Offering Quality Products Honoring Code of Ethics

Annual Report 2016

China Grand Pharmaceutical
and Healthcare Holdings Limited
遠大醫藥健康控股有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 00512

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Liu Chengwei *(Chairman)*
Mr. Hu Bo *(Deputy Chairman)*
Dr. Shao Yan *(Chief Executive Officer)*
Dr. Niu Zhanqi

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie
Mr. Lo Kai, Lawrence
Dr. Pei Geng

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Mr. Liu Chengwei
Mr. Foo Tin Chung, Victor

AUDIT COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Lo Kai, Lawrence
Dr. Pei Geng

REMUNERATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Liu Chengwei
Mr. Lo Kai, Lawrence

NOMINATION COMMITTEE

Ms. So Tosi Wan, Winnie (*Chairwoman)*
Dr. Shao Yan
Mr. Lo Kai, Lawrence

WEBSITE

www.chinagrandpharm.com

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

As to Bermuda Law:
Conyers Dill & Pearman

As to Hong Kong Law:
Locke Lord

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, Hopewell Centre
183 Queen’s Road East, Hong Kong

PRINCIPAL BANKERS

HSBC
China Merchants Bank
Bank of China

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Units 3302, The Center,
99 Queen’s Road Central, Hong Kong

Management Discussion and Analysis

Business Review

The Group is principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialized pharmaceutical raw materials and other products. The core pharmaceutical and medical devices products of the Group mainly applied in the cerebro-cardiovascular emergency and Ear, Nose & Throat (the "ENT") treatment.

In view of the situation that the annual growth of the overall economic environment and the pharmaceutical industry in the PRC is slowing down, and also under the pressure and effect from the healthcare reform, pharmaceutical products tendering and price adjustment, the Group still recorded good performance as a result of our vigorous efforts. For the year ended 31 December 2016, the revenue of the Group was approximately HK$3,696.16 million, and was increased by 13.9% as compared with the same period of 2015. However, if taken out the depreciation effect of RMB, the revenue of the Group in 2016 was increased by approximately 20.2% as compared with the same period of 2015.

During the recent years, the Group has invested huge resources in the core pharmaceutical preparations and medical devices sector in order to optimize its product matrix, including products research and development, production technique enhancement and merge and acquisition in order to enlarge the product categories and reserve, which substantially increased the synergy effect of the Group and its operation efficiency. Such strategy has already provided a positive effect and the proportion of turnover contributed by the pharmaceutical preparations and medical devices sector has substantially increased. This resulted in the overall gross profit of the Group for the year ended 31 December 2016 increased by approximately HK$381.94 million and the average gross profit margin increased by approximately 5.3% to approximately 46.9%. As a result, the profit attributable to the owners of the Company also substantially increased to approximately HK$269.14 million, which is increased by approximately 48.8% in compare with the same period of last year. In the meanwhile, due to the reporting currency factor, the net profit mentioned above did not reflect the reduction of profit by approximately HK$17.35 million due to the depreciation of RMB.

In 2016, the Group achieved a significant improvement in the revenue structure. Within the three major product sectors, the revenue from pharmaceutical preparations and medical devices, bio-technology products and nutrition products together with the specialized pharmaceutical raw materials and other products were approximately RMB1,701.79 million, RMB735.59 million and RMB724.93 million respectively, in which the revenue from the pharmaceutical preparations and medical devices was the first time recorded more than a half of the Group's total revenue and reached approximately 53.8%. This was an important result for the Group in moving forward to be a modern pharmaceutical enterprise, and also was an important milestone for the Group taking the pharmaceutical preparations and medical devices as the core product in its long term development strategy. On the other hand, from the point of view in considering the operation ability, during 2016 the EBITDA (earnings before interest, taxation, depreciation and amortization) of the Group was approximately HK$723.67 million and was increased by approximately 21.2% in compared with the same period of last year. This represents the Group has strong ability in operation and profitability, and also has large potential for further development.

As a result of the years' efforts, the Group has become one of the leading enterprises in the ENT and ophthalmic sector in the PRC, and has become a well-known enterprise with significant impact in the cerebro-cardiovascular emergency sector.

During the recent years, the Group devoted much efforts to the research and development of new products with focusing on the major areas including orphan drugs, biologics, first chemical generics drugs, innovative drugs and high-end medical devices, etc. The investments in the previous years have gradually achieved their results. During the year ended 31 December 2016, the Group obtained 9 clinical trial approvals, 2 technology transfer approvals, applied 32 invention patents, and obtained 19 licensing approvals. There are still more than 20 research and development projects on-going and mainly focus on medicines and medical devices in cerebro-cardiovascular and ENT sectors, in which one of the projects is classified as Class II innovative drugs, 15 projects are classified as Class III generic drugs.

