LUYE PHARMA 绿叶制药

Luye Pharma Group Ltd.

绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

Stock Code: 2186

Annual Report 2017

Contents

Company Overview

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

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2017. The Group's sales, marketing and distribution functions are conducted through over 65 sales support offices, over 1,270 sales and marketing personnel, a network of approximately 1,240 distributors that collectively enabled the Group to sell its products to over 11,500 hospitals. For overseas, the Group has established in-house sales teams in both Singapore and Malaysia. The Group has sales partnerships with more than 20 partners throughout the world, covering more than 26 countries including the U.S., Europe and other countries or districts.

The Group's research and development ("R&D") activities are organised around four platforms — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds.

As at 31 December 2017, the Group's R&D team consisted of approximately 421 employees, including approximately 65 Ph.D. degree holders and approximately 200 Master's degree holders in medical, pharmaceutical and other related areas. As at 31 December 2017, the Group had been granted over 252 patents and had over 52 pending patent applications in the PRC, as well as over 416 patents and over 114 pending patent applications overseas. The Group had a pipeline of 27 PRC product candidates in various stages of development. These candidates included 11 oncology products, 5 cardiovascular and metabolism products, as well as 11 CNS products.

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

Corporate Information

Board of Directors

Executive Directors

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

Non-Executive Director

Mr. SONG Rui Lin (appointed on 29 March 2017)

Independent Non-executive Directors

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

Company Secretary

Ms. LAI Siu Kuen

Authorized Representatives

Mr. YANG Rong Bing
Ms. ZHU Yuan Yuan

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

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

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

Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong Share Registrar

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

Legal Advisers

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

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

Auditor

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

Stock Code

2186

Company's Website

www.luye.cn

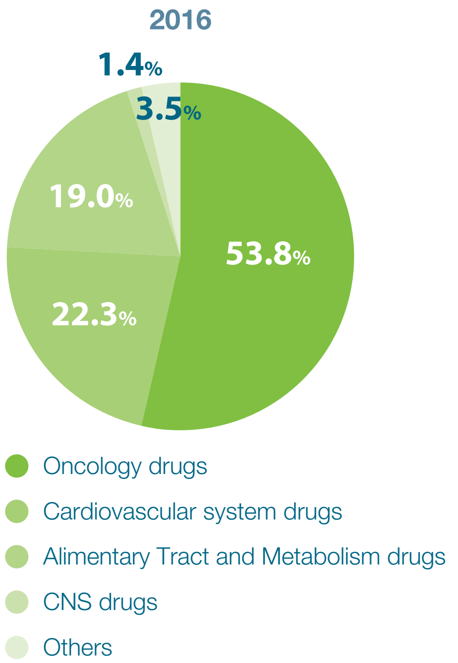
Principal Bankers

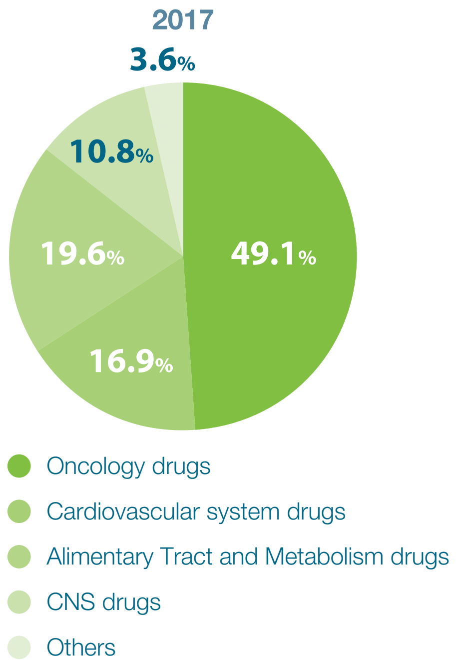
Bank of China Limited
China Everbright Bank
Industrial and Commercial Bank of China Limited
Citibank (China) Limited

Financial Highlights

- Revenue increased by RMB897.0 million or 30.7% to RMB3,814.8 million, as compared to the year ended 31 December 2016.
- Gross profit increased by RMB580.6 million or 24.4% to RMB2,963.4 million, as compared to the year ended 31 December 2016, and gross profit margin reached 77.7%.
- EBITDA increased by RMB270.5 million or 23.6% to RMB1,416.6 million, as compared to the year ended 31 December 2016.
- Profit attributable to shareholders increased by RMB89.8 million or 10.1% to RMB981.4 million, as compared to the year ended 31 December 2016.
- Earnings per share was RMB30.13 cents compared to RMB26.84 cents for the year ended 31 December 2016.
- The Board declared a final dividend of RMB0.045 (equivalent to HK$0.054) per share for the year ended 31 December 2017, compared to RMB0.035 (equivalent to HK$0.039) per share for the year ended 31 December 2016.

	2013 RMB Million	2014 RMB Million	2015 RMB Million	2016 RMB Million	**2017 RMB Million**
Revenue	1,996.5	2,544.0	2,563.1	2,917.8	**3,814.8**
Gross Profit	1,583.0	2,061.5	2,087.4	2,382.7	**2,963.4**
EBITDA	508.2	875.9	1,028.9	1,146.0	**1,416.6**
Net Profit	327.9	614.4	764.7	894.0	**980.6**
Profit attributable to owners of the Parent	310.5	605.5	754.5	891.5	**981.4**
Total Assets	3,387.5	6,130.8	7,052.9	9,205.8	**10,760.4**
Total Liabilities	1,489.8	1,093.2	1,253.4	2,643.8	**3,864.5**
Equity	1,897.7	5,037.6	5,799.5	6,562.0	**6,895.9**





Chairman's Statement

Dear shareholders:

I would like to report the annual performance of Luye Pharma as at and for the year ended 31 December 2017, as well as present a brief outlook of the Group in 2018.

As a leading professional pharmaceutical enterprise in China, based on research and development and directed by innovation and internationalization, Luye Pharma is committed to the research, production and marketing of innovative drugs across the world. At present, the Group's business has covered the main pharmaceutical markets in the world, including China, the U.S., Europe, Japan, Korea, Singapore, Malaysia and other countries or districts. The Group's product portfolio consists of more than 30 products, with the focus in the fast-growing therapeutic areas including central nervous system, oncology, cardiovascular and alimentary tract and metabolism. The core products of the Group are playing a leading role in their market segments.

In 2017, macro policies of the pharmaceutical industry were introduced, to update the domestic drug regulations to match the relevant international standards and promote innovation of the medical and pharmaceutical industries in China. To embrace the opportunities brought by policies, Luye Pharma proactively advanced the synergistic development of business at home and abroad, maintaining a fast developing momentum with better-than-expected results. In 2017, the Group achieved sales revenue of RMB3.81 billion, representing a year-on-year increase of 30.7%; normalized EBITDA reached RMB1.50 billion, representing a year-on-year increase of 30.6%; normalized net profit attributable to the shareholders amounted to RMB1.06 billion, representing a year-on-year increase of 19.0%.

In 2017, Luye Pharma performed better than the industry average in terms of sales. The sales of the Group's main products, such as Lipusu, Bei Xi, Xuezhikang, CMNa have increased significantly in 2017. Besides, in the international market, the sales of Rivastingmine Patch also maintained its leading position in the U.S. and E.U.

In terms of R&D, based on the opportunities brought along by the policies, Luye Pharma proactively advanced the registration work and strove to accelerate the review process of R&D projects, and have made some achievements in new molecular drugs, innovative drug preparations and biological antibody. Furthermore, the Group has carried out a series of R&D collaboration projects with domestic and foreign bio antibody innovation companies.

The business strategy implemented by Luye Pharma at home and abroad began to show synergies. By the end of 2016, the Group has completed the merger and acquisition of transdermal preparation and implants business of Acino in Europe and established the European Luye Pharma. In 2017, the Group introduced a number of patch products into China and started the localized production and import registration declaration.

2018 will be a year marked with accelerated R&D, innovation and internationalization of the Luye Pharma. For the existing products in China, the Group will continue to implement the strategy of extending to downstream end markets and seize the opportunity of the medical insurance adjustment to realize faster growth. For the overseas business, the Group expects to strengthen the overseas registration work, increase overseas partners and develop new markets so as to further expand the market share of existing products. Furthermore, Luye Pharma has made in-depth planning for future R&D pipeline. Apart from accelerating the global launching of existing products and product candidates, it also focuses on the technological transformation and upgrading in order to further enhance the competitive advantage of the Group and realize the overall leapfrog development. We are confident that the Group will accomplish the objectives and tasks in 2018 and for strive towards the strategic vision of Luye Pharma.

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

Liu Dian Bo
Executive Chairman

26 March 2018

Management Discussion and Analysis

Business Overview

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the People's Republic of China ("PRC" or "China"), the United States ("the U.S."), Europe and other countries or districts, namely oncology, cardiovascular system, alimentary tract and metabolism and central nervous system ("CNS"). The Group's product portfolio consists of 34 products and centers around 6 key products, 5 of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases, diabetes and CNS diseases. During the year ended 31 December 2017, the Group's sales of innovative pharmaceutical products maintained a stable growth momentum as the Group further deepened its market penetration and expanded the market share of its key products. The Group recorded a strong revenue growth of 31.0% in 2017 as compared to 2016.

Market Positioning

The Group's key products are competitively positioned in one of its four key therapeutic areas and have gained top-ranking market shares measured by revenue. According to IQVIA, a company serving the combined industries of health information technology and clinical research, oncology-related pharmaceutical products constituted the fourth largest market in China for pharmaceutical products in 2017. The Group's portfolio of oncology products includes Lipusu, the best-selling pharmaceutical product for cancer treatment in China in 2017 according to IQVIA, as well as CMNa, a Class I New Chemical Drug and the only China Food and Drug Administration (the "CFDA") approved sensitiser for cancer radiotherapy in China. According to IQVIA, cardiovascular system-related pharmaceutical products constituted the second largest market for pharmaceutical products in the PRC in 2017. According to IQVIA, the Group's key cardiovascular system products, Xuezhikang and Maitongna, were the most popular Chinese medicine for the treatment of hypercholesterolaemia and the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2017, respectively. According to IQVIA, alimentary tract and metabolism-related pharmaceutical products constituted the largest market for pharmaceutical products in the PRC in 2017. According to IQVIA, the Group was the second largest domestic pharmaceutical manufacturer of oral diabetic medications in China in 2017 by revenue. In overseas, the Group's products are mainly positioned in CNS therapeutic area, including rivastigmine, fentanyl and buprenorphine patches.

For the year ended 31 December 2017, the Group's revenue from sales of oncology products, alimentary tract and metabolism products, central nervous system products and other products increased to RMB1,871.8 million, RMB749.3 million, RMB412.5 million and RMB137.2 million, respectively. The growth rate of oncology products, alimentary tract and metabolism products, CNS products and other products is 19.2%, 35.1%, 914.2% (newly acquired business in last quarter of 2016) and 36.1%, respectively. Cardiovascular system products decreased by 1.2% to RMB644.0 million as compared to the year ended 31 December 2016.

Key Products

The Company believes that the Group's six key products are competitively positioned for high prevalence medical conditions that are expected to have a stable growth globally.

Lipusu® (力撲素®)

Lipusu is the Group's proprietary formulation of paclitaxel using an innovative liposome injection delivery vehicle and a chemotherapy treatment of certain types of cancer. According to IQVIA, the market for oncology pharmaceutical products in the PRC was RMB73.6 billion in 2017 and by revenue, Lipusu was the most popular pharmaceutical product for cancer treatment in China in 2017, as well as the most popular paclitaxel product in China in 2017 with a market share of approximately 58.3%. As of 31 December 2017, Lipusu represented the first and only paclitaxel liposome product approved for sale globally.

CMNa® (希美納®)

CMNa is sodium glycididazole, a proprietary compound that the Group prepares in injectable form and is indicated for use in connection with radiotherapy for certain solid tumours. It is a Class I New Chemical Drug and the only CFDA approved sensitiser for cancer radiotherapy in China. According to the CFDA, CMNa was the only glycididazole product available for sale in 2017. An independent third party study in 2009 concluded that the use of CMNa for the treatment of certain cancers increased the probability of complete or partial remission and reduced overall treatment costs.

Xuezhikang® (血脂康®)

Xuezhikang is the Group's proprietary Chinese medicine derived from red yeast rice indicated for hypercholesterolaemia and, according to the CFDA, the Group was the only Xuezhikang manufacturer in China as of 31 December 2017. According to IQVIA, the market for pharmaceutical products indicated for hypercholesterolaemia and the lowering of blood cholesterol triglycerides and low density lipoprotein cholesterol in China was estimated to be approximately RMB14.1 billion in 2017. According to IQVIA, Xuezhikang ranked as the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2017.

Maitongna® (麥通納®)

Maitongna is sodium aescinate in injectable form and is indicated for the treatment of cerebral edema and edema caused by trauma or surgery as well as for the treatment of venous reflux disorder. According to IQVIA, the market for vasoprotective pharmaceutical products in China was estimated to be approximately RMB2.6 billion in 2017. Maitongna was the best-selling sodium aescinate product in China in 2017 and ranked as the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2017, according to IQVIA, with a market share of approximately 69.1% in 2017.

Bei Xi® (貝希®)

Bei Xi is acarbose in capsule form and is indicated for lowering blood glucose in patients with type 2 diabetes mellitus. According to the CFDA, the Group was the only manufacturer of acarbose in capsule form in 2017. According to IQVIA, the market for acarbose products in China was estimated to be approximately RMB3.7 billion in 2017 and Bei Xi ranked as the third most popular acarbose product in China with a market share of approximately 8.3% in 2017.

Rivastigmine Transdermal Patches (the "Rivastigmine Patch")

The Rivastigmine Patch is rivastigmine in transdermal patches form approved by the U.S. Food and Drug Administration ("FDA") and is indicated for mild to moderate dementia of the Alzheimer's type and dementia due to Parkinson's disease. According to IQVIA, Rivastigmine Patch's volume share is approximately 44% in the U.S. and 21% in EU countries in 2017.

Research and Development

The Group's R&D activities are organized around four platforms — long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery systems and new compounds. The Group balances clinical development risk by strategically allocating its efforts between proprietary formulations of proven compounds and new chemical entities. The Group believes that its R&D capabilities will be the driving force behind the Group's long-term competitiveness, as well as the Group's future growth and development. As at 31 December 2017, the Group's R&D team consisted of approximately 421 employees, including approximately 65 Ph.D. degree holders and approximately 200 Master's degree holders in medical, pharmaceutical and other related areas. As at 31 December 2017, the Group had been granted over 252 patents and had over 52 pending patent applications in the PRC, as well as over 416 patents and over 114 pending patent applications overseas.

Through the Group's four platforms and the corresponding R&D capabilities, the Group focuses on R&D projects not only within its core strength therapeutic areas of oncology and alimentary tract and metabolism, but also expanding into the CNS therapeutic area, which according to IQVIA, was one of the fastest growing therapeutic areas in China from 2015 to 2017 with a compound annual growth rate of 8.2%. As of 31 December 2017, the Group had a pipeline of 27 PRC product candidates in various stages of development. These candidates included 11 oncology products, five cardiovascular and metabolism products, as well as 11 CNS products.

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

In February 2017, the Group has obtained the approval from the CFDA to commence the development of Buprenorphine Transdermal Patches in China.

In March 2017, the Group has obtained the approval from the Federal Institute for Drugs and Medical Devices in Germany to commence clinical trials for Rivastigmine Multi-day Transdermal Patch, an innovative delivery system drug being developed by the Group for the treatment of Alzheimer's disease.

In January 2018, the Group's product candidate, ansofaxine hydrochloride extended release tablets ("LY03005"), a New Chemical Entity and China Class 1.1 New Chemical Drug, has completed a phase II clinical trial in China. The Phase II Trial showed positive results for the treatment of major depressive disorder.

In February 2018, Rotigotine Extended Release Microspheres for injection ("LY03003"), has been approved by the U.S. FDA and is exempted from Phase II dosage exploration clinical trials.

In February 2018, U.S. FDA has agreed to waive pediatric clinical trials at the submission of a New Drug Application in the U.S. for the Group's innovative drug, Risperidone Extended Release Microspheres for injection ("LY03004").

In February 2018, the clinical trial application for a Class I New Chemical Drug LY01013 ("LY01013"), one of the Group's anti-tumor product candidates, was officially accepted by the CFDA. LY01013 is an oral strong small-molecule indoleamine 2,3-dioxygenase ("IDO")/tryptophan 2,3-dioxygenase ("TDO") inhibitor, which can overcome IDO/TDO enzyme-mediated immune tolerance, activate effector T-cells and modulate tumor immune microenvironment. The product can be used in conjunction with, and even enhance the tumor-killing inhibitory effect of, other drugs, such as immune check-points and chemotherapy drugs.

