

1. Debts are defined as bank borrowings and obligations under finance leases as described in notes 31 and 32.

2. Equity includes all capital and reserves attributable to the owners of the Company.

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Held-to-maturity financial assets	5,826	5,659
Loans and receivables (including cash and cash equivalents)	608,262	670,749
Available-for-sale financial assets	203,123	127,778
– At cost	112,580	112,580
– At fair value	90,543	15,198
Convertible instrument designated at FVTPL	3,165	–
	820,376	804,186
Financial liabilities		
Amortised cost	305,979	318,091

Financial risk management objectives

The Group's corporate treasury function provides services to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk, and other price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks and may use derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade derivative financial instruments for speculative purposes.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

41. FINANCIAL INSTRUMENTS *(continued)*

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group may enter into foreign currency forward contracts to hedge the exchange rate risk arising on foreign currency purchase.

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

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

	Assets		Liabilities	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Renminbi ("RMB")	387,800	266,593	134,103	97,691
United States Dollars ("US$")	122,077	309,636	14,118	10,075
Euro ("EUR")	2,649	6,943	33,138	48,910
Pound Sterling ("GBP")	356	–	–	–
New Taiwan Dollars ("NTD")	–	8,807	–	21,191
Japanese Yen ("JPY")	4,833	–	–	–
Swiss Franc ("CHF")	3,165	–	–	–
	520,880	591,979	181,359	177,867

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2016: 5%) increase in the relevant foreign currencies against HK$. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusted their translation at the period end for a 5% change in foreign currency rates. A positive number indicates an increase in profit or equity whereas a number in bracket indicates a decrease in profit or equity. For a 5% (2016: 5%) decrease in the relevant foreign currencies against HK$, there would be an equal and opposite impact on the profit or equity.

41. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Foreign currency risk management (continued)

Foreign currency sensitivity analysis (continued)

	Profit or loss		Other comprehensive income	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
RMB	(2,945)	406	15,629	8,039
US$	5,398	14,978	–	–
EUR	(1,524)	(2,098)	–	–
GBP	18	–	–	–
NTD	–	–	–	(619)
JPY	242	–	–	–
CHF	158	–	–	–
	1,347	13,286	15,629	7,420

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

Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure periodically.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2016: 50 basis points) increase or decrease variable-rate bank borrowings is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow rate risk from variable-rate bank balances is insignificant.

If interest rates had been 50 basis points (2016: 50 basis points) higher/lower and all other variables were held constant, the Group's pre-tax profit for the year ended 31 December 2017 would decrease/increase by HK$495,000 (2016: decrease/increase by HK$668,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

41. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

Other price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities and unlisted equity securities and financial instrument for which the underlying assets are listed equity securities. The Group's equity price risk is mainly concentrated on equity instruments operating in biopharmaceutical industry sectors quoted in NASDAQ Stock Market and OTC Stock Market.

Other price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period.

If the price of the equity instruments had been 5% (2016: 5%) higher/lower, other comprehensive income for the year ended 31 December 2017 would increase/decrease by HK$4,541,000 (2016: increase/decrease by HK$760,000) as a result of the changes in fair value of available-for-sale financial assets.

Credit risk management

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by counterparties is the carrying amount of each financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by single counterparty. Ongoing credit evaluation is performed on the financial condition of receivables.

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

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

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FOR THE YEAR ENDED 31 DECEMBER 2017

41. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a Repayment on Demand Clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

	Weighted average interest rate	On demand or less than 1 year	More than 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2017					
Non-derivative financial liabilities					
Trade and other payables	–	145,523	–	145,523	145,523
Obligations under license contract	–	4,441	–	4,441	4,441
Obligations under finance leases	3.72	514	529	1,043	1,001
Bank borrowings *(Note 1)*	2.05-4.79	100,426	–	100,426	99,004
Retirement benefits	4.55-5.61	–	250,804	250,804	56,010
		250,904	251,333	502,237	305,979
At 31 December 2016					
Non-derivative financial liabilities					
Trade and other payables	–	140,540	–	140,540	140,540
Obligations under license contract	–	490	–	490	490
Obligations under finance leases	3.72	514	1,042	1,556	1,468
Bank borrowings *(Note 1)*	2.00-4.79	136,350	–	136,350	133,578
Retirement benefits	4.16-6.19	–	227,850	227,850	42,015
		277,894	228,892	506,786	318,091

Note:

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

41. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements of financial instruments

Some of the Group's financial asset and financial liability are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial asset and financial liability are determined (in particular, the valuation technique(s) and inputs used).