Management Discussion and Analysis

In 2016, the Group has 3 types of anti-glaucoma medicines been proposed to be listed in the 首仿藥優先審評名單(Priority Review List of First Generics Drugs#) announced by the Center for Drug Evaluation of the China Food and Drug Administration. This represents the evaluation time of these 3 products will be shortened and can speed up the progress of the commercial launch. It is expected that each of these products may contribute over a hundred million of turnover. During February 2017, the Ministry of Human Resources and Social Security of the PRC published a high-profile document - the "National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2017 Version)". Being selected into the aforesaid list is an important indicator on the competitiveness of the market participants. There were 203 products of the Group being recorded in this new list, including 10 exclusive or national protected Chinese medicines. The Group's exclusive ENT product Qie Nuo (Eucalyptol Limonene and Pinene), He Xue Ming Mu Pian (和血明目片), Fu Ming Pian (復明片), Jin Sang series (金嗓系列), Levofloxacin and also cerebro-cardiovascular medicines such as Li Shu An (利舒安) and Simvastatin, etc., were also listed in the aforesaid list.

Furthermore, in June 2016, the Group entered into an agreement to acquire approximately 77.2% equity interest in 西安碑林藥業股份有限公司 (Xian Beilin Pharmaceutical Company Limited#) (the "Xian Beilin") at the aggregate consideration of approximately RMB386.07 million. Xian Beilin is a national hi-tech enterprise with research and development, manufacture and sales capacity in Chinese medicine and has been focused on the ENT medicine for many years. Its core products include two series of ophthalmologic and laryngological Chinese medicine which have good reputation and market share in the PRC and certain products are national protected Chinese medicines. The existing and developing products of the Xian Beilin will strengthen the Group's leading position in the ENT sector. Its academic promotion, marketing team and network may further strengthen the coverage of the sales network of the Group in the ENT sector and also enhance the efficiency. Such acquisition was completed in July 2016, and Xian Beilin became an indirect non-wholly owned subsidiary of the Company.

The Group has also devoted efforts and earned results in the control of liquidity and finance cost. The Group executed different ways such as issuance of shares, corporate bonds and increase the fund liquidity in order to reduce the risk of corporate current liability. As at 31 December 2016, the net current liabilities of the Group decreased to approximately HK$676.23 million.

On 13 July 2016, the Company entered into a subscription agreement with Outwit and East Ocean Capital (Hong Kong) Limited (the "East Ocean Capital") for the subscription of 83,056,478 and 24,916,943 shares of the Company (the "Shares") respectively (the "Connected Subscription"). The subscription price was HK$1.40 per Share. Immediately preceding the Connected Subscription, Outwit and its associates are interested in 1,228,775,094 Shares, and Outwit is a controlling shareholder of the Company. East Ocean Capital is an indirect non-wholly owned subsidiary of China Grand Enterprises Incorporation (the "China Grand"), which is controlled and ultimately and beneficially owned by Mr. Hu Kaijun, a controlling shareholder of the Company. The Connected Subscription has been approved by independent shareholders and was completed in September 2016.

On 14 July 2016, the Company entered into a placing agreement with 2 placing agents namely ICBC International Securities Limited and Sinolink Securities (Hong Kong) Company Limited for the placing of 122,428,000 Shares to not less than six independent investors (the "Placing"). The placing price was HK$1.40 per Share. On the same day, the Company entered into a subscription agreement with GL Healthcare Investment L. P. (the "GL") for the issuance and allotment of 44,570,000 new Shares (the "GL Subscription"). The subscription price was HK$1.40 per Share. The Placing was completed in July 2016 and the GL Subscription was completed in August 2016.

The net proceeds from the Connected Subscription, the Placing and the GL Subscription were approximately HK$381.10 million in which approximately HK$257.40 million were used for the repayment of bank loan, and the remaining approximately HK$123.70 million were used as the general working capital of the Group.

Furthermore, Grand Pharm (China) Co, Ltd. (the "Grand Pharm (China)"), an indirect non-wholly owned subsidiary of the Company, completed the issuance of RMB100.00 million corporate bonds in December 2016, and has already been listed in the Shenzhen Stock Exchange. The interest rate per annum is 5.49%, and the proceeds were used for the repayment of bank loans.

Management Discussion and Analysis

The Directors believed that the issuance of new Shares and corporate bonds enabled the Group to raise additional fund to improve its financial position and introduced important strategic shareholders, which may provide solid foundation and guarantee for the future growth of the Group.