In March 2018, LY03003 has reached a consensus with the centre for drug evaluation of the CFDA and is exempted from Phase II dosage exploration clinical trials in China, and LY03003 has obtained the approval from the CFDA to proceed to Phase III clinical trials in China in April 2018.

Sales, Marketing and Distribution

The Group has established an extensive nationwide sales and distribution network and sold its products to 30 provinces, autonomous regions and municipalities throughout the PRC in 2017. The Group's sales, marketing and distribution functions are conducted through over 65 sales support offices, over 1,270 sales and marketing personnel, a network of approximately 1,240 distributors that collectively enabled the Group to sell its products to over 11,500 hospitals, which comprised approximately 1,500 or approximately 78.0% of all Class III hospitals, approximately 3,520 or approximately 51.0% of all Class II hospitals and approximately 7,300 or approximately 44% of all Class I and other hospitals and medical institutions, in the PRC in 2017. The Group believes that its sales and marketing model and extensive coverage of hospitals with other medical institutions represent a significant competitive advantage and a culmination of both academic promotion by the Group's in-house personnel in different regions and partnerships with high-quality distributors across China. The Group also believes that its sales and marketing model also provides a solid foundation for the Group to continue to enhance market awareness of its brand and expand the market reach of its products.

The Group has overseas in-house sales teams in both Singapore and Malaysia. The Group has strong sales partnerships with more than 20 partners throughout the world, covering 26 countries including the U.S., Europe and other countries or districts.

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

Merger and Acquisition ("M&A")

The Group acquired two monoclonal antibody drugs — recombinant anti-VEGF humanized monoclonal antibody injection (LY01008) and recombinant anti-RANKL whole human monoclonal antibody injection (LY06006) from Shandong Boan Biological Technology Co. Ltd, a connected person of the Company. The ordinary resolution regarding the transaction was duly passed by way of poll by the shareholders of the Company at the special general meeting held on 29 December 2017. The acquisition has not been completed as at the date of this report.

The global pharmaceutical industry has witnessed significant growth in the sales of biopharmaceuticals in recent decades, and this trend is expected to continue in the future. In 2016, the size of the global biopharmaceutical market has reached US$238 billion, with a share of 23.6% of the global prescription drugs market and an annual growth rate of 11.7%. The IQVIA predicts that by 2020, the size of the global biopharmaceutical market will exceed US$390 billion, representing a 28% share in the prescription drugs market.

According to public reports, Avastin (which is a market comparable of LY01008) achieved sales of US$7,184 million in 2017, and the sales of Prolia (which is a market comparable to LY06006) amounted to US$1,968 million in 2017, which has not been launched in China yet. The Group believes that the inclusion of the abovementioned two drugs in the Group's product portfolio represents an excellent growth opportunity.

Outlook

Due to policy and market factors, the Chinese pharmaceutical industry's growth rate began to revive in the year of 2017. According to IQVIA, the growth rate of the Chinese pharmaceutical market was 3.3% in 2017, 4.8% lower than in 2016. The Group outperformed the market in both two years with growth rate of 10.4% and 11%, respectively.

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

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

For R&D, the Group has established a transdermal drug delivery systems platform based on Luye Pharma AG's R&D platform which enabled the Group to develop more patch products both in overseas and in China.

As described above, for 2017, the Group has made remarkable progresses in R&D fields. In China, Buprenorphine Transdermal Patches has obtained the approval from the CFDA to commence the development. LY03005, a New Chemical Entity and China Class 1.1 New Chemical Drug, has completed a phase II clinical trial and showed positive results for the treatment of major depressive disorder. In February 2018, the clinical trial application for LY01013 was officially accepted by the CFDA.

In overseas, the Group has obtained the approval from the Federal Institute for Drugs and Medical Devices in Germany to commence clinical trials for Rivastigmine Multi-day Transdermal Patch for the treatment of Alzheimer's disease. LY03003 has been approved by the CFDA and is exempted from Phase II dosage exploration clinical trials. LY03004 is agreed to waive pediatric clinical trials at the submission of a New Drug Application in the U.S.

The acquisition of the two monoclonal antibody drugs, namely recombinant anti-VEGF humanized monoclonal antibody injection (LY01008) and recombinant anti-RANKL whole human monoclonal antibody injection (LY06006) allowed the Group to enter into the fast growing area and maintain a long-term sustainable growth.

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

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

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

Financial Review

Revenue

For the year ended 31 December 2017, the Group's revenue amounted to approximately RMB3,814.8 million, as compared to RMB2,917.8 million for the year ended 31 December 2016, representing an increase of approximately RMB897.0 million, or 30.7%. The increase is mainly attributable to the sales growth of the Group's key products and full year revenue contribution from our newly acquired business in Europe in the last quarter of 2016.

For the year ended 31 December 2017, the Group's revenue from sales of oncology products increased to RMB1,871.8 million, as compared to RMB1,569.9 million for the year ended 31 December 2016, representing an increase of approximately RMB301.9 million, or 19.2%, primarily attributable to the increase in sales volume of key oncology products of the Group.

For the year ended 31 December 2017, revenue from sales of cardiovascular system products decreased to RMB644.0 million, as compared to RMB651.9 million for the year ended 31 December 2016, representing a decrease of approximately RMB7.9 million, or 1.2%, primarily attributable to the decrease in sales volume of various cardiovascular system products of the Group.

For the year ended 31 December 2017, revenue from sales of alimentary tract and metabolism products increased to RMB749.3 million, as compared to RMB554.5 million for the year ended 31 December 2016, representing an increase of approximately RMB194.8 million, or 35.1%, primarily attributable to the increase in sales volume of various alimentary tract and metabolism products of the Group.

For the year ended 31 December 2017, revenue from sales of CNS products increased to RMB412.5 million, as compared to RMB40.7 million for the year ended 31 December 2016, representing an increase of approximately RMB371.8 million, primarily attributable to full year revenue contribution from our newly acquired business in Europe in the last quarter of 2016.

For the year ended 31 December 2017, revenue from sales of other products increased to RMB137.2 million, as compared to RMB100.9 million for the year ended 31 December 2016, representing an increase of approximately RMB36.4 million, or 35.9%, primarily attributable to the full year revenue contribution from our newly acquired business and increase in sales volume of various other products of the Group.

Cost of Sales

The Group's cost of sales increased from RMB535.0 million for the year ended 31 December 2016 to approximately RMB851.5 million for the year ended 31 December 2017, which accounted for approximately 22.3% of the Group's total revenue for the same year. The Group's increase in cost of sales was mainly due to one-off amortisation of inventory, expenses incurred for the acquisition of new business in Europe and increase in sales volumes for the year ended 31 December 2017, as compared to year 2016.

Gross Profit

For the year ended 31 December 2017, the Group's gross profit increased to RMB2,963.4 million, as compared to RMB2,382.7 million for the year ended 31 December 2016, representing an increase of approximately RMB580.7 million, or 24.4%. The increase in the Group's gross profit was broadly in line with its revenue growth and contribution from our newly acquired business in Europe. The Group's gross profit margin decreased to 77.7% for the year ended 31 December 2017 from 81.7% for the year ended 31 December 2016. The lower margin mainly attributes to one-off amortisation of inventory cost derived from the acquisition of new business in Europe and higher revenue contribution from our slightly lower margin products.

Other Income and Gains

The Group's other income and gains mainly comprised of government grants, interest income and investment income. For the year ended 31 December 2017, the Group's other income and gains increased to RMB236.7 million, as compared to RMB209.0 million for the year ended 31 December 2016, representing an increase of approximately RMB27.7 million. The increase is mainly attributable to higher government grant recognised and higher investment income earned during the year. The increase is offset by lower bank interest income for the year ended 31 December 2017, as compared to the corresponding year 2016.

Selling and Distribution Expenses

The Group's selling and distribution expenses consisted of expenses that were directly related to the Group's marketing, promotion and distribution activities. For the year ended 31 December 2017, the Group's selling and distribution expenses amounted to RMB1,286.5 million, as compared to RMB1,121.6 million for the year ended 31 December 2016, representing an increase of RMB164.9 million, or 14.7%. The increase was mainly attributable to increased promotional activities for the Group's products and a slight increase in staff cost. On the other hand, as a percentage of revenue the Group's selling and distribution expenses decreased from 38.4% for the year ended 31 December 2016 to 33.7% for the year ended 31 December 2017, primarily as a result of the lower selling and distribution expense margin to revenue for our newly acquired business in Europe at the end of last year.

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the year ended 31 December 2017, the Group's administrative expenses amounted to approximately RMB431.6 million, as compared to RMB267.0 million for the year ended 31 December 2016, representing an increase of approximately RMB164.6 million, or 61.6%. The increase mainly due to higher staff cost, general operating cost and one-off consulting expenses incurred during the year from our newly acquired business in Europe in the last quarter of 2016.

Other Expenses

The Group's other expenses primarily consisted of its R&D costs, foreign exchange losses, donations, loss on disposals of property, plant and equipment and miscellaneous expenses. For the year ended 31 December 2017, the Group's other expenses amounted to approximately RMB316.0 million, as compared to RMB199.1 million for the year ended 31 December 2016, representing an increase of approximately RMB116.9 million, or 58.7%. The increase was mainly due to increase in R&D costs and exchange loss during the year.

Finance Costs

For year ended 31 December 2017, the Group's finance costs amounted to RMB50.5 million, as compared to RMB30.4 million for the year ended 31 December 2016, representing an increase of approximately RMB20.1 million, or 66.1%. The increase was mainly due to the higher level of monthly average outstanding bank borrowings for the year ended 31 December 2017 as compared to the corresponding year.

Income Tax Expense

For the year ended 31 December 2017, the Group's income tax expense amounted to RMB135.8 million, as compared to RMB80.7 million for the year ended 31 December 2016, representing an increase of RMB55.1 million, or 68.3%. The effective tax rate for the year ended 31 December 2017 is 12.2%, which is higher than that of 8.3% for the year ended 31 December 2016. The higher effective tax rate was mainly due to the reversal of withholding tax recognized in prior years on the distributable profits of the Group's PRC subsidiaries in year 2016.

Net Profit

The Group's net profit for the year ended 31 December 2017 was approximately RMB980.6 million, as compared to RMB894.0 million for year ended 31 December 2016, representing an increase of approximately RMB86.6 million, or 9.7%.

Liquidity, Financial and Capital Resources

Net Current Assets

As at 31 December 2017, the Group had net current assets of approximately RMB2,641.1 million, as compared to approximately RMB2,907.7 million as at 31 December 2016. The current ratio of the Group decreased slightly to approximately 1.7 as at 31 December 2017 from approximately 2.2 as at 31 December 2016. The decrease in net current assets was mainly attributable to higher level of loans and borrowings.

Borrowings and Pledge of Assets

As at 31 December 2017, the Group had an aggregate interest-bearing loans and borrowings of approximately RMB2,861.4 million, as compared to approximately RMB1,624.1 million as at 31 December 2016. Amongst the loans and borrowings, approximately RMB2,861.1 million are repayable within one year, and approximately RMB0.3 million are repayable after one year. RMB1,857.1 million of the loans and borrowings of the Group carried interest at fixed interest rate. The increase in loans and borrowings is mainly for the working capital of the Group. The bank loans were secured by the Group's time deposits, available-for-sale investments and notes receivable. As at 31 December 2017, the Group's borrowings were primarily denominated in RMB and Euro, and the cash and cash equivalents were primarily denominated in RMB and U.S. dollars.

Gearing Ratio and Debt Ratio

As at 31 December 2017, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to 41.5% from 24.8% as at 31 December 2016. The increase was primarily due to an increase in the Group's total borrowings resulting from additional loans taken during the year. As at 31 December 2017, the Group has a debt ratio of 35.9%, which is calculated dividing total liabilities by total assets, as compared with 28.7% as at 31 December 2016.

Contingent Liabilities

As at 31 December 2017, the Group had no significant contingent liabilities.

Foreign Exchange and Exchange Rate Risk

The Group primarily operates in the PRC and is exposed to foreign currency risk arising from fluctuations in exchange rate between RMB and other currencies in which the Group conducts its business. The Group is subject to foreign currency risk attributable to the bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than RMB. The Group seeks to limit the exposure to foreign currency risk by minimising its net foreign currency position. The Group did not enter into any hedging transactions in respect of foreign currency risk as at 31 December 2017. The directors of the Company (the "Directors") expect that the fluctuation of the RMB exchange rate will not have a material adverse effect on the operation of the Group.

Employees and Remuneration Policy

As at 31 December 2017, the Group employed a total of 3,921 employees, as compared to a total of 3,492 employees as at 31 December 2016. For the year ended 31 December 2017, the staff costs, (including Directors' emoluments but excluding any contributions to pension scheme), were approximately RMB503.3 million as compared to RMB348.2 million for the year ended 31 December 2016. The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

Share Award Scheme

The Company adopted the Scheme on 10 January 2017. The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group. As at 31 December 2017, the Board has granted to the selected employees an aggregate of 17,861,000 shares of the Company under the Scheme and 17,724,000 awarded shares were accepted by selected employees. Details of the Scheme and the awards made up to 31 December 2017 are set out in note 36 to the consolidated financial statements.

Hedging Activities

As at 31 December 2017, the Group did not use any financial instruments for hedging purposes and did not enter into any hedging transactions in respect of foreign currency risk or interest rate risk.

Significant Investments Held

As at 31 December 2017, the Group did not have any significant investments. The Group's available for sale investments amounted to approximately RMB1,663.4 million, in aggregate, which represents the outstanding balance of the Group's investment in financial products, and fair value of certain listed and unlisted equity investments as at the year ended 31 December 2017. As at 31 December 2017, none of the Group's available for sale investments has a carrying amount that account for more than 5% of the Group's total assets as at 31 December 2017.

Future Plans for Material Investments or Capital Assets

As at the date of this report, the Group does not have any plans for material investments or capital assets.

Directors and Senior Management

Directors

Executive Directors

Mr. Liu Dian Bo, aged 52, Executive Chairman, is a founding member of our Group. He was appointed as a director of the Company ("Director") in July 2003. As our Executive Chairman, Mr. Liu is responsible for the overall management, operations and the charting and reviewing of corporate directions and strategies of our Group. Prior to founding our Group, Mr. Liu was a teacher at Yantai Teacher's College from 1985 to 1989. From 1989 to 1993, Mr. Liu was the general manager of Penglai Huatai Pharmaceutical Co. Ltd. From 1994 to 1999, Mr. Liu was the chairman cum general manager of 山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co., Ltd.) ("Shandong Luye"). From 1999 to the incorporation of our Company in 2003, Mr. Liu was the chairman cum president of Shandong Luye. Mr. Liu obtained a Medical Diploma from Yishui Special Medical College (now known as Shandong Medical College) in July 1985. Mr. Liu is the executive chairman of Shandong Luye and Beijing WBL Peking University Biotech Co., Ltd. ("Beijing WPU"), and a director of the following main subsidiaries of our Company: Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading"), Sichuan Luye Buoguang Pharmaceutical Co., Ltd., Shandong Luye Natural Drug R&D Co. Ltd., Shanghai Ge Lin Li Fu Business Consulting Co. Ltd., AsiaPharm Investments Limited, AsiaPharm Biotech Pte. Ltd., Luye Biotech (Singapore) Pte. Ltd. and A-Bio Pharma Pte. Ltd.. Mr. Liu is a director of each of Luye Life Sciences Group Ltd. (formerly known as Luye Group Ltd) ("Luye Group"), Luye Pharma Holdings Ltd. ("Luye Pharma Holdings"), LuYe Pharmaceutical International Co., Ltd. ("Luye Pharma Intl"), LuYe Pharmaceutical Investment Co., Ltd. ("Luye Pharma Investment"), Shorea LBG, Ginkgo (PTC) Limited (formerly known as Ginkgo Trust Limited), and Nelumbo Investment Limited.