Financial asset/ Financial liability	Fair value as at 31.12.2017	Fair value as at 31.12.2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Available-for-sale financial asset – Equity securities	Listed overseas equity securities HK$87,067,000	Listed overseas equity securities HK$15,198,000	Level 1	Quoted bid prices in an active market.	N/A
Available-for-sale financial asset – Equity securities	Unlisted equity securities with underlying listed overseas equity securities HK$2,179,000	N/A	Level 1	Quoted bid prices in an active market.	N/A
Available-for-sale financial asset – Warrants	Unlisted assets HK$1,297,000	N/A	Level 2	Binomial Model was used by applying a discrete time-step lattice model of the varying price over time of the underlying financial instrument	N/A
Convertible instruments	Assets HK$3,165,000	N/A	Level 3	Partial differential equations, specially the Crank-Nicolson finite-difference method, was used by applying discount rate, volatility levels and underlying stock price.	Stock price of CHF34.80 estimated by discounted cash flows method. Increase in stock price would result in an increase in the fair value measurement, and vice versa.

41. FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements of financial instruments *(continued)*

Financial asset/ Financial liability	Fair value as at 31.12.2017	Fair value as at 31.12.2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
Retirement benefits	Liabilities HK$56,010,000	Liabilities HK$42,015,000	Level 3	Discounted cash flows method was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the retirement benefits, and spread over the period till the year of retirement.	Annualised historical salary growth rate of 4.2%. An increase in annualised historical growth rate would result in an increase in the fair value measurement, and vice versa. Discount rate determined by the Hong Kong Interest Rate Swap Curve, adjusted by county risk premium and option adjusted spread, ranging from 4.55% to 5.61%. An increase in discount rate would result in a decrease in the fair value measurement, and vice versa.

There were no transfers between Levels 1 and 2 in the current year.

The directors consider that the amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

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41. FINANCIAL INSTRUMENTS *(continued)*

Reconciliation of Level 3 fair value measurements

	Convertible instrument HK$'000	Retirement benefits HK$'000
Year ended 31 December 2017		
Opening balance	–	42,015
Additions	3,165	–
Contribution recognised in profit or loss	–	13,995
Closing balance	3,165	56,010
Year ended 31 December 2016		
Opening balance	–	33,195
Contribution recognised in profit or loss	–	8,820
Closing balance	–	42,015

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

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows are, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings	**Obligations under finance leases**
	HK$'000	HK$'000
	Note 31	Note 32
At 1 January 2017	133,578	1,468
New loans raised	70,486	–
Repayment of loans	(78,503)	–
Repayment of obligations under finance leases	–	(467)
Exchange rate adjustments	2,984	–
Deemed disposal of a subsidiary *(Note 38)*	(29,541)	–
At 31 December 2017	99,004	1,001

43. OPERATING LEASES

	2017	2016
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year:		
Premises	10,256	8,706

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017	2016
	HK$'000	HK$'000
Operating lease commitments in respect of land and buildings which fall due as follows:		
Within one year	8,033	6,038
More than one year but not exceeding five years	5,051	4,875
	13,084	10,913

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 1 to 5 years. The Group does not have options to purchase the leased asset at the expiry of the lease period.

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44. CAPITAL COMMITMENTS

	2017 HK$'000	2016 HK$'000
Capital commitments contracted for:		
Investment in available-for-sale financial assets	16,552	15,760
Intangible assets – license fees and development cost	76,760	89,763
Property, plant and equipment	38,427	65,019
	131,739	170,542
Authorised and not contracted for:		
Intangible assets – license fees and development cost	28,653	21,890

45. PLEDGE OF ASSETS

At 31 December 2017, the Group has pledged bank deposits of HK$27,915,000 to secure banking facilities granted to an associate of the Group under arrangement (2016: HK$26,639,000 pledged bank deposits to secure general banking facilities granted to the Group and service provided by supplier).