With reference to the disclosure in the 2016 interim report of the Company, Tianjin Jingming New Technology Development Co., Ltd. (the "Tianjin Jingming"), an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered by the Group. In January 2017, the court has concluded 11 cases, and Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB3.95 million in according to the court order. As at the date of this announcement, the other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident, and Grand Pharm (China) is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in accordance the formula set out in the announcement of the Company dated 22 December 2014. As at the date of this announcement, the Group is in a litigation against those vendors in related to the said Performance Guarantee. The Company will inform the shareholders of the Company the result of the said litigation as and when appropriate.

Revenue

For the year ended 31 December 2016, the Group recorded a revenue amount of approximately HK$3,696.16 million, and was increased by 13.9% as compared with the same period of 2015. However, if taken out the depreciation effect of RMB, the revenue of the Group in 2016 was increased by approximately 20.2% as compared with the same period of 2015. The increment of the revenue is mainly due to the Group actively fine-tuning the product matrix, and also the completion of the acquisition of Xian Beilin in July 2016 has also commenced to contribute to the Group. The Group has continuously committed to the development of ENT and cerebro-cardiovascular emergency products with more advanced technology, broaden market potential and higher profit margin. Following the continuous growth of the proportion of these high profit margin products, the average gross profit margin of the Group during the current review period was approximately 46.9%, which increased by approximately 5.3% from 41.6% in compared with the same period of 2015.

Pharmaceutical Preparations and Medical Devices

Pharmaceutical preparations and medical devices are the major sources of profit of the Group, the core products include cerebro-cardiovascular medicines and medical devices, ENT medicines and medical devices, etc. For the year ended 31 December 2016, the revenue amount of pharmaceutical preparations and medical devices was approximately RMB1,701.79 million with the increment of approximately 46.3% as compared with approximately RMB1,163.59 million in the same period of 2015.

Management Discussion and Analysis

– **Cerebro-cardiovascular medicines and medical devices**

The Group's cerebro-cardiovascular emergency medicines mainly cover the field of platelet inhibitors, blood-pressure control, vasoactive drugs, etc., in which the platelet inhibitors injections and vasoactive drugs are in the pioneer position of the PRC market. For the period ended 31 December 2016, the turnover of the Group's cerebro-cardiovascular medicines was approximately RMB514.80 million, increased by approximately 23.3% as compared with the same period of last year. Among this sector, the core products such as Xin Wei Ning, Nuo Fu Kang, Rui An Ji and Li Shu An contributed turnover of approximately RMB460.77 million in aggregate, which was increased by approximately 28.7% as compared with the same period of 2015. The business of the Group's associate company Cardionovum GmbH (the "Cardionovum") was continuously improved, its turnover recorded an increment rate of approximately 182% in 2016. The Group is currently introducing 3 types of German made products which relating to the coronary artery, extravascular and vascular dialysis from Cardionovum, these products with the market potential and their clinical trial and the production registration still in a smooth progress. The quality and technology of these products are in the world-wide leading position, it is expected the commercial launch of these products will bring in contributions to the Group's cerebro-cardiovascular medical devices sector.

– **ENT medicines and devices**

The Group devotes to build the most comprehensive supply chain of ENT medicines in the PRC, covering the prescription drugs, non-prescription drugs, devices, consumables, healthcare products, etc., and providing an all-round means of treatment and care to doctors and patients. During the current financial year, the turnover of ENT medicines and devices recorded approximately RMB928.38 million with a growth of approximately 116% as compared with the same period of last year. This was benefit from the substantial growth of the two major sub-sectors of the ENT field, in which:

- Ophthalmic: during 2016, the revenue from the ophthalmic products was approximately RMB433.72 million, with an increment of approximately 56.9% as compared to the approximately RMB276.37 million in 2015. The core ophthalmic brands of the Group Rui Zhu, Jie Qi and Bai Nei Ting have continuously maintained constant growth while the newly joined Xian Beilin has also commenced to provide certain contributions. The product formulations of the ophthalmic products of the Group covered all aspects, including both Chinese and western medicines and also have both prescription drugs and non-prescription drugs. There are certain number of high quality products which are the Group's exclusive products or being protected by the Chinese medicine patents. The Group has become one of the largest medical products suppliers in the ophthalmic treatment sector in the PRC.