Mr. Yang Rong Bing, aged 52, holds the office of Vice Executive Chairman and is also a founding member of our Group. Mr. Yang was appointed as an Executive Director on 1 March 2007 and was previously a Non-Executive Director from July 2003. Mr. Yang was appointed as a vice executive chairman of the Board with effect from 30 March 2015. Mr. Yang has also been a non-executive director of Shandong Luye since 2000. Prior to that, Mr. Yang was with Jiangsu Xuzhou Bio-Chemical Pharmaceutical Factory from 1988 to 1994 where he worked as an assistant factory head. In 1994, Mr. Yang joined Shandong Luye as a deputy general manager and from 1999 to 2000, he was the chief sales executive and executive director of Shandong Luye. Mr. Yang obtained a Bachelor's degree in Science from Beijing Normal University in July 1988. Mr. Yang is the executive chairman of Nanjing Luye Pharmaceutical Co., Ltd.. ("Nanjing Luye") and a director of the following main subsidiaries of our Company: Shandong Luye, Luye Trading and Nanjing Luye. Mr. Yang is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Mr. Yuan Hui Xian, aged 59, holds the office of Executive Director and is also a founding member of our Group. Mr. Yuan was appointed as a Director in July 2003 and is in charge of our Group's public relations. Prior to joining our Group in 1994, Mr. Yuan was a doctor with Shengli Petroleum Administrative Bureau Yantai Sanatorium from 1980 to 1994, where he was in charge of radiation diagnosis. From 1994 to 1999, Mr. Yuan was a deputy general manager with Shandong Luye. From 1999 to the incorporation of our Company in 2003, Mr. Yuan was the vice-president and executive director of Shandong Luye. He has also received a Post-graduate Certificate in National Economics from the China People's University in February 2003. Mr. Yuan is the executive chairman of Luye Trading and a director of the following main subsidiaries of our Company: Shandong Luye, Nanjing Luye and Nanjing New AIGE Eggs Co. Ltd.. Mr. Yuan is a director of each of Luye Group, Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Ms. Zhu Yuan Yuan, aged 37, has been our Executive Director since March 2014. She joined our Group in August 2009 and has 10 years of experience in corporate finance. Before joining our Group, she worked for New Asia Partners Investment Holdings Limited, a Shanghai and Hong Kong-based investment firm focused on assisting Chinese companies in accessing the international capital markets, principally by providing equity capital and corporate finance advisory services. She obtained her Master's degree in Corporate Strategy and Governance from the University of Nottingham in December 2004 and a Bachelor's degree in Finance from Southeast University, the PRC in June 2003. Ms. Zhu is a director of the following subsidiaries of our Company: Luye Pharma Hong Kong Limited, Solid Success Holdings Limited, Apex Group Holdings Limited and Kang Hai Pharmaceutical Technology Development Limited. She is a supervisor of our subsidiary, Beijing WPU. Ms. Zhu is a director of each of Luye Pharma Holdings, Luye Pharma Intl and Luye Pharma Investment.

Non-executive Director

Mr. Song Rui Lin, aged 56, has been our non-executive Director since March 2017. Mr. Song is the executive chairman of China Pharmaceutical Industry Research and Development Association* (中國醫藥創新促進會) and the executive deputy director of the Research Centre for Drug Policy and Industrial Development at China Pharmaceutical University* (中國藥科大學藥物政策與產業經濟研究中心). Mr. Song has extensive experience in the research of the PRC healthcare and drugs laws and policies, and was involved in the drafting and review of a number of the current PRC laws and regulations on healthcare and drugs. From 1985 to 2007, Mr. Song served as deputy director (副處長), director (處長) and deputy head (副司長) at the PRC State Council Legislative Office* (中國國務院法制辦公室). Subsequent to 2008, Mr. Song served as deputy director of the Chinese Pharmaceutical Association* (中國藥學會) (the "Association") and executive director of the Research Centre for Drug Policies (醫藥政策研究中心) at the Association. He served as the chairman and executive editor of Chinese Journal of New Drugs* (中國新藥雜誌). Since 2011, Mr. Song has been serving as an expert at the Capital Healthcare Policy Reform Expert Group* (首都醫療衛生體制改革專家組). Mr. Song obtained a Bachelor of Laws degree from China University of Political Science and Law in 1985 and a Master in Business Administration degree from China Europe International Business School in 2004.

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

Independent Non-executive Directors

Mr. Zhang Hua Qiao, aged 54, has been our Independent Non-Executive Director since June 2014. Mr. Zhang has 16 years of experience in working in the investment banking industry since 1994. He served as managing director and the co-head of China research team from June 1999 to April 2006 and the deputy head of China investment banking division of UBS AG, Hong Kong Branch from September 2008 to June 2011. He graduated from the Graduate School of the People' s Bank of China (中國人民銀行研究生部) with a Master's degree in Economics in 1986, and from the Australian National University with a Master's degree in Economics in January 1991.

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

Name of the listed company	Term	Position
Yancoal Australia Ltd, a company listed on the Australian Securities Exchange (stock code: YAL)	April 2014 to January 2018	Independent non-executive director
Logan Property Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3380)	November 2013 to present	Independent non-executive director
China Huirong Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1290)	October 2013 to present	Independent non-executive director

Name of the listed company	Term	Position
Nanjing Central Emporium (Group) Stocks Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600280)	March 2013 to June 2015	Director
Zhong An Real Estate Limited, a company listed on the Main Board of the Stock Exchange (stock code: 672)	January 2013 to present	Independent non-executive director
China Smartpay Group Holdings Limited a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8325)	September 2012 to May 2015 May 2015 to present	Non-executive director Executive director
Fosun International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 656)	March 2012 to present	Independent non-executive director
Boer Power Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1685)	November 2011 to present	Non-executive director
Sinopec Oilfield Service Corporation, a company listed on the Main Board of the Stock Exchange (stock code: 1033)	February 2015 to March 2018	Independent non-executive director
Wanda Hotel Development Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 169)	September 2014 to present	Independent non-executive director
China Rapid Finance Limited, a company listed on the New York Stock Exchange (NYSE: XRF)	April 2017 to present	Independent non-executive director

Professor Lo Yuk Lam, aged 69, has been our Independent Non-executive Director since June 2014. Professor Lo has extensive experience in biotechnology industry, corporate management, academic research and community service. Professor Lo is currently serving as the Chairman of the Advisory Council of the Food and Health Bureau, Hong Kong Special Administrative Region Government ("HKSAR Government"), an Executive Committee Member of the Chinese Manufacturers' Association of Hong Kong ("CMA") and Chairman of the Education Committee of CMA. He is also the Honorary Founding Chairman of Hong Kong Bio-Organization. In the educational area, Professor Lo has been elected an Honorary Fellow of the Hong Kong University of Science and Technology, a member of the Advisory Committee of the Vocational Training Council, Adjunct Professor of the Chinese University of Hong Kong and Honorary Professor of several universities in China. He was heavily involved in several committees of the HKSAR Government, including the Chairman of the Biotechnology Committee of the Hong Kong Industry & Technology Development Council, and the Chairman of Biotechnology Projects Vetting Committee of the Innovation and Technology Fund, HKSAR Government. In Mainland China, Professor Lo is a member of Chinese People's Political Consultative Conference in Jilin Province, and a consultant of the Centre for Disease Control and Prevention of China. In recognition of his leadership in the community and dedication to his field, Professor Lo has received many awards, including the prestigious "World's outstanding Chinese Award" in 2008 and China's "Top Ten Financial and Intelligent Persons" in 2007.

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

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

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

Mr. Leung Man Kit, aged 64, has been the Independent Non-executive Director since June 2014. Mr. Leung has over 34 years of experience in project finance and corporate finance. He joined Unitas Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8020), in March 2011, and has been its executive director since September 2011. He is also a responsible officer of Unitas Holdings Limited. Previously, he was a director of Emerging Markets Partnership (Hong Kong) Limited, the principal adviser to the AIG Infrastructure Fund L.P. in 1999. He also held senior positions in the Hong Kong Branch of the Swiss Bank Corporation, SG Securities (HK) Limited (formerly known as Crosby Securities (Hong Kong) Limited) and Peregrine Capital Limited.

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

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

Name of the listed company	Term	Position
Netease.com Inc., a company listed on NASDAQ (stock code: NTES)*	July 2002 to present	Independent non-executive director

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

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

Mr. Choy Sze Chung Jojo, aged 59, has been the Independent Non-executive Director since June 2014. Mr. Choy has extensive experience in the securities industry and business management. He is currently the vice chairman of National Resources Securities Limited and the permanent honourable president and vice chairman of the Institute of Securities Dealers Ltd.

Mr. Choy is a fellow member of the Hong Kong Institute of Directors, the Institute of Financial Accountants, the Institute of Public Accountants and the Institute of Compliance Officers, a member of the Stock Exchange Cash Market Consultative Panel and the Society of Registered Financial Planners Limited. Mr. Choy is also a member of the Election Council for Hong Kong Deputies to the 12th and the 13th National People's Congress of the People's Republic of China, a member of the 4th and the 5th term Chief Executive Election Committee of Hong Kong and a member of Chinese People's Political Consultative Conference, Shantou.

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

Name of the listed company	Term	Position
First Credit Finance Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8215)	November 2017 to present	Independent non-executive director
Orient Securities International Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8001)	March 2010 to May 2016	Independent non-executive director
Sparkle Roll Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 970)	October 2007 to present	Independent non-executive director
Zhaojin Mining Industry Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1818)	May 2007 to present	Independent non-executive director
Chengdu Putian Telecommunications Cable Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1202)	February 2006 to January 2018	Independent non-executive director

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

Senior Management

Our senior management comprises Executive Directors and the following persons:

Mr. Liu Yuan Chong, aged 54, joined our Group in March 1997 and is currently our Chief Financial Officer. He started as the accountant-in-charge at our finance department, and was promoted to chief of the finance department in 2005 and to our Chief Financial Officer in 2012. Prior to joining our Group, he was the head of accounting of Yantai Alternator Plant (煙台家電交電總公司). He also taught at Yantai Business Vocational Secondary School (煙台商業中專) from September 1983 until September 1986. From 1980 to 1983, he was employed by Shangdong Laiyang Biochemical Pharmaceutical Factory. Mr. Liu received a Post-Graduate Certificate in Financial Management from Peking University in October 2006.

Dr. Li You Xin, aged 56, joined our Group in October 2007 and is currently our Senior Vice President and head of R&D. Dr. Li has extensive experience in drug design. He is responsible for a number of our R&D platforms including our long-acting and extended release technology and targeted drug delivery platforms. Under Dr. Li's leadership, the Company was awarded the State Key Laboratory of Long-acting and Targeting Drug Delivery System (長效和靶向製劑國家重點實驗室). Dr. Li is also a professor at the College of Life Sciences of Jilin University. Prior to joining our Group, he was a senior scientist officer at Schwarz Pharma AG. He was also a Research Fellow of Alexandar von Humboldt Foundation of University of Marburg from 1991 to 1993. Dr. Li obtained a Bachelor's degree in Chemistry in July 1982, a Master of Science degree in July 1985 and a Ph.D. in Science in July 1988 from Peking University.

Ms. Xue Yun Li, aged 54, joined our Group in 1994 and is currently our Senior Vice President and the general manager of Shandong Luye and responsible for manufacturing and quality management of subsidiaries. From 1999 to 2009, she was the director of the R&D centre and then vice president of R&D of Shandong Luye. Prior to joining our Group, she was a technician and the chief of scientific research at Shenyang Liaohe Pharmaceutical Factory from 1988 to 1994. Ms. Xue obtained a Bachelor's degree in Engineering from Jiamusi University in July 1988 and a Master's degree in Integrated Traditional Chinese and Western Clinical Medicine from Shandong University of Traditional Chinese Medicine in July 2011.

Ms. Jiang Hua, aged 40, joined our Group in 1998 and is currently our Vice President and head of international business, responsible for corporate strategy, product portfolio management and our Group's international business. Ms. Jiang has over 16 years of experience in international business development. Ms. Jiang holds a Doctor of Business Administration from United Business Institute in Belgium, a Master's degree in Business Administration from KEDGE Business School (formerly known as Euromed Management School), and a Bachelor's degree of Economics from Economy School, Fudan University. She is also an economist certified by the Ministry of Personnel of the People's Republic of China (now the Ministry of Human Resources and Social Security of the People's Republic of China).

Report of Directors

The directors of the Company (the "Directors") are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

Corporate Information

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

Principal Activities

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

Business Review and Performance

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

Results

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 55 of this annual report.

Final Dividend

The Board recommended the payment of a final dividend of RMB0.045 (equivalent to HK$0.054) per share for the year ended 31 December 2017 to the shareholders of the Company (the "Shareholders"). The final dividend, if approved, will be payable on or around 29 June 2018 and is subject to the approval of the Shareholders at the Company's annual general meeting to be held on 11 June 2018 ("AGM").

Financial Summary

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

Risks and Uncertainties Relating to the Group's Business

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

Market Risk

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

Operational Risk

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

Investment Risk

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

Manpower and Retention Risk

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

Financial Risk

The Group's also faces financial risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of these financial risks are set out in note 37 to the consolidated financial statements of this annual report.

In light of the above risks relevant to and potentially affecting the Group's business, the Group has certain risk management procedures with a view to minimise the risks and to manage, but not eliminate, the risk of failure to fulfil business objectives. Please refer to the section headed "Risk Management and Internal Control" in the Report of Directors for policies concerning the Group's risk management system.

Environmental Policies and Performance

Our Group is committed to achieving environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group's business is subject to national, provincial and local environmental laws and regulations of the PRC. During the year ended 31 December 2017, so far as our Directors are aware, there were no material breach of applicable environmental laws and regulations of the PRC that have a significant adverse impact on the business and operations of our Group.

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

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

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

Compliance with Laws and Regulations

Our Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. Our Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. For the year ended 31 December 2017, the Group has complied, to the best of our knowledge, in all material respects, with all relevant rules and regulations that have a significant impact on the Company.

Key Relationships with Employees, Customers and Suppliers

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

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

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

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for approximately 17.2% of the total sales for the year ended 31 December 2017 and sales to the largest customer included therein amounted to 6.2% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 40.8% of the total purchase for the year ended 31 December 2017 and purchase from the Group's largest supplier included therein amounted to 21.7% of the total purchase for the year.

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

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 13 to the consolidated financial statements in this annual report.

Share Capital

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 30 to the consolidated financial statements in this annual report.

Reserves

Details of movements in the reserves of the Group during the year are set out on pages 59 to 60 in the consolidated statement of changes in equity of this annual report and in note 31 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2017, the Company's and the Group's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, amounted to approximately RMB504.0 million (as at 31 December 2016: RMB–55.3 million) and RMB3.2 billion (as at 31 December 2016: RMB2.7 billion), respectively.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in note 25 to the consolidated financial statements in this annual report.

Directors

The Directors during the year ended 31 December 2017 and up to the date of this annual report were:

Executive Directors:

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

Non-executive Director:

Mr. SONG Rui Lin (appointed on 29 March 2017)

Independent non-executive Directors:

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

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

In accordance with bye-law 84(1) of the Bye-laws, Mr. Yang Rong Bing, Mr. Yuan Hui Xian, Professor Lo Yuk Lam and Mr. Leung Man Kit will retire by rotation and being eligible, will offer themselves for re-election as the Directors at the forthcoming annual general meeting (the "AGM").

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

Board of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out on pages 18 to 23 of this annual report.

Confirmation of Independence of Independent Non-executive Directors

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

Directors' Service Contracts

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

Mr. Song Rui Lin, the non-executive Director, entered into an appointment letter with the Company for an initial term of two years from 29 March 2017 may be terminated in accordance with the respective terms of the appointment letters.

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

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

Interests in Transactions, Arrangements and Contracts

At the end of the year or at any time during the year, other than those transactions disclosed in note 35 to the consolidated financial statements and under the section headed "Connected Transaction" in this annual report, (a) no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, Company's subsidiaries, fellow subsidiaries or its parent companies was a party and in which a Director or his or her connected entity had a material interest, whether directly or indirectly, subsisted; and (b) there is no contract of significance (i) between the Company or its subsidiaries and Company's controlling shareholder or its subsidiaries; and (ii) for the provision of services to the Company or any of its subsidiaries by Company's controlling shareholder or its subsidiaries.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

Equity-Linked Agreements

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

Emolument Policy

The objective of the Group's remuneration policy is to motivate and retain talented employees to achieve the Group's long-term corporate goals and objectives. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. In addition, Social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations. For employee retirement benefits, please refer to note 2.4 to the consolidated financial statements in this annual report. A remuneration committee of the Board was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. Our Group participates in the national pension schemes as defined by the laws of the countries in which it has operations and our Group makes contributions to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme, for its employees in Singapore. The Company's subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC.

Remuneration of Directors and Five Individuals with Highest Emoluments

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

Share Option Scheme

During the year ended 31 December 2017 and up to the date of this annual report, the Group has no share option scheme.