In addition, the Group's obligations under finance leases are secured by the lessor's title to the motor vehicles, which have a carrying amount of HK$1,652,000 (2016: HK$1,874,000).

46. CONTINGENT LIABILITIES

As at 31 December 2017, the Group issued an aggregate amount of HK$55,340,000 (2016: nil) financial guarantees to banks in respect of banking facilities granted to associates. Total HK$22,486,000 has been utilised by the associate and total HK$32,854,000 was unutilised.

47. RELATED PARTIES TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties. In the opinion of the directors, the following transactions arose in the ordinary course of the Group's business:

(a) Compensation of key management personnel

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

	2017 HK$'000	2016 HK$'000
Short-term benefits	24,682	15,843
Share-based payments	1,812	1,170
Retirement benefits and other post-employment benefits	14,049	8,874
– Defined contribution plan	54	54
– Retirement benefits	13,995	8,820
	40,543	25,887

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

(b) Shareholder loans to Powder Pharmaceuticals Incorporated ("PPI")

During the year ended 31 December 2017 and 2016, the Group provided certain shareholder's loans to PPI, which bear interest rate of 4% per annum and repayable within 1 year.

As disclosed in note 8 to the consolidated financial statements, interest income from loans to PPI for the year ended 31 December 2017 amounts to HK$803,000 (2016: HK$817,000).

(c) Interest income from shareholder loans to China Oncology Focus Limited ("COFL")

On 13 June 2016, Lee's Pharmaceutical International Limited ("Lee's International"), a wholly-owned subsidiary of the Company, and COFL entered into a shareholder loan agreement, pursuant to which Lee's International agrees to advance the shareholder loan in the principle amount of HK$10,000,000 to COFL for one year at an interest rate of 4% per annum. The shareholder loan was extended for one year on 13 June 2017, at an interest rate of 4% per annum. Details of this transaction have been disclosed in the Company's announcement dated 13 June 2016 and 13 June 2017.

On 25 April 2017, Lee's International and COFL entered into the shareholder loan agreement, pursuant to which Lee's International agrees to advance the shareholder loan in the principle amount of HK$10,000,000 to COFL at an interest rate of 4% per annum. Details of this transaction have been disclosed in the Company's announcement dated 25 April 2017.

47. RELATED PARTIES TRANSACTIONS *(continued)*

(c) Interest income from shareholder loans to China Oncology Focus Limited ("COFL") *(continued)*

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

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

During the year, COFL, a subsidiary of the Company, issued total 2,800 shares to Perfect Concept. Dr. Li Xiaoyi, Ms. Lee Siu Fong and Ms. Leelalertsuphakun Wanee, directors of the Company, are the majority of the beneficial owners of Perfect Concept and Perfect Concept is considered as a related party to the Group. Total consideration received for the issue of shares is US$202,000 (HK$1,563,000 approximately).

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

(e) Donation to Lee's Pharmaceutical - Kanya Lee Scholarship Limited ("Kanya Lee Scholarship")

During the year, total HK$1,300,000 (2016: HK$300,000) was donated to Kanya Lee Scholarship. Dr. Li Xiaoyi, director of the Company, is also a member of key management of Kanya Lee Scholarship and Kanya Lee Scholarship is considered as a related party to the Group.

(f) Interest income from shareholder loan to Zhaoke (Guangzhou) Oncology Pharmaceutical Limited ("ZKON")

On 6 December 2017, the shareholder loan in the principle amount of RMB1,300,000 was provided by the Group to ZKON for one year at an interest rate of 5% per annum. Details of this transaction have been disclosed in the Company's announcement dated 29 December 2017.

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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