- Respiratory and ENT: during 2016, the revenue of the respiratory and ENT products of the Group was approximately RMB494.66 million, with an increment of approximately 2.25 times as compared to the approximately RMB152.29 million in 2015. The core brands of the Group Nuo Tong and Ao Ke An maintained rapid growth. Qie Nuo of Beijing Jiu He Pharmaceutical Limited (which the Group acquired in 2015) and Jin Sang series of Xian Beilin (which was newly acquired in 2016) have also played an important role in the growth of revenue in this sector. Qie Nuo and Jin Sang series have been listed in the latest 2017 edition of the National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement, which may secure the future growth of the Group.

Management Discussion and Analysis

Bio-technology Products and Nutrition Products

In December 2016, the Group completed the restructure of certain subsidiaries and integrated the business of the bio-technology products and nutrition products which benefiting the resources allocation and centralized the management. The core products of the bio-technology products and nutrition products include Taurine, amino acid products, etc. As the result of the continuous improvement of technology and technique, and also the increment of export business, the revenue of the bio-technology products and nutrition products was approximately RMB735.59 million, increased by approximately 8.5% as compared with the same period of 2015.

The bio-technology products and nutrition products sector has a broad prospects, especially the Group devoted in research and development in technique for years, the Group's products already equip with international standard and will bring in fruitful return to the Group. Furthermore, given the development prospect and business opportunity of the said bio-technology, the Group is actively seeking for any cooperation opportunities with multi-national companies and also looking for any potential development possibilities in different capital market. Management believes that the bio-technology products and nutrition products sector will be another important growth engine in the future.

Specialized Pharmaceutical Raw Materials and Other Products

Specialized pharmaceutical raw materials and other products are the comparatively stable sector among the three core product sectors of the Group. During the recent years, the PRC government has become more focus on and tighten the supervision in the environmental protection and the production approval of high-end pharmaceutical raw materials. The Group has always been focusing on such product quality, enhancement in the production technique and environmental protection, and also continuously improving the product technology. Such products have well-known brand images and also large market shares. During the year of 2016, the related revenue was approximately RMB724.93 million, while it was approximately RMB788.53 million in 2015.

Among this product sector, the revenue of the specialized pharmaceutical raw materials (excluding steroid products) was approximately RMB343.53 million during the year 2016, with an increment of approximately 22.1% as compared with the same period of 2015. This is mainly due to the Group's pharmaceutical raw materials were not only used as the raw materials of the Group's pharmaceutical preparations, but also being sold to the market. The revenue of the steroid products was approximately RMB204.78 million with a reduction of approximately 15.4% as compared with the same period of last year, since the product matrix restructuring still in progress. Management believes that after the restructuring of the product matrix and also putting more effort in the marketing activities, the production and sales of these products may have certain improvement in the future.

Distribution Costs and Administrative Expenses

Distribution costs and administrative expenses for the year were approximately HK$902.72 million and HK$421.49 million respectively, while they were approximately HK$641.66 million and HK$431.58 million respectively in the same period of last year. The increment of the distribution costs was mainly due to the newly acquired companies have put more efforts in the marketing promotion and thus resulted in the increment of costs. Currently, the Group has a sales team with more than 2,000 staffs, our products cover around 6,000 hospitals and around 30,000 pharmacies. It is expected the coverage will continue to extend in order to distribute the products of the Group among the country.

Finance Costs

For the year ended 31 December 2016, the finance costs of the Group were approximately HK$181.68 million while they were approximately HK$157.16 million during the same period of 2015. The increment was mainly due to the change of the bank loan combinations and also the existing finance costs of the newly acquired company are relatively higher.

Management Discussion and Analysis

Outlook and Future Prospects

According to the statistics from IMS Health Incorporated (the "IMS"), the sales of global pharmaceutical market (excluding medical devices) amounted to approximately US$1,110 billion in 2016, representing a year-on-year increase of 3.85%. According to the latest data from WIND Consulting (WIND), in 2016, the revenue from main business activities amounted to approximately RMB2,806.2 billion in the pharmaceutical manufacturing industry in the PRC, representing a growth of 9.7% over the same period last year, and the total profit was approximately RMB300.2 billion, representing a year-on-year increase of 13.9%. Emerging economies, represented by the PRC, have become the key drivers to the growth of the global pharmaceutical markets; the market share of which has increased from 12% to 30% of the global pharmaceutical market for the ten years from 2005 to 2016.