Luye Pharma Share Award Scheme

The Company adopted a share award scheme on 10 January 2017 (the "Scheme"). The purpose of the Scheme is to recognise contributions by certain employees, including any executive Director of any member of the Group except for the current executive Directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

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

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

i. Purpose

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

ii. Duration

Subject to any early termination as may be determined by the Board in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of 10 years commencing on the 10 January 2017 (the "Adoption Date"). As at the date of this report, the Scheme has a remaining life of around 8 years and 8 months.

iii. Administration

The Scheme shall be administered by the board of directors and Bank of Communications Trustee Limited (the "Trustee") in accordance with the rules of the Scheme and the trust deed in respect of the Scheme to be entered into between the Company and the Trustee (the "Trust Deed"). The decision of the Board with respect to any matter arising under the Scheme (including the interpretation of any provision) shall be final and binding. The Trustee will hold the Shares in accordance with the terms of the Trust Deed. The Trustee may not exercise the voting rights in respect of any shares held under the Trust.

iv. Contribution of funds to the Trust

The Board may from time to time cause to be paid an amount to the Trustee by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the Board. The committee appointed and authorised by the Board to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the Board ("EBT Committee"), may from time to time instruct the Trustee in writing to purchase Shares on the Stock Exchange specifying the timing of purchase, maximum amount of funds to be used and the range of prices within which such Shares are to be purchased.

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

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

vi. Vesting of Awarded Shares

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

vii. Rights attached to the Awarded Shares

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

viii. Non-transferrable

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

ix. Lapse of Awarded Shares

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

x. Voting rights of the Trustee

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

xi. Restrictions

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

xii. Scheme Limit

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

xiii. Alteration of the Scheme

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

xiv. Termination

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

The fair value of services received in return for Shares granted is measured by reference to the fair value of Shares granted. The fair value of the Shares granted is measured based on the general accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties.

Pursuant to share award notices issued on 15 May 2017 to those selected employees, an aggregate of 17,724,000 Shares (the "2017 Awarded Shares") were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2017 Awarded Shares is 15 May 2020. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meet the expectation of the Company on daily performance.

The fair value of the Shares granted during the year was HK$38,461,000 (equivalent to RMB33,977,000), of which the Group recognised a share award expense of RMB6,251,000 during the year ended 31 December 2017. Out of the share award expense, an amount of RMB600,000 was included in the Directors' remuneration.

Changes to Information in respect of Directors

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules for the year ended 31 December 2017.

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

As at 31 December 2017, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), are as follows:

(i) Interest in the Company

Name of Director	Nature of interest	Number of securities[1]	Approximate percentage of shareholding
Liu Dian Bo[1][2]	Founder of a discretionary trust	1,517,113,930(L)	45.68%
Zhang Hua Qiao[3]	Beneficial owner	250,000(L)	0.01%
Lo Yuk Lam[3]	Beneficial owner	250,000(L)	0.01%
Leung Man Kit[3]	Beneficial owner	250,000(L)	0.01%
Choy Sze Chung Jojo[3]	Beneficial owner	250,000(L)	0.01%

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

Notes:

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

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

3. *These represent the interests in underlying Shares in respect of the awarded shares granted by the Company under Luye Pharma Share Award Scheme.*

(ii) Interest in associated corporations

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

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

Notes:

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

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

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

Directors' Rights to Acquire Shares or Debentures

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate for the year ended 31 December 2017.

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

As at 31 December 2017, to the best of the Directors' knowledge, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interests and/or short position in the Shares or the underlying Shares which fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO:

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

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

Notes:

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

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

3. *According to the relevant Disclosure of Interest Notice ("DI Notice") filed on 22 July 2014 in connection with the Company available on www.hkex.com.hk as at 31 December 2017, CPE Greenery Ltd. is held by CPEChina Fund, L.P as to 100%. The general partner of CPEChina Fund, L.P. is CITIC PE Associates, L.P. The general partner of CITIC PE Associates, L.P. is CITIC PE Funds Limited. CLSA Global Investment Management Limited holds 35% of the issued share capital of CITICPE Holdings Limited. CLSA Global Investment Management Limited is wholly owned by CITIC Securities International Company Limited, which in turn is wholly owned by CITIC Securities Company Limited.*

4. *According to the relevant DI Notice filed on 24 June 2016 in connection with the Company available on www.hkex.com.hk as at 31 December 2017, 平安銀行股份有限公司 is held by 中國平安保險(集團)股份有限公司 as to 49.56%.*

Save as disclosed above, as at 31 December 2017, the Directors have not been aware of any person who had interests or short positions in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities

Consistent with the management's commitment to maintaining the well-being of the Group, and protecting its long-term interest, share repurchase exercises were implemented during the year ended 31 December 2017. During the period, an aggregate of 46,108,500 Shares were repurchased on the Stock Exchange at an aggregate price of approximately HK$210.64 million, which does not include any fees associated with the repurchase. Consequent to these share repurchase exercises, the Company has acquired and cancelled approximately 1.39% of the total number of issued shares of the Company immediately prior to such repurchases and cancellations. As the Board considers that the value of the Company's shares is consistently undervalued, it trusts that the action taken will go towards addressing this trend. The Board also believes that given the current financial resources of the Company, the share repurchase will not affect the Company's solid financial position. The aggregate of 46,108,500 Shares repurchased during 2017 were cancelled on 20 March 2018. Details of shares repurchased during the relevant period are set out as follows:

Date of repurchases	Number of Shares purchased on the Stock Exchange	Price paid per Share Highest	Lowest	Aggregate consideration paid (HK$)
4 September	6,637,500	4.12	3.98	27,006,374.59
5 September	1,000,000	4.18	4.13	4,173,865.00
6 September	5,000,000	4.23	4.15	20,921,176.00
8 September	3,000,000	4.35	4.26	12,900,855.00
11 September	3,000,000	4.30	4.22	12,824,026.00
12 September	1,000,000	4.28	4.22	4,255,470.00
14 September	1,990,500	4.37	4.29	8,634,710.19
15 September	1,500,000	4.30	4.27	6,435,750.00
28 September	831,500	4.50	4.38	3,707,065.08
29 September	1,849,500	4.56	4.45	8,357,085.10
12 October	3,000,000	4.75	4.63	14,140,755.00
16 October	2,606,000	4.63	4.60	12,022,670.19
27 October	98,500	5.26	5.24	518,010.02
30 October	3,000,000	5.35	5.18	15,883,945.50
1 November	3,000,000	5.18	5.08	15,451,005.08
27 November	1,442,500	5.13	5.05	7,352,040.24
28 November	1,967,000	5.15	5.07	10,077,484.44
5 December	2,692,000	5.07	5.01	13,571,789.76
6 December	2,493,500	5.00	4.88	12,410,020.41
Total:	46,108,500			210,644,097.60

Save as the aforesaid repurchase of Shares, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2017.

Tax Relief

The Company is not aware of any relief from taxation available to shareholders of the Company by reason of their holding of Company's shares.

Pre-Emptive Rights

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

Permitted Indemnity Provision

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

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

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

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

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

The Company has received an annual written confirmation from the controlling shareholder, Mr. Liu Dian Bo, in respect of his compliance with the Deed of Non-compete Undertaking. In addition, Mr. Liu has provided the Board with the updates on the development progress of product candidates of 山東博安生物技術有限公司 (Shandong Boan Biological Technology Co. Ltd.) ("Shandong Boan"), an indirect subsidiary of, and owned as to 66.7% indirectly by, LuYe Pharmaceutical Investment Co. Ltd., a controlling shareholder of the Company, which focuses on the development of biopharmaceutical products.

The independent non-executive Directors have reviewed the Deed of Non-compete Undertaking and assessed whether the controlling shareholder has abided by the non-competition undertaking. The independent non-executive Directors confirmed that the controlling shareholder has not been in breach of the non-competition undertaking during the year ended 31 December 2017.

Save as disclosed above, none of the Directors held any interests in any business that compete directly against the Company or any of its jointly controlled entities and subsidiaries during the year ended 31 December 2017.

Connected Transaction

On 4 August 2017, Shandong Luye (a wholly-owned subsidiary of the Company) and Shandong Boan entered into two asset transfer agreements dated 4 August 2017 (the "Asset Transfer Agreements"), pursuant to which Shandong Luye has agreed to acquire, and Shandong Boan has agreed to transfer to Shandong Luye, two biological antibody products under research and development, being LY01008 and LY06006 (the "Products"), and their respective technologies, data and all rights attaching to the Products including but not limited to the clinical trials approval, for a total consideration of RMB450 million, which is payable by stages (the "Asset Transfer"). Shandong Boan is an indirect subsidiary of Luye Investment, a controlling shareholder of the Company. Accordingly, Shandong Boan is a connected person of the Company, and the Asset Transfer under the Asset Transfer Agreements constitutes a connected transaction of the Company under the Listing Rules. The Products are two monoclonal antibody drugs developed by Shandong Boan. The Group believes that the inclusion of the abovementioned Products in the Group's product portfolio represents an excellent growth opportunity.

The ordinary resolution regarding the transaction was duly passed by way of poll by the shareholders of the Company at the special general meeting held on 29 December 2017. The Asset Transfer has not been completed as at the date of this report.

The Company has complied with the disclosure requirements, to the extent they are not waived by the Stock Exchange, in accordance with Chapter 14A of the Listing Rules with respect to the connected transaction entered into by the Group during the year ended 31 December 2017.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2017 is contained in note 35 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules.

Charitable Donations

During the year ended 31 December 2017, the Group made charitable and other donations in a total amount of RMB4.7 million.

Post Balance Sheet Events

On 20 March 2018, the Company cancelled a total of 46,108,500 ordinary shares of the Company which were repurchased in 2017. Please see note 42 to the consolidated financial statements in this annual report for a summary of the major events that have occurred in relation to the Company since the balance sheet date.

Audit Committee

The audit committee has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2017.

Code of Conduct regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code from the Listing Date to 31 December 2017.

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 40 to 49 of this annual report.

Closure of register of shareholders

The Company's annual general meeting is expected to be held on 11 June 2018. For determining the entitlement to attend and vote at the annual general meeting, the register of shareholders of the Company will be closed from 6 June 2018 to 11 June 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 5 June 2018.

For determining the entitlement to the proposed final dividend, the register of shareholders of the Company will be closed from 15 June 2018 to 20 June 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 14 June 2018.

Sufficiency of Public Float

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

Auditor

Ernst & Young has been appointed as auditor of the Company for the year ended 31 December 2017.

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

On behalf of the Board
Liu Dian Bo
Chairman

Hong Kong, 26 March 2018

Corporate Governance Report

Corporate Governance Practices

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

Save for the deviation disclosed in this annual report, in the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code during the year ended 31 December 2017.

The Board

Responsibilities

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

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

Board Composition

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

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

Non-executive Director
Mr. SONG Rui Lin (appointed on 29 March 2017)

Independent Non-executive Directors
Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Mr. CHOY Sze Chung Jojo

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

During the year ended 31 December 2017, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

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

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

Induction and Continuous Professional Development

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

According to A.6.5 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. According to the records kept by the Company, each of the Directors during the reporting period, namely, Mr. LIU Dian Bo, Mr. YANG Rong Bing, Mr. YUAN Hui Xian, Ms. ZHU Yuan Yuan, Mr. SONG Rui Lin, Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo (a) attended seminars and/or trainings that are relevant to the Directors' professional knowledge and skills and in performing their duties and responsibilities as Directors; and (b) read materials that are relevant to the Directors' professional knowledge and skills and in performing their duties and responsibilities as Directors during the year ended 31 December 2017.

Chairman and Chief Executive Officer

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

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

Appointment and Re-Election of Directors

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

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

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

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

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

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

Board Meetings

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

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

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

During the year ended 31 December 2017, six board meetings, one annual general meeting ("AGM") and one special general meeting ("SGM") were held and the attendance of the individual Directors at these meetings is set out in the table below:

Name of Director	Attended/Eligible to attend Board meeting	AGM	SGM
Mr. LIU Dian Bo	6/6	1/1	0/1
Mr. YANG Rong Bing	6/6	1/1	0/1
Mr. YUAN Hui Xian	4/6	0/1	0/1
Ms. ZHU Yuan Yuan	6/6	1/1	1/1
Mr. SONG Rui Lin (appointed on 29 March 2017)	4/5	1/1	0/1
Mr. ZHANG Hua Qiao	6/6	0/1	1/1
Professor LO Yuk Lam	5/6	1/1	1/1
Mr. LEUNG Man Kit	6/6	1/1	1/1
Mr. CHOY Sze Chung Jojo	6/6	1/1	1/1

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for the Listing Date to 31 December 2017.

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

Delegation by the Board

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

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

Corporate Governance Function

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

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

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

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

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

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

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2017 are set out in note 8 to the consolidated financial statements in this annual report.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. Remuneration paid to the top senior management (excluding the Directors) for the year ended 31 December 2017 fell within the following bands as follows:

Remuneration Band	No. of employees
Nil to RMB1,000,000	1
RMB1,000,001 to RMB1,500,000	2
RMB1,500,001 to RMB2,000,000	—
RMB2,000,001 to RMB2,500,000	1
	4

Directors' Liability Insurance

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

Board Committees

Nomination Committee

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

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

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

During the year ended 31 December 2017, one meeting of the Nomination Committee were held and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Professor LO Yuk Lam	0/1
Mr. ZHANG Hua Qiao	1/1
Mr. CHOY Sze Chung Jojo	1/1

During the year 2017, the Nomination Committee reviewed the Board composition and considered that the existing Board was appropriately structured.

Board Diversity Policy

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

Remuneration Committee

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

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

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

During the year ended 31 December 2017, two meetings of the Remuneration Committee were held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. CHOY Sze Chung Jojo	2/2
Mr. ZHANG Hua Qiao	2/2
Professor LO Yuk Lam	1/2

During the year 2017, the Remuneration Committee assessed the performance of the Directors and reviewed the Company's policy and structure for all directors' and senior management remuneration.

Audit Committee

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

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

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

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

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

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

During the year ended 31 December 2017, two meetings of the Audit Committee were held and the attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. LEUNG Man Kit	2/2
Mr. ZHANG Hua Qiao	2/2
Professor LO Yuk Lam	1/2

During the year 2017, the Audit Committee had reviewed the annual results of the Group for the year ended 31 December 2016 and interim results of the Company and its subsidiaries for the period ended 30 June 2017, the risk management systems and processes for the re-appointment of the external auditor. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters.

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2017 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

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

Risk Management and Internal Control

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholders investments and Company assets and reviewing the effectiveness of such system on an annual basis. The Board also clarifies that the system is purported to manage, but not eliminate, the risk of failure to fulfil business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has established an internal audit department to review the financial condition, operational condition, risk management, compliance control and internal control of the Group. Management is responsible for performing risk assessment, and owning the implementation and maintenance of internal control. Essential to this risk management and internal control systems are well defined policies and procedures that are properly documented and communicated to employees.

At least annually, the Board, through the Audit Committee, review the effectiveness of the risk management and the internal control systems of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the internal control system is effective and adequate. For the year ended 31 December 2017, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget and considered the risk management and the internal control systems are effective and adequate.

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

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

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

Dissemination of Inside Information

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

Auditor's Remuneration

For the year ended 31 December 2017, the total remuneration paid or payable to the Company's auditors, Ernst & Young, for annual audit and other audit services totaled RMB7.02 million.

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

Items of auditors' services	Amount (RMB'000)
Audit services	7,020
Non-audit services	—
Total	7,020

The Audit Committee and the Board have agreed on the re-appointment of Ernst & Young as the independent auditor of the Group for 2018 and the proposal will be submitted for approval at the AGM to be held on 11 June 2018.

Company Secretary

Ms. Lai Siu Kuen ("Ms. Lai") was appointed as the Company Secretary. She is an associated director of TMF Hong Kong Limited (a company secretarial service provider). Ms. Zhu Yuan Yuan, an executive Director of the Company, is the main internal liaison between her and the Company.

During the year 2017, Ms. Lai undertook not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

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

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

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

Shareholders' Rights

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

Convening of Special General Meeting and Putting Forward Proposals

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

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

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

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

Enquiries to the Board or Proposals at Company's General Meetings

Written enquiries to the Board and proposals at general meetings of the Company may be made at the Company's principal place of business in Hong Kong at Unit 3207, 32/F, Champion Tower, 3 Garden Road, Central, Hong Kong for the attention to the Chairman of the Board. Other enquiries may be made by telephone at (852) 3523 0428 or by fax at (852) 3524 0430.