1. General information of subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2017 are set out as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Paid up issued/ registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2017	2016	2017	2016	
Lee's Pharmaceutical International Limited	British Virgin Islands	Ordinary	US$1	100%	100%	–	–	Investment holding
Zhaoke Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$1,000,000	–	–	100%	100%	Investment holding
Lee's Pharmaceutical (HK) Limited	Hong Kong	Ordinary	HK$18,400,000	–	–	100%	100%	Investment holding and trading of pharmaceutical products
Zhaoke Pharmaceutical (Hefei) Company Limited *(Note 1)*	PRC	Paid-up capital	US$2,000,000	–	–	100%	100%	Manufactures and sale of pharmaceutical products
China Oncology Focus Limited	British Virgin Islands	Ordinary	US$63,000 (2016: US$55,000)	–	–	65%	65%	Development of pharmaceutical products
Zhaoke Pharmaceutical (Guangzhou) Limited *(Note 1)*	PRC	Paid-up capital	US$16,000,000	–	–	100%	100%	Trading of pharmaceutical products
China Cardiovascular Focus Limited	British Virgin Islands	Ordinary	US$1	–	–	100%	100%	Investment holding
Guangzhou Zhaoke Lian Fa Pharmaceutical Limited *(Note 1)*	PRC	Paid-up capital	US$1,000,000 (2016: RMB1,500,000)	–	–	100%	100%	Trading of pharmaceutical products

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

1. General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Paid up issued/ registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2017	2016	2017	2016	
CVie Therapeutics Company Limited	Cayman Islands	Ordinary	US$135,000	–	–	56.26%	56.26%	Development and trading of pharmaceutical products
CVie Therapeutics Limited	Taiwan	Ordinary	NTD204,030,970	–	–	– *(Note 38)*	56.26%	Development of pharmaceutical products
CVie Therapeutics (HK) Limited	Hong Kong	Ordinary	HK$500,000	–	–	56.26%	56.26%	Not yet commenced business
Guangzhou Zhao Kang Hospital Co. Limited *(Note 1)*	PRC	Paid-up capital	US$19,000,000	–	–	100%	100%	Not yet commenced business
Zhao Kang Medical Investment Limited	Cayman Islands	Ordinary	US$1,000	–	–	100%	100%	Not yet commenced business
Zhaoke (Guangzhou) Ophthalmology Pharmaceutical Limited *(Note 1)*	PRC	Paid-up capital	US$8,214,000 (2016: US$2,907,000)	–	–	100%	100%	Not yet commenced business
Zhaoke (Guangzhou) Oncology Pharmaceutical Limited *(Note 1)*	PRC	Paid-up capital	US$100,000 (2016: Nil)	–	–	65%	100%	Not yet commenced business
Zhao Kang Medical HK Limited	Hong Kong	Ordinary	HK$10,000	–	–	100%	–	Not yet commenced business *(Note 2)*

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

1. General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration/ operations	Class of share held	Paid up issued/ registered capital	Proportion ownership interest held by the Company Directly		Indirectly		Principal activities
				2017	2016	2017	2016	
China Ophthalmology Focus Limited	British Virgin Islands	Ordinary	US$1	–	–	100%	–	Not yet commenced business *(Note 2)*
Zhaoke (Hong Kong) Ophthalmology Pharmaceutical Limited	Hong Kong	Ordinary	HK$10,000	–	–	100%	–	Not yet commenced business *(Note 2)*
Zhaoke (Hong Kong) Oncology Pharmaceutical Limited	Hong Kong	Ordinary	HK$10,000	–	–	65%	–	Not yet commenced business *(Note 2)*
LPH Investments Limited	Cayman Islands	Ordinary	US$1	–	–	100%	–	Not yet commenced business *(Note 2)*

Notes:

1. These are wholly foreign owned enterprises.

2. These companies were incorporated in current year.

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FOR THE YEAR ENDED 31 DECEMBER 2017

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

2. Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below show details of non-wholly owned subsidiary of the Group that has material non-controlling interests at the end of the current year:

Name of subsidiary	Place of incorporation/ operations	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
CVie Therapeutics Company Limited *(Note 1)*	Cayman Islands	43.74%	43.74%	(26,231)	(9,653)	(5,161)	21,053

Note 1: Include its wholly-owned subsidiary.