In the past year, the health care reform has been deepening and a number of significant events have happened in quick succession in the pharmaceutical market in the PRC. Firstly, the number of participants covered by medical insurance in the PRC exceeded 1.3 billion, with the rate of participating in insurance remained stable at 95% or above. The government subsidy standards for the medical insurance for urban and rural residents increased from RMB80 in 2008 before the health care reform to RMB420 in 2016; Secondly, policies and initiatives in relation to health care reform have been continuously introduced, including, among others, the reform on doctors' salary system, "two-invoice system" in the pharmaceutical distribution sector, Direct-to-Patient (DTP) sales reform of prescription drugs, reform on health insurance payment standards, hospitals' clinical pathway management and consistency assessment for generic drugs; in particular, in February 2017, the Ministry of Human Resources and Social Security of the PRC formally issued "National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2017 Version)", which represents a new list containing 2,535 types of drugs after eight years, and will be the critical competition benchmark for the pharmaceutical market in the PRC; Thirdly, according to E Medicine Manager Magazine (《E藥經理人》雜誌), there were 428 mergers and acquisitions in the pharmaceutical industry in the PRC from October 2015 to September 2016, of which 371 transactions disclosed had a total value of RMB162 billion.

The Group values and concerns the changes in the policies and operating practices in relation to the reform deepening of the pharmaceutical market in the PRC, and adheres to effectively implementing the product group strategy in the therapy segment through the combination of independent research and development, as well as investment and acquisitions. By which, a number of core products have been launched successively, such as Qie Nuo, Xin Wei Ning, Li Shu An, Nuo Fu Kang, He Xue Ming Mu and Jin Sang series products, etc., and the Group has also developed the high-end drug eluting balloon (高端藥塗球囊) series utilizing the world's leading technologies for the cardiovascular disease interventional therapy. At present, the Group has developed to be one of the leaders of ENT and cardiovascular emergency medicine products in the pharmaceutical market in the PRC.

After years of unremitting efforts, the Group has invested more resources in product structure optimization and technology upgrade of product quality, resulting in the increasing gross profit margin from our product, and the proportion of the revenue from the core business segments of the Group, i.e. pharmaceutical products and medical devices segments, accounted for more than a half of the total revenue for the first time, reaching 53.8%. The Group has been maintaining a rapid growth in business performance for eight consecutive years, which can demonstrate that the management of the Group has the ability and confidence to further improve the operational efficiency and profitability with better synergies among its subsidiaries in the next five years. By enhancing the research and development of and investment in innovative products, and actively exploring and capturing favorable opportunities arising in the capital market, we will continue to maintain the rapid growth of the Company to achieve the strategic objective of the Group to become one of top 20 in the pharmaceutical market in the PRC, thus generating greater returns for the Company and its shareholders.

Management Discussion and Analysis

Financial Resources and Liquidity

As at 31 December 2016, the Group had current assets of HK$2,481.09 million (31 December 2015: HK$2,405.89 million) and current liabilities of HK$3,157.32 million (31 December 2015: HK$3,248.76 million). The current ratio was 0.79 at 31 December 2016 as compared with 0.74 at 31 December 2015.

The Group's cash and bank balances as at 31 December 2016 amounted to HK$484.42 million (31 December 2015: HK$653.99 million), of which approximately 6.2% were denominated in Hong Kong, United States Dollars and Euro and 93.8% in Renminbi.

As at 31 December 2016, the Group had outstanding bank loans of approximately HK$2,357.53 million (31 December 2015: HK$2,724.62 million). All bank loans were denominated in RMB and granted by banks in the PRC. The interest rates charged by banks ranged from 3.99% to 9.60% (31 December 2015: 0.83% to 7.45%) per annum, in which approximately HK$437.04 million bank loans were charged at fixed interest rates. Certain bank loans were pledged by assets of the Group with a net book value of HK$331.12 million (31 December 2015: HK$364.73 million). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was 135.8% at 31 December 2016 as compared with 234.9% at 31 December 2015.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to foreign exchange fluctuation is relatively low.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2016, the Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Principal Risks and Uncertainties

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. To the best of knowledge and belief, the Directors consider that the following are the key risks and uncertainties identified by the Group as at the date of this report.

Market Risks

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

Foreign Exchange Rates Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. During the year ended 31 December 2016, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Management Discussion and Analysis

Interest Rate Risk

For interest-sensitive investments, the Group analyses its interest rate exposure on a dynamic basis and considers managing this risk in a cost-effective manner when appropriate, through variety of means.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

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. The 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.

Economic Environment

All of the Group's facilities, operations and its revenue are located in and derived from Hong Kong and the PRC. The Group's results of operations and financial condition therefore depend on the economies of Hong Kong and the PRC. The economy of Hong Kong is significantly affected by the developments in the Mainland China and the Asia-Pacific region. Mainland China's economy may experience negative economic developments, and other regional economies may also deteriorate.

The Group also has significant business across the PRC and part of its growth strategy is to expand into new regions. These regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations in, and planned expansion into, these regions.