Change in Constitutional Documents

There was no change in the Bye-laws of the Company for the year ended 31 December 2017.

Independent Auditor's Report

EY 安永

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

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

Opinion

We have audited the consolidated financial statements of Luye Pharma Group Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 144, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
The carrying amount of goodwill at 31 December 2017 was RMB1,036,902,000. The Group performs its impairment test of goodwill on an annual basis. Management's annual impairment test is important to our audit because the assessment process is complex and requires significant judgement and estimates including cash-generating unit identification, growth rate, gross margin and discount rate. The Group's disclosures about impairment testing of goodwill are included in note 2.4 *Summary of significant accounting policies,* note 3 *Significant accounting judgements and estimates* and note 15 *Goodwill*, which specifically explain the accounting policies and management's assumptions and accounting estimates.	We evaluated management's identification of cash-generating units within the Group. We reviewed and tested management's future forecasted cash flows and key assumptions by comparing to the Group's development plan, budget and financial projections and analysis on the industry. We involved our valuation specialists to assist us in evaluating the key valuation parameters such as the discount rate calculation, the terminal growth rate applied and the valuation model with forecasted cash flows.
Recoverability of trade receivables	
As at 31 December 2017, the trade receivable balance amounting to RMB912,976,000 before provision for impairment of RMB960,000 was significant to the Group. The determination as to whether a trade receivable is collectable involved management's judgement by considering the age of the balance, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. The collectability of trade receivables is important to our audit as it requires a high level of management's judgement and estimates in determining the provision levels on these balances. The Group's disclosures about trade receivables are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 20 *Trade and notes receivables,* which specifically explain the accounting policies, management's estimates, the overdue receivables and the related provision.	We evaluated management's assessment of the recoverability of the receivables by reviewing the detailed analyses of the ageing of the receivables and testing if payments had been received subsequent to the year end, historical payment patterns, any disputes between the parties involved and the correspondence with customers on expected settlement dates and the credit status of counterparties where available. We also evaluated the provision for impairment of trade receivables, including the methodology used by management to calculate the provision.

Other information included in the Annual Report

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
26 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**3,814,842**	2,917,794
Cost of sales		**(851,484)**	(535,047)
Gross profit		**2,963,358**	2,382,747
Other income and gains	5	**236,732**	208,994
Selling and distribution expenses		**(1,286,545)**	(1,121,626)
Administrative expenses		**(431,635)**	(267,039)
Other expenses		**(316,032)**	(199,110)
Finance costs	7	**(50,467)**	(30,389)
Share of profit of an associate	17	**910**	1,145
PROFIT BEFORE TAX	6	**1,116,321**	974,722
Income tax expense	10	**(135,756)**	(80,727)
PROFIT FOR THE YEAR		**980,565**	893,995
Attributable to:			
Owners of the parent		**981,372**	891,539
Non-controlling interests		**(807)**	2,456
		980,565	893,995
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)			
— For profit for the year	12	**30.13 cents**	26.84 cents
Diluted (RMB)			
— For profit for the year	12	**30.11 cents**	26.84 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR		**980,565**	893,995
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**51,711**	40,977
Reclassification adjustments for gains included in the consolidated statement of profit or loss		**(39,529)**	(37,314)
Income tax effect		**(3,963)**	(1,584)
Exchange differences:			
Exchange differences on translation of foreign operations		**20,479**	(22,060)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**28,698**	(19,981)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement on defined benefit plan	*37*	**(5,036)**	—
Income tax effect		**632**	—
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**(4,404)**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**24,294**	(19,981)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,004,859**	874,014
Attributable to:			
Owners of the parent		**1,005,666**	871,558
Non-controlling interests		**(807)**	2,456
		1,004,859	874,014

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,009,970	1,701,739
Advance payments for property, plant and equipment and other intangible assets		230,603	44,303
Prepaid land lease payments	14	223,330	223,505
Goodwill	15	1,036,902	995,921
Other intangible assets	16	828,702	855,676
Investment in an associate	17	6,243	5,840
Available-for-sale investments	18	34,565	2,646
Deferred tax assets	29	94,153	93,760
Total non-current assets		4,464,468	3,923,390
CURRENT ASSETS			
Inventories	19	420,356	452,670
Trade and notes receivables	20	1,411,220	1,415,009
Prepayments, deposits and other receivables	21	199,649	183,521
Due from related parties	35(b)(i)	2,841	1,393
Available-for-sale investments	18	1,628,796	1,473,284
Restricted cash	22	11,252	—
Pledged time deposits	22	409,243	482,467
Time deposits with original maturity of over three months	22	946,703	876,338
Cash and cash equivalents	22	1,265,872	397,775
Total current assets		6,295,932	5,282,457
CURRENT LIABILITIES			
Trade and notes payables	23	104,599	116,142
Other payables and accruals	24	502,511	449,037
Interest-bearing loans and borrowings	25	2,861,125	1,623,741
Government grants	27	57,833	56,778
Tax payable		128,729	128,270
Due to related parties	35(b)(ii)	—	808
Total current liabilities		3,654,797	2,374,776
NET CURRENT ASSETS		2,641,135	2,907,681
TOTAL ASSETS LESS CURRENT LIABILITIES		7,105,603	6,831,071

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,105,603**	6,831,071
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	*25*	**232**	372
Employee defined benefit obligation	*37*	**5,381**	—
Government grants	*27*	**73,588**	121,595
Deferred revenue	*28*	**34,041**	25,668
Deferred tax liabilities	*29*	**96,445**	121,435
Total non-current liabilities		**209,687**	269,070
Net assets		**6,895,916**	6,562,001
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*30*	**427,269**	427,269
Treasury shares	*30*	**(459,284)**	—
Share premium	*30*	**2,936,817**	2,936,817
Reserves	*31*	**3,863,601**	3,064,457
		6,768,403	6,428,543
Non-controlling interests	*32*	**127,513**	133,458
Total equity		**6,895,916**	6,562,001

Mr. Liu Dianbo
Director

Mr. Yang Rongbing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the parent											
	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Other reserves* RMB'000	Statutory surplus reserves* RMB'000 *(note 31)*	Share award scheme reserve* RMB'000	Retained earnings* RMB'000	Unrealised gain reserves* RMB'000	Foreign currency translation reserves* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	427,269	–	2,936,817	41,387	376,409	–	2,667,244	4,121	(24,704)	6,428,543	133,458	6,562,001
Profit for the year	–	–	–	–	–	–	981,372	–	–	981,372	(807)	980,565
Other comprehensive income for the year:												
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	–	8,219	–	8,219	–	8,219
Exchange differences related to foreign operations	–	–	–	–	–	–	–	–	20,479	20,479	–	20,479
Remeasurement on defined benefit plan, net of tax	–	–	–	–	–	–	(4,404)	–	–	(4,404)	–	(4,404)
Total comprehensive income for the year	–	–	–	–	–	–	976,968	8,219	20,479	1,005,666	(807)	1,004,859
Repurchase of shares	–	(178,080)	–	–	–	–	–	–	–	(178,080)	–	(178,080)
Equity-settled share award expense	–	–	–	–	–	6,107	–	–	–	6,107	144	6,251
Transfer to statutory reserves	–	–	–	–	234,664	–	(234,664)	–	–	–	–	–
Repurchase of shares for share award scheme	–	(283,913)	–	–	–	–	–	–	–	(283,913)	–	(283,913)
Sale of shares repurchased for share award scheme	–	2,709	–	–	–	–	–	–	–	2,709	–	2,709
Final 2016 dividend	–	–	–	–	–	–	(116,285)	–	–	(116,285)	–	(116,285)
Interim 2017 dividend	–	–	–	–	–	–	(96,344)	–	–	(96,344)	–	(96,344)
Dividends paid to non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	(5,282)	(5,282)
At 31 December 2017	427,269	(459,284)	2,936,817	41,387	611,073	6,107	3,196,919	12,340	(4,225)	6,768,403	127,513	6,895,916

Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2017

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

* *These reserve accounts comprise the consolidated reserves of RMB3,863,601,000 (2016: RMB3,064,457,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,116,321**	974,722
Adjustments for:			
Share of profit of an associate		**(910)**	(1,145)
Depreciation of items of property, plant and equipment	*13*	**146,892**	105,803
Amortisation of other intangible assets	*16*	**96,630**	29,478
Amortisation of prepaid land lease payments	*14*	**6,265**	5,639
Loss on disposal of items of property, plant and equipment		**1,348**	1,904
Interest income	*5*	**(27,644)**	(47,729)
Investment income	*5*	**(70,924)**	(37,314)
Interest expense	*7*	**50,467**	30,389
Equity-settled share award expense	*6*	**6,251**	—
Defined benefit plan		**337**	—
		1,325,033	1,061,747
Decrease/(increase) in trade and notes receivables		**3,789**	(115,888)
Decrease/(increase) in prepayments, deposits and other receivables		**19,763**	(73,710)
(Increase)/decrease in amounts due from related parties		**(1,448)**	207
Decrease/(increase) in inventories		**32,314**	(43,054)
Increase in restricted cash		**(11,252)**	—
Decrease in government grants		**(60,322)**	(5,602)
(Decrease)/increase in trade and notes payables		**(11,543)**	2,068
Increase/(decrease) in other payables and accruals		**34,742**	(64,327)
Decrease in amounts due to related parties		**(808)**	(2,620)
Decrease in deferred revenue		**(6,480)**	(520)
Increase in pledged time deposits		**(112,369)**	(5,000)
Cash generated from operations		**1,211,419**	753,301
Interest paid		**(51,801)**	(29,085)
Income tax paid		**(195,516)**	(132,188)
Net cash flows from operating activities		**964,102**	592,028

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows from operating activities		**964,102**	592,028
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and construction in progress		**(507,322)**	(263,411)
Prepayment of land lease payments	14	**(6,214)**	(44,220)
Purchases of other intangible assets		**(111,646)**	(11,510)
Purchases of available-for-sale investments		**(4,606,010)**	(4,554,000)
Proceeds from sales of available-for-sale investments		**4,427,139**	4,489,000
Receipt of investment income from available-for-sale investments		**39,529**	22,806
Proceeds from disposal of items of property, plant and equipment		**834**	110
Increase in deferred revenue		**13,264**	—
Dividend received from an associate		**352**	693
Acquisition of subsidiaries		**(5,390)**	(1,674,489)
Receipt of government grants for property, plant and equipment		**13,370**	43,670
(Increase)/decrease in time deposits with original maturity of over three months		**(70,365)**	84,253
Decrease/(increase) in pledged time deposits		**13,065**	(21,126)
Addition to entrusted loan receivables		**(1,250,000)**	(920,000)
Collection of entrusted loan receivables		**1,250,000**	920,000
Receipt of investment income from entrusted loans		**31,395**	14,508
Interest received		**24,303**	78,821
Net cash flows used in investing activities		**(743,696)**	(1,834,895)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans		**(2,629,550)**	(2,282,817)
Proceeds from loans		**3,866,794**	3,404,215
Decrease/(increase) in pledged time deposits		**172,528**	(189,841)
Repurchase of shares held for share award scheme		**(283,913)**	—
Dividends paid to equity holders of the parent		**(212,629)**	(106,976)
Dividends paid to non-controlling shareholders		**(5,282)**	(4,568)
Repurchase of shares		**(178,080)**	—
Proceeds from sale of shares repurchased for share award scheme		**2,709**	—
Net cash flows from financing activities		**732,577**	820,013
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**952,983**	(422,854)
Effect of foreign exchange rate changes, net		**(84,886)**	(23,045)
Cash and cash equivalents at beginning of year	22	**397,775**	843,674
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	**1,265,872**	397,775

1. Corporate and group information

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

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

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

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

Information about subsidiaries

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

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
AsiaPharm Investments Ltd.	Bermuda 2 July 2003	US$120,000	100	—	Investment holding
Luye Pharma (Singapore) Pte. Ltd. ("LPPL")	Singapore 23 April 1991	SG$1,700,000	100	—	Distribution and sale of pharmaceutical drugs
Luye Pharma Investments Pte. Ltd.	Singapore 26 August 2010	SG$2	100	—	Investment holding
Luye Pharma Venture Capital	Cayman Islands 26 November 2015	US$50,000	100	—	Investment holding
Luye Pharma (USA) Ltd.	United States of America ("USA") 3 August 2015	US$1	100	—	Manufacture and sale of pharmaceutical products
Luye Pharma Hong Kong Limited	Hong Kong 31 July 2007	HK$2,328,930,660	—	100	Investment holding
Solid Success Holdings Ltd. ("Solid Success")	British Virgin Islands ("BVI") 22 August 2002	US$100	—	100	Investment holding

1. Corporate and group information (Continued)

Information about subsidiaries (Continued)

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

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Kanghai Pharmaceutical Technology Development Limited	Hong Kong 22 June 2002	HK$100	—	100	Investment holding
Apex Group Holding Limited	Hong Kong 10 June 1993	HK$10,000	—	100	Investment holding
A-Bio Pharma Pte. Ltd.	Singapore 17 August 2001	SG$12,500,000	—	100	Provision of contract research, process development and manufacturing services
Luye Biotech Pte. Ltd.	Singapore 6 November 2009	SG$26,100,000	—	100	Research and development on oncological, cardiovascular and other tropical diseases
Luye Pharma (Malaysia) Sdn. Bhd.	Malaysia 15 September 2010	MYR100,000	—	100	Distribution and sale of pharmaceutical products
Luye Pharma Switzerland AG	Switzerland 11 July 2016	CHF100,000	—	100	Investment holding
Luye Pharma (Germany) GmbH	Germany 17 July 2016	EUR25,000	—	100	Investment holding
Luye Supply AG	Switzerland 23 January 2006	CHF100,000	—	100	Manufacture and sale of pharmaceutical products
Luye Pharma AG ("LPAG")	Germany 17 April 1997	EUR209,865	—	100	Distribution and sale of pharmaceutical products

1. Corporate and group information (Continued)

Information about subsidiaries (Continued)

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

Company	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shandong Luye Pharmaceutical Co., Ltd. ("Shandong Luye")(i)	People's Republic of China ("PRC")/ Mainland China 8 June 1994	RMB1,171,800,000	—	100	Manufacture and sale of pharmaceutical products
Yantai Luye Drugs Trading Co., Ltd. ("Luye Trading")(i)	PRC/ Mainland China 27 March 1997	RMB900,000,000	—	100	Distribution and sale of pharmaceutical products
Shandong Langhe Biotechnology Ltd.(i)	PRC/ Mainland China 11 March 2010	RMB 10,000,000	—	100	Research and development
Shandong Luye Natural Drug Research and Development Co., Ltd(i)	PRC/ Mainland China 31 December 2002	RMB5,000,000	—	100	Research and development of Chinese and Western medicines and provision of related services
Nanjing Luye Pharmaceutical Co., Ltd. ("Nanjing Luye")(i)	PRC/ Mainland China 22 February 2004	RMB220,000,000	—	100	Manufacture and sale of pharmaceutical products
Beijing WBL Peking University Biotech Co., Ltd. ("Beijing WPU")(i)	PRC/ Mainland China 1 September 1994	RMB80,000,000	—	69.55	Manufacture and sale of pharmaceutical products
Nanjing New AIGE Eggs Co., Ltd. ("Nanjing AIGE")(i)	PRC/ Mainland China 25 June 2010	RMB 300,000	—	100	Manufacture and sale of eggs and technology development

1. Corporate and group information (Continued)

Information about subsidiaries (Continued)

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

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

(i) These entities are limited liability enterprises established under PRC law.

(ii) The entity is a wholly-foreign-owned enterprise established under PRC law.

2.1 Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 Changes in accounting policies and disclosures

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 38 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 Issued but not yet effective International Financial Reporting Standards

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatment*[2]
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

1 *Effective for annual periods beginning on or after 1 January 2018*
2 *Effective for annual periods beginning on or after 1 January 2019*
3 *Effective for annual periods beginning on or after 1 January 2021*
4 *No mandatory effective date yet determined but available for adoption*

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

Further information about those IFRSs that are expected to be applicable to the Group is described below.

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

Upon adoption of IFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The Group has assessed that the investments in certain financial products of RMB1,327,267,000 and unlisted investment of RMB500,000 as at 31 December 2017, that are currently measured at fair value through other comprehensive income and cost, respectively, would not pass the contractual cash flow characteristics test in IFRS 9 and will be reclassified as financial assets at fair value through profit or loss, and financial assets at fair value through other comprehensive income, respectively.