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

CVie Therapeutics Company Limited and its subsidiary

	2017 HK$'000	2016 HK$'000
Current assets	34,363	8,285
Non-current assets	9,443	58,221
Current liabilities	50,417	10,998
Non-current liabilities	2	37
Equity attributable to the owners of the Company	(3,720)	31,208
Non-controlling interests	(2,893)	24,263

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

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

CVie Therapeutics Company Limited and its subsidiary (continued)

	Year ended 2017 HK$'000	Year ended 2016 HK$'000
Revenue	44,197	29,243
Expenses	(106,321)	(43,975)
Loss for the year	(62,124)	(14,732)
Loss attributable to the owners of the Company	(34,951)	(8,288)
Loss attributable to the non-controlling interests	(27,173)	(6,444)
Loss for the year	(62,124)	(14,732)
Other comprehensive expense attributable to the owners of the Company	–	–
Other comprehensive expense attributable to non-controlling interests	–	–
Other comprehensive expense for the year	–	–
Total comprehensive expense attributable to the owners of the Company	(34,951)	(8,288)
Total comprehensive expense attributable to non-controlling interests	(27,173)	(6,444)
Total comprehensive expense for the year	(62,124)	(14,732)

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

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

CVie Therapeutics Company Limited and its subsidiary (continued)

	Year ended 2017 HK$'000	Year ended 2016 HK$'000
Dividend paid to non-controlling interests	–	–
Net cash outflow from operating activities	(11,987)	(3,484)
Net cash inflow from investing activities	226	160
Net cash inflow from financing activities	11,631	3,877
Net cash (outflow) inflow	(130)	553

3. Change in ownership interests in a subsidiary

During the year, the Group disposed of 35% of its interest in Zhaoke (Guangzhou) Oncology Pharmaceutical Limited ("ZKON"), reducing its continuing interests to 65% by group restructuring. No cash flow effect to the Group resulted from the restructuring. An amount of HK$666,000 (being the proportionate share of the carrying amount of the net liabilities of ZKON) has been transferred to non-controlling interests with the corresponding amount credited to other reserves.

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FOR THE YEAR ENDED 31 DECEMBER 2017

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current Assets		
Interests in subsidiaries	629,893	663,993
Investment in an associate	10,000	10,000
Held-to-maturity financial assets	–	5,659
Available-for-sale financial assets	127,842	127,778
	767,735	807,430
Current Assets		
Other receivables, deposits and prepayments	2,621	294
Convertible instrument	3,165	–
Tax recoverable	52	88
Held-to-maturity financial assets	5,826	–
Pledged bank deposits	27,915	25,638
Time deposits	20,000	11,631
Cash and bank balances	4,482	9,670
	64,061	47,321
Current Liability		
Other payables	5,622	4,174
Net Current Assets	58,439	43,147
Total Assets less Current Liability	826,174	850,577
Capital and Reserves		
Share capital	29,547	29,503
Reserves	740,617	779,059
	770,164	808,562
Non-current Liability		
Retirement benefits	56,010	42,015
	826,174	850,577

The Company's statement of financial position was approved and authorised for issue by the board of directors on 22 March 2018 and are signed on its behalf by:

Lee Siu Fong
DIRECTOR

Leelalertsuphakun Wanee
DIRECTOR

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movement in the Company's reserves

	Share premium	Merger difference	Share-based compensation reserve	Investments revaluation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	721,154	9,200	11,573	(12,716)	49,848	779,059
Employee share option benefits	–	–	4,440	–	–	4,440
Exercise of share options	3,714	–	(766)	–	–	2,948
Profit for the year	–	–	–	–	36,345	36,345
Other comprehensive expense for the year						
– Fair value changes of available-for-sale financial assets	–	–	–	(15,448)	–	(15,448)
Total comprehensive income for the year	–	–	–	(15,448)	36,345	20,897
2016 final dividend paid	–	–	–	–	(46,635)	(46,635)
2017 interim dividend paid	–	–	–	–	(20,092)	(20,092)
At 31 December 2017	724,868	9,200	15,247	(28,164)	19,466	740,617
At 1 January 2016	717,925	9,200	8,643	(899)	116,585	851,454
Employee share option benefits	–	–	3,901	–	–	3,901
Exercise of share options	3,229	–	(971)	–	–	2,258
Loss for the year	–	–	–	–	(3,629)	(3,629)
Other comprehensive expense for the year						
– Fair value changes of available-for-sale financial assets	–	–	–	(11,817)	–	(11,817)
Total comprehensive expense for the year	–	–	–	(11,817)	(3,629)	(15,446)
2015 final dividend paid	–	–	–	–	(43,645)	(43,645)
2016 interim dividend paid	–	–	–	–	(19,463)	(19,463)
At 31 December 2016	721,154	9,200	11,573	(12,716)	49,848	779,059