Environmental Policies

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimize its environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2016, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by the Group that have a significant impact on the business and operations of the Group.

Management Discussion and Analysis

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group aims to continue to be an attractive employer for committed employees. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

(ii) Suppliers

The Group has developed long-standing relationships with a number of suppliers and take a great care to ensure that they share its commitment to quality and ethics. The Group carefully selects its suppliers and requires them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

(iii) Customers

The Group is committed to offer quality products to its customers and keep them updated of its latest business developments.

Employees and Remuneration Policy

As at 31 December 2016, the Group employed about 7,369 staff and workers in Hong Kong and the PRC (31 December 2015: about 6,117). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

Material Acquisitions and Disposals

In June 2016, the Group entered into an agreement to acquire approximately 77.2% equity interest in Xian Beilin at the aggregate consideration of approximately RMB386.07 million. Xian Beilin is a national hi-tech enterprise with research and development, manufacture and sales capacity in Chinese medicine and has focused on the ENT medicine for many years. The said acquisition was completed in July 2016, and Xian Beilin became an indirect non-wholly owned subsidiary of the Company.

Future Plans For Material Investments

Except for those set out in the "Events after the Reporting Period" in this report, the Group had authorised but not provided for capital expenditure commitments of approximately HK$22.00 million in respect of acquisition of non-current assets as at 31 December 2016.

Significant Investment

There was no other significant investment during the year.

Events after the Reporting Period

Save as disclosed above, no subsequent events occurred after 31 December 2016, which may have a significant effect, on the assets and liabilities or future operations of the Group.

Management Discussion and Analysis

Issue of new shares and use of proceeds

On 13 July 2016, the Company entered into a subscription agreement with Outwit and East Ocean Capital for the subscription of 83,056,478 and 24,916,943 Shares respectively. The subscription price was HK$1.40 per Share, while the net price (after deduction of all necessary related expenses) of each Share was approximately HK$1.39 each. The closing price of the Share at the date of entering the agreement was HK$1.42 each. The Connected Subscription was approved by independent shareholders and completed in September 2016.

On 14 July 2016, the Company entered into a placing agreement with 2 placing agents namely ICBC International Securities Limited and Sinolink Securities (Hong Kong) Company Limited for the placing of 122,428,000 Shares to not less than six independent investors. The placing price was HK$1.40 per Share, while the net price (after deduction of all necessary related expenses) of each Share was approximately HK$1.39 each. The closing price of the Share at the date of entering the agreement was HK$1.45 each. The Placing was completed in July 2016.

On 14 July 2016, the Company entered into a subscription agreement with GL for the issuance and allotment of 44,570,000 new Shares. The subscription price was HK$1.40 per Share, while the net price (after deduction of all necessary related expenses) of each Share was approximately HK$1.39 each. The closing price of the Share on the date of entering the agreement was HK$1.45 each. The GL Subscription was completed in August 2016.

The Directors believe the Connected Subscription, the Placing and the GL Subscription enabled the Company to raise additional fund to improve its financial position, broaden its capital base and shareholder base, and support the Group's future growth. The net proceeds from the Connected Subscription, the Placing and the GL Subscription were approximately HK$381.10 million in which approximately HK$257.40 million were used for the repayment of bank loan, and the remaining approximately HK$123.70 million were used as the general working capital of the Group.

Contingent Liabilities

As at 31 December 2016, the Directors were not aware of any material contingent liabilities.

Appreciation

On behalf of the board of Directors (the "Board"), I would like to express my gratitude to our management and staff for their dedication and contribution to the Group, and our shareholders and business associates for their continued support throughout the year.

Liu Chengwei
Chairman

Hong Kong, 27 March 2017

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Liu Chengwei, aged 43, was appointed as an executive Director in July 2008. Mr. Liu is the Chairman of the Company and is a director of Grand Pharm (China), the principal subsidiary of the Company. Mr. Liu has over 20 years of financial and management experience in the PRC. Mr. Liu is currently a director of the China Grand. Mr. Liu worked for General Electric Company for 5 years before joining China Grand in 2001. Mr. Liu holds a bachelor degree in International Economics from Peking University and a master degree in Business Administration from China Europe International Business School.

Mr. Hu Bo, aged 32, was appointed as an executive Director in July 2008. Mr. Hu has over 10 years of experience in network project management and property management. Mr. Hu is currently the deputy general manager of a real estate company in the PRC. Mr. Hu holds a bachelor degree in Applied Science & Engineering, Electrical Engineering from University of Toronto, and a master degree in Business Administration from New York Institute of Technology. Mr. Hu is a nephew of Mr. Hu Kaijun, the beneficial owner of Outwit, which is the controlling shareholder of the Company.