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

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group expects that the impact on the Group's financial position and results of operations upon the adoption of IFRS 9 will not be material.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of IFRS 15 will not be material.

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

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 33 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB7,423,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to IAS 28, issued in October 2017, clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

IFRIC-Int 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC-Int 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 Summary of significant accounting policies

Investments in associates and joint ventures

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

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

2.4 Summary of significant accounting policies (Continued)

Investments in associates and joint ventures (Continued)

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

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

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

Business combination and goodwill

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

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

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

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

2.4 Summary of significant accounting policies (Continued)

Business combination and goodwill (Continued)

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

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 Summary of significant accounting policies (Continued)

Impairment of non-financial assets (Continued)

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

Foreign currencies

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

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

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

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

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

2.4 Summary of significant accounting policies (Continued)

Foreign currencies (Continued)

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

Revenue recognition

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

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

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

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

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

Contracts for services

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

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

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

2.4 Summary of significant accounting policies (Continued)

Income tax

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

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

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

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

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

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

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

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

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

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

2.4 Summary of significant accounting policies (Continued)

Income tax (Continued)

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

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

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 36 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 Summary of significant accounting policies (Continued)

Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 Summary of significant accounting policies (Continued)

Other employee benefits

Pension schemes

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

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

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

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

Defined benefit plan

The Group operates a defined benefit pension plan in Switzerland, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'selling and distribution expenses' and 'administrative expenses' in the consolidated statement of profit or loss (by function):

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale investments

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

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

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

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

Available-for-sale investments (Continued)

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

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

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

Derecognition of financial assets

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

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

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

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

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

2.4 Summary of significant accounting policies (Continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

2.4 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

Available-for-sale investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

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

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

2.4 Summary of significant accounting policies (Continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value measurement

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

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

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

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

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

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

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

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

2.4 Summary of significant accounting policies (Continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.4 Summary of significant accounting policies (Continued)

Non-current assets and disposal groups held for sale

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

No-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Leases

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

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

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

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

Borrowing costs

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

2.4 Summary of significant accounting policies (Continued)

Intangible assets (other than goodwill)

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

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

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

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

Research and development costs

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

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

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

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

2.4 Summary of significant accounting policies (Continued)

Inventories

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

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

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 Summary of significant accounting policies (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

3. Significant accounting judgements and estimates

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

Judgements

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB1,036,902,000 (2016: RMB995,921,000). Further details are given in note 15.

Impairment of non-financial assets (other than goodwill)

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

3. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses and deductible temporary differences as at 31 December 2017 was RMB1,089,000 (2016: Nil) and RMB93,064,000 (2016: RMB93,760,000), respectively. Further details are contained in note 29 to the consolidated financial statements.

Income tax

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

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade and other receivables at 31 December 2017 was RMB3,960,000 (2016: RMB4,830,000).

Useful lives of property, plant and equipment

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

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the consolidated financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2017, the best estimate of the carrying amount of capitalised development costs was RMB134,859,000. (2016: RMB112,214,000).

4. Operating segment information

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

Year ended 31 December 2017

	Oncology drugs RMB'000	Cardio-vascular system drugs RMB'000	Alimentary tract and metabolism drugs RMB'000	Central nervous system drugs RMB'000	Others RMB'000	Total RMB'000
Segment revenue						
Sales to external customers	**1,871,802**	**644,025**	**749,275**	**412,546**	**137,194**	**3,814,842**
Total revenue	**1,871,802**	**644,025**	**749,275**	**412,546**	**137,194**	**3,814,842**
Segment results	**949,441**	**267,969**	**283,029**	**122,546**	**53,828**	**1,676,813**
Other income and gains						**236,732**
Administrative expenses						**(431,635)**
Other expenses						**(316,032)**
Finance costs						**(50,467)**
Share of profit of an associate						**910**
Profit before tax						**1,116,321**

Year ended 31 December 2016

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

* *Central nervous system drugs were included in others for the year ended 31 December 2016.*

4. Operating segment information (Continued)

Geographic information

(a) Revenue from external customers

	2017 RMB'000	2016 RMB'000
Mainland China	**3,361,823**	2,859,866
Other countries	**453,019**	57,928
Total	**3,814,842**	2,917,794

The revenue information above is based on the locations of the customers. No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2017 and 2016.

(b) Non-current assets

	2017 RMB'000	2016 RMB'000
Mainland China	**2,568,104**	2,102,272
European Union	**1,747,855**	1,710,013
Other countries	**19,791**	14,699
Total	**4,335,750**	3,826,984

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

5. Revenue, other income and gains

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

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

	2017 RMB'000	2016 RMB'000
Revenue		
Sale of drugs	**3,885,746**	2,981,320
Less: Business tax and government surcharges	**(70,904)**	(63,526)
	3,814,842	2,917,794
Other income and gains		
Bank interest income	**27,644**	47,729
Government grants	**134,360**	114,285
Investment income	**70,309**	37,314
Foreign exchange gain, net	**–**	6,120
Others	**4,419**	3,546
	236,732	208,994

6. Profit before tax

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

	Notes	2017 RMB'000	2016 RMB'000
Depreciation of items of property, plant and equipment	13	**146,892**	105,803
Amortisation of other intangible assets*	16	**96,630**	29,478
Amortisation of prepaid land lease payments**	14	**6,265**	5,639
Reversal of provision for impairment of trade receivables	20	**(692)**	(122)
Operating lease expenses		**24,029**	20,800
Auditor's remuneration		**7,020**	4,940
Employee benefit expenses (excluding directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**450,569**	316,244
Pension scheme contributions		**77,098**	67,394
Pension plan costs (defined benefit plan)		**1,097**	—
Central Provident Fund in Singapore		**1,000**	756
Staff welfare expenses		**37,779**	25,187
Equity-settled share award expense		**6,251**	—
		573,794	409,581
Other expenses:			
Research and development costs		**288,696**	193,656
Foreign exchange loss, net		**20,772**	—
Donation		**4,680**	3,150
Loss on disposal of items of property, plant and equipment		**1,348**	1,904
Others		**536**	400
		316,032	199,110
Cost of inventories sold ***		**851,484**	535,047
The "Cost of sales" amount includes the following expenses which are also included in the respective total amounts of the items disclosed above:			
Depreciation		**109,730**	79,255
Amortisation of other intangible assets *		**93,773**	28,204
Staff costs		**170,350**	132,517

6. Profit before tax (Continued)

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

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

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

*** *The write-down of inventories to net realisable value of RMB573,000 for the year ended 31 December 2017 (2016: RMB2,371,000) is included in "Cost of sales" in the consolidated statement of profit or loss.*

7. Finance costs

	2017 RMB'000	2016 RMB'000
Interest on bank loans	50,435	24,406
Interest on discounted notes receivable	—	5,951
Finance charges payable under a hire purchase contract	32	32
	50,467	30,389

8. Directors' and chief executive's remuneration

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

	2017 RMB'000	2016 RMB'000
Fees	1,290	1,079
Other emoluments:		
Salaries, allowances and benefits in kind	5,859	4,811
Performance related bonuses	988	918
Equity-settled share award expense	600	—
Pension scheme contributions	216	201
	7,663	5,930
	8,953	7,009

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

During the year, certain directors were granted shares, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 36 to the financial statements. The fair value of the shares granted, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

Independent non-executive directors

	Fees RMB'000	Equity-settled share award expense RMB'000	Total RMB'000
2017			
Leung Man Kit	**312**	**150**	**462**
Choy Sze Chung Jojo	**260**	**150**	**410**
Lo Yuk Lam	**260**	**150**	**410**
Zhang Hua Qiao	**260**	**150**	**410**
	1,092	**600**	**1,692**
2016			
Leung Man Kit	308	—	308
Choy Sze Chung Jojo	257	—	257
Lo Yuk Lam	257	—	257
Zhang Hua Qiao	257	—	257
	1,079	—	1,079

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

Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017					
Executive directors:					
Liu Dian Bo	–	3,169	420	63	3,652
Yang Rong Bing	–	1,444	413	63	1,920
Yuan Hui Xian	–	872	101	–	973
Zhu Yuan Yuan	–	374	54	90	518
	–	5,859	988	216	7,063
Non-executive director:					
Song Rui Lin*	198	–	–	–	198
	198	5,859	988	216	7,261
2016					
Executive directors:					
Liu Dian Bo	–	2,604	420	59	3,083
Yang Rong Bing	–	1,084	320	59	1,463
Yuan Hui Xian	–	796	108	–	904
Zhu Yuan Yuan	–	327	70	83	480
	–	4,811	918	201	5,930
Non-executive directors:					
Liu Dong**	–	–	–	–	–
Wang Xin**	–	–	–	–	–
Pan Jian**	–	–	–	–	–
	–	–	–	–	–
	–	4,811	918	201	5,930

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

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

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

The directors did not receive any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2016: Nil).

* *Song Rui Lin was appointed on 29 March 2017.*

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

9. Five highest paid employees

The five highest paid employees of the Group during the year included 3 directors (2016: 3), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 2 (2016: 2) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**2,724**	2,113
Performance related bonuses	**358**	496
Equity-settled share award expense	**317**	—
Pension scheme contributions	**63**	59
	3,462	2,668

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

	Number of employees	
	2017	2016
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$1,500,000	**—**	1
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	—
	2	2

During the year, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 36 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. Income tax

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

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

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2016: Nil).

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

Pursuant to the rules and regulations of the USA, no provision for income tax has been made as the Group did not generate any taxable income in the USA during the year (2016: Nil).

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

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

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

	2017 RMB'000	2016 RMB'000
Current tax:		
Charge for the year	**169,826**	158,126
Overprovision in prior years	**(6,277)**	(4,822)
Deferred tax *(note 29)*	**(27,793)**	(72,577)
Total tax charge for the year	**135,756**	80,727

10. Income tax (Continued)

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

	2017 RMB'000	2016 RMB'000
Profit before tax	**1,116,321**	974,722
At the PRC's statutory income tax rate of 25%	**279,080**	243,681
Effect of tax rate differences in other jurisdictions	**(8,576)**	2,114
Preferential income tax rates applicable to subsidiaries	**(123,871)**	(102,553)
Additional deductible allowance for research and development expenses	**(19,509)**	(13,929)
Effect of tax levied on a deemed income basis	**123**	(249)
Adjustments in respect of current tax of previous years	**(6,277)**	(4,822)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**(8,236)**	(38,515)
Effect of non-deductible expenses	**3,371**	3,636
Income not subject to tax	**(621)**	(648)
Tax losses utilised from previous years	**(2,079)**	(15,209)
Tax losses not recognised	**22,351**	5,524
Effect of withholding tax at 10% on the interest expense of the Group's PRC subsidiaries to be paid	**–**	1,697
Tax charge at the Group's effective rate	**135,756**	80,727

The effective tax rate of the Group for the year ended 31 December 2017 was 12.2% (2016: 8.3%).

11. Dividends

On 28 August 2017, the Company declared an interim dividend of RMB0.029 (equivalent to HK$0.033) per share (equivalent to approximately RMB96,344,000) for the six months ended 30 June 2017 (2016: RMB0.032 (equivalent to HK$0.037) per share).

On 26 March 2018, the board of directors proposed a final dividend of RMB0.045 (equivalent to HK$0.054) per share (equivalent to approximately RMB148,999,000) for the year ended 31 December 2017 (2016: RMB0.035 (equivalent to HK$0.039) per share). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,257,505,816 (2016: 3,321,073,843) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the share award scheme and shares repurchased.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme.

The calculations of basic and diluted earnings per share are based on:

	2017 **RMB'000**	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**981,372**	891,539

	Number of shares	
	2017	2016
Shares		
Weighted average number of shares in issue during the year	**3,257,505,816**	3,321,073,843
Effect of dilution — weighted average number of ordinary shares under the share award scheme	**1,721,459**	—
	3,259,227,275	3,321,073,843

13. Property, plant and equipment

	Land and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 1 January 2017:							
Cost	919,944	1,062,829	21,634	98,912	8,908	182,300	2,294,527
Accumulated depreciation and impairment	(146,412)	(383,097)	(9,524)	(50,080)	(3,675)	–	(592,788)
Net carrying amount	773,532	679,732	12,110	48,832	5,233	182,300	1,701,739
At 1 January 2017, net of accumulated depreciation and impairment	773,532	679,732	12,110	48,832	5,233	182,300	1,701,739
Additions	11,675	93,027	1,931	8,588	4,847	316,410	436,478
Disposals	(295)	(1,435)	(272)	(180)	–	–	(2,182)
Depreciation provided during the year	(32,370)	(96,128)	(2,462)	(12,033)	(3,899)	–	(146,892)
Transfers	56,102	8,628	–	622	–	(65,352)	–
Exchange realignment	9,997	9,906	15	914	(5)	–	20,827
At 31 December 2017, net of accumulated depreciation and impairment	818,641	693,730	11,322	46,743	6,176	433,358	2,009,970
At 31 December 2017:							
Cost	999,235	1,171,730	21,594	105,411	13,714	433,358	2,745,042
Accumulated depreciation and impairment	(180,594)	(478,000)	(10,272)	(58,668)	(7,538)	–	(735,072)
Net carrying amount	818,641	693,730	11,322	46,743	6,176	433,358	2,009,970

13. Property, plant and equipment (Continued)

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

As at 31 December 2017, the Group was applying for certificates of ownership for certain properties with a net book value of RMB1,692,000 (2016: RMB1,773,000). The directors of the Company are of the opinion that the use of the properties and the conduct of operating activities at those properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

14. Prepaid land lease payments

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**229,755**	191,174
Additions	**6,214**	44,220
Recognised during the year	**(6,265)**	(5,639)
Carrying amount at 31 December	**229,704**	229,755
Current portion included in prepayments, deposits and other receivables	**(6,374)**	(6,250)
Non-current portion	**223,330**	223,505

15. Goodwill

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**995,921**	347,356
Acquisition of subsidiaries	**—**	648,565
Exchange realignment	**40,981**	—
Carrying amount at 31 December	**1,036,902**	995,921

There was no impairment charge made against goodwill for the year (2016: Nil).

Impairment testing of goodwill

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

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

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

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

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

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

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

15. Goodwill (Continued)

Impairment testing of goodwill (Continued)

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

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

	2017 RMB'000	2016 RMB'000
CMNa unit	**38,444**	38,444
Other products unit	**5,954**	5,954
SSL unit	**114,185**	114,185
LPPL unit	**7,353**	7,353
WPU unit	**22,276**	22,276
SL unit	**159,144**	159,144
EU unit	**689,546**	648,565
	1,036,902	995,921

The recoverable amounts of the cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period for the EU unit and other units. The pre-tax discount rates applied to cash flow projections were 6.8% (2016: 9.7%) for the EU unit and 15% (2016: 15%) for other units. The growth rates used to extrapolate the cash flows of the EU unit and other units beyond the five-year period are 1.3% (2016: 2%) and 3% (2016: 3%), respectively.

Key assumptions used in the value in use calculation

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

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

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

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

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

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

16. Other intangible assets

	Trademarks RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2017					
At 1 January 2017:					
Cost	**41,971**	**996,444**	**34,858**	**112,214**	**1,185,487**
Accumulated amortisation	**(24,048)**	**(287,884)**	**(17,879)**	**—**	**(329,811)**
Net carrying amount	**17,923**	**708,560**	**16,979**	**112,214**	**855,676**
Cost at 1 January 2017 net of accumulated amortisation	**17,923**	**708,560**	**16,979**	**112,214**	**855,676**
Additions	**—**	**6**	**6,604**	**15,036**	**21,646**
Amortisation provided during the year	**(4,676)**	**(89,097)**	**(2,857)**	**—**	**(96,630)**
Exchange realignment	**—**	**40,227**	**174**	**7,609**	**48,010**
At 31 December 2017	**13,247**	**659,696**	**20,900**	**134,859**	**828,702**
At 31 December 2017:					
Cost	**41,971**	**1,062,020**	**42,662**	**134,859**	**1,281,512**
Accumulated amortisation	**(28,724)**	**(402,324)**	**(21,762)**	**—**	**(452,810)**
Net carrying amount	**13,247**	**659,696**	**20,900**	**134,859**	**828,702**
31 December 2016					
At 1 January 2016:					
Cost	41,971	357,636	9,222	—	408,829
Accumulated amortisation	(20,869)	(259,857)	(1,887)	—	(282,613)
Net carrying amount	21,102	97,779	7,335	—	126,216
Cost at 1 January 2016 net of accumulated amortisation	21,102	97,779	7,335	—	126,216
Additions	—	213	9,952	1,345	11,510
Acquisition of subsidiaries	—	636,058	970	111,352	748,380
Amortisation provided during the year	(3,179)	(25,025)	(1,274)	—	(29,478)
Exchange realignment	—	(465)	(4)	(483)	(952)
At 31 December 2016	17,923	708,560	16,979	112,214	855,676
At 31 December 2016:					
Cost	41,971	996,444	34,858	112,214	1,185,487
Accumulated amortisation	(24,048)	(287,884)	(17,879)	—	(329,811)
Net carrying amount	17,923	708,560	16,979	112,214	855,676

17. Investment in an associate

	2017 RMB'000	2016 RMB'000
At 1 January	**5,840**	4,350
Share of profit	**719**	1,893
Dividend received	**(352)**	(693)
Foreign currency translation differences	**36**	290
At 31 December	**6,243**	5,840

The Group's trade receivable balance with the associate is disclosed in note 35 to the consolidated financial statements.

Particulars of the associate are as follows:

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

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

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

	2017 RMB'000	2016 RMB'000
Share of the associate's profit for the year	**910**	1,145
Share of the associate's total comprehensive income	**910**	1,145
Carrying amount of the Group's investment in the associate	**6,243**	5,840

As at 31 December 2017, the unrealised profit from the related party transaction between Steward Cross and LPPL was RMB2,164,000 (2016: RMB1,633,000).

18. Available-for-sale investments

	2017 RMB'000	2016 RMB'000
Current		
Investment in financial products, at fair value	**1,628,796**	1,473,284
Non-current		
Listed equity investment, at fair value	**1,394**	2,146
Unlisted investment, at cost	**500**	500
Unlisted equity investment, at fair value	**32,671**	—
	34,565	2,646

Current available-for-sale investments represent investments in certain financial assets issued by licensed financial institutions in the PRC with expected interest rates ranging from 2.75% to 6.00% per annum with a maturity period within one year. The fair values of the financial assets approximate to their costs plus expected interest.

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

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

The fair value of the unlisted equity investment which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

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

As at 31 December 2017, unlisted equity investments with a carrying amount of RMB500,000 (2016: RMB500,000) were stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

As at 31 December 2017, investment in financial products of RMB915,000,000 (2016: RMB570,000,000) was pledged to secure intra-group notes payable.

As at 31 December 2017, investment in financial products of RMB197,200,000 (2016: Nil) was pledged to secure short-term loans of EUR21,000,000 (2016: Nil) (note 25).

19. Inventories

	2017 RMB'000	2016 RMB'000
Raw materials	**200,107**	213,024
Work in progress	**66,076**	78,932
Finished goods	**154,173**	160,714
	420,356	452,670

20. Trade and notes receivables

	2017 RMB'000	2016 RMB'000
Trade receivables	**912,976**	954,469
Notes receivable	**499,204**	462,370
	1,412,180	1,416,839
Less: Impairment of trade receivables	**(960)**	(1,830)
	1,411,220	1,415,009

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

20. Trade and notes receivables (Continued)

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

	Individually impaired RMB'000	Collectively impaired RMB'000	Total RMB'000
At 1 January 2017	**411**	**1,419**	**1,830**
Charge for the year	**30**	**785**	**815**
Reversal	**—**	**(1,507)**	**(1,507)**
Write-off	**(178)**	**—**	**(178)**
At 31 December 2017	**263**	**697**	**960**
At 1 January 2016	446	1,678	2,124
Charge for the year	137	125	262
Reversal	—	(384)	(384)
Write-off	(172)	—	(172)
At 31 December 2016	411	1,419	1,830

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

	2017 RMB'000	2016 RMB'000
Less than 3 months	**752,445**	781,114
Between 3 and 6 months	**133,676**	100,586
Between 6 and 12 months	**25,206**	69,941
Between 1 and 2 years	**338**	1,091
Over 2 years	**1,311**	1,737
	912,976	954,469

20. Trade and notes receivables (Continued)

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	709,723	837,071
Less than 3 months past due	161,119	66,493
Over 3 months past due	41,174	49,075
	912,016	952,639

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

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

As at 31 December 2017, the Group has pledged notes receivable of RMB140,000,000 (2016: RMB1,600,000) to secure intra-group notes receivable of RMB135,000,000 (2016: RMB1,600,000).

As at 31 December 2017, the Group has pledged notes receivable of RMB14,566,000 (2016: RMB13,505,000) to secure notes payable of RMB14,566,000 (2016: RMB13,505,000) (note 23).

As at 31 December 2017, the Group has pledged notes receivable of RMB50,735,000 (2016: RMB20,663,000) and intra-group notes receivable of RMB726,500,000 (2016: RMB178,074,000) to secure short-term loans of EUR90,000,000 and US$23,000,000 (2016: EUR37,000,000 and RMB180,000,000) (note 25).

At 31 December 2017, the Group endorsed certain notes receivable accepted by certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade and other payables due to such suppliers with a carrying amount in aggregate of RMB115,190,000 (2016: RMB73,725,000) (the "Endorsement"). The Endorsed Notes have a maturity from one to six months as at 31 December 2017. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to certain Endorsed Notes accepted by large and reputable banks with an amount of RMB77,506,000 (2016: RMB39,163,000) (the "Derecognised Notes"). Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade payables settled by the Endorsed Notes. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

20. Trade and notes receivables (Continued)

The Group continued to recognise the full carrying amount of the remaining Endorsed Notes and the associated trade payables settled with an amount of RMB37,684,000 as at 31 December 2017 (2016: RMB34,562,000) because the directors of the Company believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

During the year ended 31 December 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The Endorsement has been made evenly throughout the year.

21. Prepayments, deposits and other receivables

	2017 RMB'000	2016 RMB'000
Other receivables	78,869	133,424
Prepaid income tax	33,723	1,297
Prepaid other tax	41,369	22,723
Prepayments	48,688	29,077
	202,649	186,521
Less: Impairment of other receivables	(3,000)	(3,000)
	199,649	183,521

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	199,649	183,521

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

22. Cash and cash equivalents and pledged time deposits

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**1,053,730**	397,775
Time deposits	**1,568,088**	1,358,805
	2,621,818	1,756,580
Less:		
Pledged time deposits for letters of credit	**(8,061)**	(21,126)
Pledged time deposits for bank loans	**(283,813)**	(456,341)
Pledged time deposits for notes payable	**(117,369)**	(5,000)
Non-pledged time deposits with original maturity of over three months when acquired	**(946,703)**	(876,338)
Cash and cash equivalents	**1,265,872**	397,775
Denominated in RMB	**957,398**	126,239
Denominated in US$	**221,729**	194,164
Denominated in others	**86,745**	77,372
Cash and cash equivalents	**1,265,872**	397,775

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

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

As at 31 December 2017, restricted cash of RMB11,252,000 (2016: Nil) represented an account balance held at Bank of Communications Trustee Limited. The account was opened for the share award scheme of the Company, of which balance cannot be withdrawn during the valid and effective term of the share award scheme. The balance is not available to finance the Group's day-to-day operations and therefore has been excluded from cash and cash equivalents for the purposes of the statement of cash flows.

As at 31 December 2017, time deposits of RMB283,813,000 (2016: RMB456,341,000) have been pledged to secure bank loans (note 25).

As at 31 December 2017, time deposits of RMB114,577,000 (2016: RMB5,000,000) have been pledged to secure intra-group notes payable.

As at 31 December 2017, time deposits of RMB2,792,000 (2016: Nil) were pledged to secure notes payable (note 23).

23. Trade and notes payables

	2017 RMB'000	2016 RMB'000
Trade payables	**87,242**	102,637
Notes payable	**17,357**	13,505
	104,599	116,142

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

	2017 RMB'000	2016 RMB'000
Within 3 months	**92,299**	85,792
3 to 6 months	**8,233**	26,463
6 to 12 months	**2,123**	2,300
1 to 2 years	**1,039**	1,297
Over 2 years	**905**	290
	104,599	116,142

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

As at 31 December 2017, the Group's notes payable were secured by the Group's notes receivable with a carrying amount of RMB14,566,000 (2016: RMB13,505,000) (note 20) and time deposits with a carrying amount of RMB2,792,000 (2016: Nil) (note 22). The maturity date of the notes payable is within six months.

24. Other payables and accruals

	2017 RMB'000	2016 RMB'000
Other payables	**58,349**	95,741
Deferred cash settlement for acquisition	**–**	5,390
Accrued liabilities	**40,117**	24,703
Accrued payroll	**89,440**	83,741
Advances from customers	**42,399**	25,178
Taxes payable other than corporate income tax	**120,687**	88,221
Payables for purchases of property, plant and equipment and other intangible assets	**151,519**	126,063
	502,511	449,037

Other payables are not interest-bearing.

25. Interest-bearing loans and borrowings

2017

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB50,000,000 bank loan	4.35	8 June 2018	50,000
RMB50,000,000 bank loan	4.35	8 June 2018	50,000
RMB250,000,000 bank loan	3.70	24 January 2018	250,000
RMB130,000,000 bank loan	4.30	19 January 2018	130,000
RMB100,000,000 bank loan	4.35	20 May 2018	100,000
RMB70,000,000 bank loan	4.30	15 January 2018	70,000
HK$100,000,000bank loan	3-Month HIBOR+0.70	2 April 2018	83,590
US$23,000,000bank loan	3.10	11 July 2018	150,287
EUR7,400,000 bank loan	0.70	16 November 2018	57,737
EUR26,000,000 bank loan	0.60	9 February 2018	202,860
EUR24,000,000 bank loan	EURIBOR+1.50	5 January 2018	187,255
EUR14,000,000 bank loan	EURIBOR+1.50	5 January 2018	109,232
EUR11,000,000 bank loan	3-Month EURIBOR+0.80	19 September 2018	85,825
EUR20,000,000 bank loan	3-Month EURIBOR+0.90	22 October 2018	156,046
EUR49,000,000 bank loan	EURIBOR+0.95	20 April 2018	382,313
EUR30,000,000 bank loan	0.25	6 August 2018	234,069
EUR20,000,000 bank loan	0.25	5 September 2018	156,046
EUR22,000,000 bank loan	1.50	18 September 2018	171,650
EUR10,000,000 bank loan	1.30	16 April 2018	78,023
EUR10,000,000 bank loan	1.30	16 October 2018	78,023
EUR10,000,000 bank loan	1.05	17 May 2018	78,023
Finance lease payables, current portion *(note 26)*	2.2	31 December 2018	146
			2,861,125
Non-current			
Finance lease payables *(note 26)*	2.2	1 January 2019 — 30 August 2020	232
			2,861,357

25. Interest-bearing loans and borrowings (Continued)

2016

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured			
RMB80,000,000 bank loan	3.48	22 March 2017	80,000
RMB100,000,000 bank loan	3.48	24 June 2017	100,000
RMB11,979,806 bank loan	3.70	24 June 2017	11,980
RMB250,000,000 bank loan	3.70	23 October 2017	250,000
EUR33,500,000 bank loan	3-Month LIBOR+0.70	24 June 2017	244,778
EUR23,000,000 bank loan	1.00	23 January 2017	168,056
EUR10,000,000 bank loan	0.70	28 February 2017	73,068
EUR37,000,000 bank loan	3-Month LIBOR+0.80	20 July 2017	270,352
EUR24,000,000 bank loan	1.85	25 July 2017	175,363
Discounted notes receivable	2.79	1 February 2017	100,000
	2.70	26 January 2017	150,000
Finance lease payables, current portion *(note 26)*	2.2	31 December 2017	144
			1,623,741
Non-current			
Finance lease payables *(note 26)*	2.2	1 January 2018 — 30 August 2020	372
			1,624,113

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans and other borrowings repayable:		
Within one year or on demand	**2,861,125**	1,623,741
In the second year	**146**	144
In the third to fifth years, inclusive	**86**	228
	2,861,357	1,624,113

25. Interest-bearing loans and borrowings (Continued)

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

(i) the pledge of certain of the Group's time deposits of RMB283,813,000 (2016: RMB456,341,000) (note 22);

(ii) the pledge of certain of the Group's notes receivable of RMB50,735,000 (2016: RMB20,663,000) (note 20);

(iii) the pledge of certain of the Group's intra-group notes receivable of RMB726,500,000 (2016: RMB178,074,000) (note 20); and

(iv) the pledge of certain of the Group's available-for-sale investments of RMB197,200,000 (2016: Nil) (note 18).

26. Finance lease payables

The Group has certain finance leases for motor vehicles, equipment and machinery. As at 31 December 2017, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2017 RMB'000	Minimum lease payments 2016 RMB'000	**Present value of minimum lease payments 2017 RMB'000**	Present value of minimum lease payments 2016 RMB'000
Amounts payable:				
Within one year	**178**	176	**146**	144
In the second year	**178**	176	**146**	144
In the third to fifth years, inclusive	**105**	278	**86**	228
Total minimum finance lease payments	**461**	630	**378**	516
Future finance charges	**(83)**	(114)		
Total net finance lease payables	**378**	516		
Portion classified as current liabilities *(note 25)*	**(146)**	(144)		
Non-current portion *(note 25)*	**232**	372		

27. Government grants

	2017 RMB'000	2016 RMB'000
At 1 January	**178,373**	140,305
Grants received during the year	**21,375**	54,721
Amount released	**(68,327)**	(16,653)
At 31 December	**131,421**	178,373
Current	**57,833**	56,778
Non-current	**73,588**	121,595
	131,421	178,373

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

28. Deferred revenue

	2017 RMB'000	2016 RMB'000
At 1 January	**25,668**	—
Acquisition of subsidiaries	**—**	26,300
Grants received during the year	**13,264**	—
Amount released	**(6,480)**	(520)
Exchange realignment	**1,589**	(112)
At 31 December	**34,041**	25,668

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

29. Deferred tax

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

Deferred tax assets

	2017								
	Employee defined benefit obligation RMB'000	**Accrued expenses RMB'000**	**Decelerated depreciation for tax purposes RMB'000**	**Losses available for offsetting against future taxable profits RMB'000**	**Impairment of inventories RMB'000**	**Impairment of trade and other receivables RMB'000**	**Government grants RMB'000**	**Unrealised profit from inter-company transactions RMB'000**	**Total deferred tax assets RMB'000**
At 1 January 2017	**–**	**24,065**	**7,783**	**–**	**430**	**748**	**23,860**	**36,874**	**93,760**
Deferred tax (charged)/credit to the statement of profit or loss during the year *(note 10)*	**–**	**(7,904)**	**–**	**1,064**	**(98)**	**(173)**	**(5,815)**	**12,419**	**(507)**
Deferred tax credited to other comprehensive income during the year	**517**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**517**
Exchange realignment	**11**	**–**	**347**	**25**	**–**	**–**	**–**	**–**	**383**
At 31 December 2017	**528**	**16,161**	**8,130**	**1,089**	**332**	**575**	**18,045**	**49,293**	**94,153**

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

29. Deferred tax (Continued)

Deferred tax liabilities

	2017				
	Withholding taxes RMB'000	**Fair value adjustment on acquisition RMB'000**	**Accelerated depreciation and amortisation for tax purposes RMB'000**	**Fair value adjustments arising from available-for-sale investments RMB'000**	**Total deferred tax liabilities RMB'000**
At 1 January 2017	**8,236**	**96,451**	**15,164**	**1,584**	**121,435**
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	**(8,236)**	**(18,306)**	**(1,758)**	**—**	**(28,300)**
Deferred tax charged to other comprehensive income during the year	**—**	**—**	**—**	**2,379**	**2,379**
Exchange realignment	**—**	**—**	**931**	**—**	**931**
At 31 December 2017	**—**	**78,145**	**14,337**	**3,963**	**96,445**

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

29. Deferred tax (Continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, these subsidiaries' fund will be retained in Mainland China for the expansion of these subsidiaries' operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled approximately RMB2,764,876,000 as at 31 December 2017 (2016: RMB2,675,474,000).

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

The Group has tax losses arising in Singapore, Hong Kong and Germany of RMB106,566,000 (2016: RMB65,144,000) that are available indefinitely for offsetting against future taxable profits.

The Group has tax losses arising in Switzerland of RMB74,224,000 (2016: RMB6,439,000) that are available for offsetting against future taxable profits in seven years.

The Group has tax losses arising in USA of RMB39,665,000 (2016: RMB12,059,000) that are available for offsetting against future taxable profits in twenty years.

The Group also has tax losses arising in Mainland China of RMB1,403,000 (2016: RMB4,840,000) that will expire in one to five years for offsetting against future taxable profits.