Dr. Shao Yan, aged 54, was appointed as an executive Director in October 2008. Dr. Shao joined the Company in March 2008 and is the Chief Executive Officer of the Company. Dr. Shao is responsible for overseeing the entire operations, investing and financing, merger and acquisition and investor relationship management of the Company. Dr. Shao has over 20 years of experience in corporate management and venture capital investment. Dr. Shao holds a master degree in Business Administration from Guanghua School of Management of Peking University and a doctor degree (PhD) in Management from School of Politics and International Studies of Beijing Normal University.

Dr. Niu Zhanqi, aged 50, was appointed as an executive Director in November 2016. Dr. Niu has more than 10 years' experience in pharmaceutical research and development. He is currently an executive president of the Pharmaceutical Management Headquarters of China Grand. He also is a director of Huadong Medicine Company Limited ("Huadong Medicine"), which is listed on the Shenzhen Stock Exchange (stock code: 000963), since June 2016. Huadong Medicine is owned as to approximately 41.77 % by China Grand as at the date of this announcement, and is therefore a connected person (as defined in the Listing Rules) of the Company. Dr. Niu holds a bachelor's degree in science from Nankai University and a doctoral degree (PhD) in pharmaceutics from Shenyang Pharmaceutical University.

Independent Non-executive Directors

Ms. So Tosi Wan, Winnie, aged 54, was appointed as an independent non-executive Director in March 2005. Ms. So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr. Lo Kai, Lawrence, aged 60, was appointed as an independent non-executive Director in June 2008. Mr. Lo has over 25 years of experience in wealth and asset management business. Currently, he is the CEO of UBP Asia Limited. Prior to that, he was the CEO of BSI-Generali Asia ("BSI") and was responsible for wealth management and asset management activities in Asia. Prior to BSI, he was the CEO of BNP Paribas Asset Management Asia, Head of Asset Management and Private Banking Asia for Banque Paribas from 1993 to 2000. Mr. Lo holds a Master of Science degree in Economics at London School of Economics and Political Science.

Dr. Pei Geng, aged 57, was appointed as an independent non-executive Director in May 2011. Dr. Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr. Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr. Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

Biographical Details of Directors and Senior Management

Senior Management

Mr. Foo Tin Chung, Victor, aged 48, joined the Company in September 2011 as a company secretary of the Company. Mr. Foo holds a bachelor degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Foo is a company secretary of Huisheng International Holdings Limited (stock code: 1340) and an independent non-executive director of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. (stock code: 8058). Mr. Foo was an executive director of Jinheng Automotive Safety Technology Holdings Limited (stock code: 872) and an independent non-executive director of Ngai Shun Holdings Limited (stock code: 1246) and Sino Haijing Holdings Limited (stock code: 1106) but already resigned on Sept 2014, July 2015 and June 2016 respectively. All these companies are listed on the Stock Exchange.

Mr. Xie Guofan, aged 66, joined the principal subsidiary Grand Pharm (China) since 1970 and was appointed as its director since 1994. Mr. Xie is responsible for overseeing entire operations and management of Grand Pharm (China), and has over 30 years of experience in corporate management and pharmaceutical manufacturing. Mr. Xie holds a practicing pharmacist license in the PRC.

Mr. Shi Xiaofeng, aged 50, joined the principal subsidiary Grand Pharm (China) since 2003 and was appointed as its director and general manager. Mr. Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), and has over 20 years of experience in the pharmaceutical industry management. Mr. Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr. Shi holds a medical degree from Medical School of Southeast University and a EMBA degree at China Europe International Business School.

Mr. Zhang Bangguo, aged 49, joined the principal subsidiary Grand Pharm (China) since 1989 and used to work for it as a senior management, was currently appointed as director of Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle"), has over 20 years of experience in pharmaceutical industry and sales and marketing. Mr. Zhang is responsible for overseeing the entire operation and management of Zhejiang Xianle. Mr. Zhang holds a MBA degree at Huazhong University of Science & Technology and holds a practicing pharmacist license in the PRC.

Mr. Feng Yonghua, aged 49, joined Zhejiang Xianle since 2002 and currently was appointed as its general manager. Mr. Feng is responsible for overseeing the entire operation of Zhejiang Xianle, and he has over 20 years of experience of general management. Mr. Feng holds a practicing pharmacist license in the PRC.

Corporate Governance Report

During the year ended 31 December 2016, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 14 of the Listing Rules as follows:

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2016.