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

30. Issued capital and treasury shares

	2017 RMB'000	2016 RMB'000
Issued and fully paid:		
3,321,073,843 (2016: 3,321,073,843) ordinary shares of US$0.02 each		
US$'000	**66,421**	66,421
RMB'000	**427,269**	427,269

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

	Number of shares in issue	Issued capital RMB'000	Treasury shares* RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	3,321,073,843	427,269	(459,284)	2,936,817	2,904,802

* *The Company purchased 112,027,000 of its shares on the Hong Kong Stock Exchange for a total consideration of HK$530,825,000 (equivalent to approximately RMB459,284,000), of which 46,108,500 shares were cancelled on 20 March 2018.*

31. Reserves

Statutory surplus reserves

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

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

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

Percentage of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	2017	2016
WPU	PRC/Mainland China	**30.45%**	30.45%

	2017 RMB'000	2016 RMB'000
Accumulated balances of material non-controlling interests:		
WPU	**127,513**	133,458
(Loss)/profit allocated to material non-controlling interests:		
WPU	**(807)**	2,456
Dividends paid to material non-controlling interests:		
WPU	**5,282**	4,568
Share award scheme reserve attributable to material non-controlling interests:		
WPU	**144**	—

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

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

	2017 RMB'000	2016 RMB'000
Revenue	301,769	320,802
Total expenses	(273,764)	(291,192)
Profit for the year	28,005	29,610
Total comprehensive income for the year	28,005	29,610
Current assets	215,042	198,212
Non-current assets	351,722	342,144
Current liabilities	(69,956)	(44,980)
Non-current liabilities	(19,890)	(29,590)
Net cash flows from operating activities	30,466	32,816
Net cash flows used in investing activities	(21,567)	(25,741)
Net cash flows used in financing activities	(5,282)	(15,000)
Net foreign exchange differences	(104)	103
Net increase/(decrease) in cash and cash equivalents	3,513	(7,822)

As at 31 December 2017, the unrealised profit from the inter-company transaction between WPU and Luye Trading was RMB58,154,000 (2016: RMB27,499,000).

33. Operating lease arrangements

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years. As at 31 December 2017 and 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	5,449	12,003
In the second to fifth years, inclusive	453	2,636
After five years	1,521	2,558
	7,423	17,197

34. Commitments

In addition to the operating lease commitments detailed in note 33, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Land and buildings	**296,467**	110,421
Plant and machinery	**275,713**	131,435
	572,180	241,856

35. Related party transactions

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

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

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

	Notes	2017 RMB'000	2016 RMB'000
Sales of products to Steward Cross	*(i)*	**7,277**	8,556
Sales of inventories to Shandong Boan	*(ii)*	**2,670**	2,513
Purchase of a building from Lujian Real Estate	*(iii)*	**5,710**	—
Purchase of two biological antibody products from Shandong Boan	*(iv)*	**90,000**	—

35. Related party transactions (Continued)

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

Notes:

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

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

(iii) The purchase from Lujian Real Estate was made on terms equivalent to those that prevail in arm's length transaction.

(iv) The consideration was determined with reference to prices mutually agreed between the parties.

(b) Outstanding balances with related parties:

The Group had the following balances with its related parties:

(i) Due from related parties

	2017 RMB'000	2016 RMB'000
Steward Cross	**1,902**	1,393
Shandong Boan	**939**	—
	2,841	1,393

(ii) Due to a related party

	2017 RMB'000	2016 RMB'000
Shandong Boan	**–**	808

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

35. Related party transactions (Continued)

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

	2017 **RMB'000**	2016 RMB'000
Short-term employee benefits	**16,443**	14,030
Pension scheme contributions	**834**	810
Equity-settled share award expense	**1,647**	—
Total compensation paid to key management personnel	**18,924**	14,840

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

36. Share award scheme

The Company adopted a share award scheme on 10 January 2017 (the "Scheme"). The purpose of the Scheme is to recognise contributions by certain employees, including any executive director of any member of the Group except for the current executive directors and to provide them with incentives in order to retain them for the continuing operation and development of the Group and to attract suitable personnel for the further development of the Group.

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

The Scheme shall be administered by the board of directors and Bank of Communications Trustee Limited (the "Trustee") in accordance with the rules of the Scheme and the trust deed in respect of the Scheme to be entered into between the Company and the Trustee (the "Trust Deed"). The decision of the board of directors with respect to any matter arising under the Scheme (including the interpretation of any provision) shall be final and binding. The Trustee will hold the Company's shares in accordance with the terms of the Trust Deed. The Trustee may not exercise the voting rights in respect of any shares held under the Trust.

The board of directors may from time to time cause to be paid an amount to the Trustee by way of settlement or otherwise contributed by the Company or other member of the Group as directed by the board of directors. The committee appointed and authorised by the board of directors to administer the Scheme, which shall consist of three members of the senior management of the Company to be appointed by the board of directors, may from time to time instruct the Trustee in writing to purchase shares on the Stock Exchange specifying the timing of purchase, the maximum amount of funds to be used and the range of prices within which such shares are to be purchased.

36. Share award scheme (Continued)

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

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

A selected employee will not have any interest or rights (including the right to vote at general meetings of the Company or the right to receive dividends) in the Awarded Shares prior to, in respect of a selected employee, the date on which his entitlement to the Awarded Shares is vested in such selected employee pursuant to the terms of the Scheme (the "Vesting Date"). Prior to the Vesting Date, any award of Awarded Shares is personal to the selected employee to whom it is made and is not assignable and no selected employee may in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to the Awarded Shares referable to him pursuant to such award. In the event that a selected employee has ceased to be an employee, the relevant award made to such selected employee will automatically lapse and the relevant Awarded Shares will remain part of the funds under the Trust.

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

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured based on the general accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties.

As at 31 December 2017, the Trustee has purchased an aggregate of 65,918,500 shares on the open market for the Scheme. Pursuant to share award notices issued on 15 May 2017 to those selected employees, an aggregate of 17,724,000 shares (the "2017 Awarded Shares") of the Company of US$0.02 each were granted at the consideration of HK$4 for each share and the earliest vesting date of the 2017 Awarded Shares is 15 May 2020. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period and meets the expectation of the Company on daily performance.

36. Share award scheme (Continued)

The following awarded shares were outstanding under the Scheme during the period:

	Number of shares held for the Scheme	Number of awarded shares
At 1 January 2017	—	—
Purchased and withheld	65,918,500	—
Granted on 15 May 2017	(17,724,000)	17,724,000
At 31 December 2017	48,194,500	17,724,000

The fair value of the shares granted during the year was HK$38,461,000 (HK$2.17 each), of which the Group recognised a share award expense of RMB6,251,000 during the year ended 31 December 2017. Out of the share award expense, an amount of RMB600,000 was included in the directors' remuneration.

The fair value of the shares granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the shares were awarded. The following table lists the inputs to the model used:

	2017
Dividend yield (%)	**0.00**
Expected volatility (%)	**38.64**
Risk-free interest rate (%)	**1.41**
Forfeiture rate (%)	**17**

No other feature of the shares granted was incorporated into the measurement of fair value.

37. Pension plan

The Group has a defined benefit pension plan in Switzerland. The pension plan grants disability and death benefits which are defined as projected savings capital without interest but including future savings contribution. This projected savings capital is converted in disability or death benefits. In the event that an employee leaves his employment with the Group prior to reaching a pensionable age, the cumulative balance of the savings account is withdrawn from the pension plan and invested into the pension plan of the employee's new employer. The assets of the funded plan are held independently of those of the Group, being managed through a central trust fund. The plan is valued by a qualified actuary annually using the projected unit credit method.

37. Pension plan (Continued)

The movements in the defined benefit obligation and fair value of plan assets during the year are as follows:

	Defined benefit obligation RMB'000	Fair value of plan assets RMB'000	Benefit liability RMB'000
At 1 January 2016, 31 December 2016 and 1 January 2017	—	—	—
Pension cost charged to profit or loss			
Service cost	(1,097)	—	(1,097)
	(1,097)	—	(1,097)
Remeasurement gains/(losses) in other comprehensive income			
Return on plan assets	—	53	53
Actuarial losses arising from plan experience	(5,255)	—	(5,255)
Actuarial gains arising from financial assumptions	166	—	166
	(5,089)	53	(5,036)
Contributions by employer	—	760	760
Contributions by employee	(538)	538	—
Benefits paid	(10,530)	10,530	—
Exchange differences	(26)	18	(8)
At 31 December 2017	(17,280)	11,899	(5,381)

The fair value of plan assets is as follows:

	2017 RMB'000	2016 RMB'000
Savings capital	11,899	—

The principal assumptions used in determining benefit obligations for the Group's plan are shown below:

	2017
Discount rate	0.75%
Salary increases	1.50%
Pension increases	0.00%

37. Pension plan (Continued)

A quantitative sensitivity analysis for significant assumptions as at 31 December is, as shown below:

	Impact on defined benefit obligation 2017 RMB'000
Discount rate:	
0.25% increase	(791)
0.25% decrease	850
Salary increase:	
0.25% increase	126
0.25% decrease	(126)
Pension increase:	
0.25% increase	438
0.25% decrease	–

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been used for calculating the defined benefit obligations recognised in the consolidated statement of financial position.

The following payments are expected contributions to the defined benefit plan in future years:

	2017 RMB'000
Less than 1 year	–
Between 1 to 5 years	–
Over 5 years	5,831
	5,831

38. Notes to the consolidated statement of cash flows

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Finance lease payables RMB'000
At 1 January 2017	1,623,597	516
Changes from financing cash flows	1,237,382	(138)
At 31 December 2017	2,860,979	378

39. Financial instruments by category

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

2017

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	1,663,361	1,663,361
Trade and notes receivables	1,411,220	–	1,411,220
Financial assets included in prepayments, deposits and other receivables	78,869	–	78,869
Cash and cash equivalents	1,265,872	–	1,265,872
Time deposits with original maturity of over three months	946,703	–	946,703
Pledged time deposits	409,243	–	409,243
Restricted cash	11,252	–	11,252
Due from related parties	2,841	–	2,841
	4,126,000	1,663,361	5,789,361

39. Financial instruments by category (Continued)

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

2017 (Continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	**104,599**	**104,599**
Financial liabilities included in other payables and accruals	**249,985**	**249,985**
Interest-bearing loans and borrowings	**2,861,357**	**2,861,357**
	3,215,941	**3,215,941**

2016

Financial assets

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

39. Financial instruments by category (Continued)

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

2016 (Continued)

Financial liabilities

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

Fair values

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

Financial instruments carried at fair value

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

40. Fair value and fair value hierarchy of financial instruments

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

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investment	1,394	32,671	—	34,065
Investment in financial products	—	1,628,796	—	1,628,796
	1,394	1,661,467	—	1,662,861

As at 31 December 2016

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 (2016: Nil).

Financial instruments whose carrying amounts approximate to their fair values

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

41. Financial risk management objectives and policies

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

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

Interest rate risk

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

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

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

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000	**Increase/ (decrease) in equity** RMB'000
2017			
RMB	**50**	**—**	**—**
RMB	**(50)**	**—**	**—**
EUR	**50**	**(33)**	**(33)**
EUR	**(50)**	**33**	**33**
HKD	**50**	**(1)**	**(1)**
HKD	**(50)**	**1**	**1**
2016			
RMB	50	—	—
RMB	(50)	—	—
EUR	50	(16)	(16)
EUR	(50)	16	16

41. Financial risk management objectives and policies (Continued)

Foreign currency risk

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

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

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2017			
If RMB weakens against US$	**5**	**106**	**90**
If RMB strengthens against US$	**(5)**	**(106)**	**(90)**
If US$ weakens against SG$	**5**	**(168)**	**(168)**
If US$ strengthens against SG$	**(5)**	**168**	**168**
If US$ weakens against HK$	**5**	**(2,391)**	**(2,391)**
If US$ strengthens against HK$	**(5)**	**2,391**	**2,391**
If HK$ weakens against SG$	**5**	**4**	**4**
If HK$ strengthens against SG$	**(5)**	**(4)**	**(4)**
If US$ weakens against EUR	**5**	**(90,967)**	**(90,967)**
If US$ strengthens against EUR	**(5)**	**90,967**	**90,967**
2016			
If RMB weakens against US$	5	71	49
If RMB strengthens against US$	(5)	(71)	(49)
If US$ weakens against SG$	5	(309)	(309)
If US$ strengthens against SG$	(5)	309	309
If US$ weakens against HK$	5	(1)	(1)
If US$ strengthens against HK$	(5)	1	1
If HK$ weakens against SG$	5	4	4
If HK$ strengthens against SG$	(5)	(4)	(4)
If US$ weakens against EUR	5	(49,509)	(49,202)
If US$ strengthens against EUR	(5)	49,509	49,202

41. Financial risk management objectives and policies (Continued)

Credit risk

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

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

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

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

Liquidity risk

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

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

41. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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

31 December 2017

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing loans and borrowings	—	959,337	1,929,405	283	—	2,889,025
Trade and notes payables	12,590	74,652	17,357	—	—	104,599
Financial liabilities included in other payables and accruals	114,007	135,978	—	—	—	249,985
	126,597	1,169,967	1,946,762	283	—	3,243,609

31 December 2016

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

41. Financial risk management objectives and policies (Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

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

	2017 RMB'000	2016 RMB'000
Interest-bearing loans and borrowings	**2,861,357**	1,624,113
Trade and notes payables	**104,599**	116,142
Other payables and accruals	**502,511**	449,037
Due to related parties	**—**	808
Less: Cash and cash equivalents	**(1,265,872)**	(397,775)
Time deposits with original maturity of over three months	**(946,703)**	(876,338)
Pledged time deposits	**(409,243)**	(482,467)
Restricted cash	**(11,252)**	—
Net debt	**835,397**	433,520
Equity attributable to owners of the parent	**6,768,403**	6,428,543
Less: Net unrealised gain reserves	**(12,340)**	(4,121)
Adjusted capital	**6,756,063**	6,424,422
Capital and net debt	**7,591,460**	6,857,942
Gearing ratio	**11%**	6%

42. Event after the reporting period

On 20 March 2018, the Company cancelled 46,108,500 ordinary shares which were repurchased in 2017, as further detailed in note 30 to the financial statements.

43. Statement of financial position of the Company

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

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**15,990**	10,557
Available-for-sale investments	**32,671**	—
Total non-current assets	**48,661**	10,557
CURRENT ASSETS		
Due from subsidiaries	**5,851,572**	4,822,690
Prepayments, deposits and other receivables	**874,969**	214,627
Restricted cash	**11,252**	—
Cash and cash equivalents	**211,660**	126,487
Total current assets	**6,949,453**	5,163,804
CURRENT LIABILITIES		
Interest-bearing loans and borrowings	**2,127,389**	686,839
Due to subsidiaries	**1,380,052**	896,853
Tax payable	**323**	—
Other payables and accruals	**2,592**	4,495
Total current liabilities	**3,510,356**	1,588,187
NET CURRENT ASSETS	**3,439,097**	3,575,617
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,487,758**	3,586,174
Net assets	**3,487,758**	3,586,174
EQUITY		
Issued capital	**427,269**	427,269
Treasury shares	**(459,284)**	—
Share premium *(note)*	**2,936,817**	2,936,817
Reserves *(note)*	**582,956**	222,088
Total equity	**3,487,758**	3,586,174

43. Statement of financial position of the Company (Continued)

Note:

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

	Share premium account	Share award scheme reserve	Retained earnings	Foreign currency translation reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	2,936,817	—	(8,401)	45,192	2,973,608
Profit for the year	—	—	60,076	—	60,076
Other comprehensive income for the year:					
Currency realignment	—	—	—	232,197	232,197
Total comprehensive income for the year	—	—	60,076	232,197	292,273
Interim 2016 dividend	—	—	(106,976)	—	(106,976)
At 31 December 2016 and 1 January 2017	2,936,817	—	(55,301)	277,389	3,158,905
Profit for the year	—	—	771,933	—	771,933
Other comprehensive income for the year:					
Currency realignment	—	—	—	(204,687)	(204,687)
Total comprehensive income for the year	—	—	771,933	(204,687)	567,246
Equity-settled share award scheme	—	6,251	—	—	6,251
Final 2016 dividend	—	—	(116,285)	—	(116,285)
Interim 2017 dividend	—	—	(96,344)	—	(96,344)
At 31 December 2017	2,936,817	6,251	504,003	72,702	3,519,773

44. Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 March 2018.

Luye Pharma Group Ltd.

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