Board of Directors

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

Currently, the Board comprises 4 executive Directors – Mr. Liu Chengwei, Mr. Hu Bo, Dr. Shao Yan and Dr. Niu Zhanqi and 3 independent non-executive Directors – Ms. So Tosi Wan, Winnie, Mr. Lo Kai, Lawrence and Dr. Pei Geng. Mr. Liu Chengwei is the Chairman and Dr. Shao Yan is the Chief Executive Officer. There is no relationship among members of the Board.

The roles of the Chairman and the Chief Executive Officer are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Liu, as Chairman of the Board, with his strategic vision, provides leadership to the Board and gives direction in the development of the Group, which is of added benefit to the check and balance mechanism of the Group. Dr. Shao, as the Chief Executive Officer, focuses on the day-to-day management of the Group's business, and leads the management team of the Group.

The Board believes that the balance between executive and non-executive Directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent and meet the independent guidelines set out in the Listing Rules.

All Directors are appointed for a term of one year and are subject to retirement by rotation and re-election at the general meetings in accordance with the Company's Bye-Laws.

Training, Induction and Continuing Development of Directors

Each Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure the he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

Corporate Governance Report

Audit Committee

The Company has established an audit committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. The audit committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

Currently, the audit committee consists of three independent non-executive Directors namely, Ms. So Tosi Wan, Winnie (Chairwoman), Mr. Lo Kai, Lawrence and Dr. Pei Geng. Ms. So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The audit committee held two meetings during the year ended 31 December 2016 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The audit committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference. Currently, the remuneration committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Mr. Liu Chengwei and an independent non-executive Director Mr. Lo Kai, Lawrence as members.

The remuneration committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and reviewing specific remuneration package of all Directors and senior management including any compensation payable for loss or termination of their office and appointment. The remuneration should reflect the performance, complexity of duties and responsibility of the individual. The remuneration committee met once during the year to review the remuneration policy for all Directors and senior management.

The remuneration of Directors and senior management comprises salary, pensions and discretionary bonus. Details of the Directors' emoluments for the year ended 31 December 2016 are set out in note 15 to the consolidated financial statements.

Nomination Committee

The Company has established a nomination committee with written terms of reference. Currently, the nomination committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Dr. Shao Yan and an independent non-executive Director Mr. Lo Kai, Lawrence as members.

The nomination committee is responsible for assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. The nomination committee considers the past performance, qualification, general market conditions and the Company's Bye-laws in seeking and recommending candidates for directorship.

The nomination committee held a meeting in 2016 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

Corporate Governance Report

Attendance Record at Meetings

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2016 are set out as below:

	Meetings Attended/Held					
Directors	Special General Meeting	Annual General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Liu Chengwei	1/1	1/1	13/13	N/A	1/1	N/A
Mr. Hu Bo	1/1	1/1	13/13	N/A	N/A	N/A
Dr. Shao Yan	1/1	1/1	13/13	N/A	N/A	1/1
Dr. Zhang Ji (Resigned on 11 November 2016)	1/1	1/1	10/13	N/A	N/A	N/A
Dr. Niu Zhanqi (Appointed on 14 November 2016)	0/1	0/1	3/13	N/A	N/A	N/A
Ms. So Tosi Wan, Winnie	1/1	1/1	13/13	2/2	1/1	1/1
Mr. Lo Kai, Lawrence	1/1	1/1	12/13	2/2	1/1	1/1
Dr. Pei Geng	1/1	1/1	13/13	2/2	N/A	N/A

Auditors' Remuneration

During the year, the auditors performed the work of statutory audit for the year of 2016.

Audit fees for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK$2,400,000.

Financial Reporting

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently. Save as the conditions as disclosed on pages 45 to 46 of this report, the Directors are not aware of any other material uncertainties relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. The Company has an internal audit team which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board. The Board also ensures that the review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

Corporate Governance Report

During the year ended 31 December 2016, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The audit committee of the Company also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review in the year ended 31 December 2016 did not reveal any major issues and the Board considers our risk management and internal control systems effective and adequate. The Group's review procedures involved in the risk management and internal control mainly included:

(1) A list of risks was created after the scope of risks was determined and risks were identified.

(2) The impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of the Group, based on which the priority of the risks was determined.

(3) Our risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.

(4) By assessing internal controls and management's implementation of rectification measures with respect to material risks, the Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.

(5) The risk management handbook was formulated to address risk management and internal control, pursuant to which, the terms of reference of the management, the Board, and the Audit Committee with respect to their risk management work were clearly determined, and risk management and internal control systems were monitored on an ongoing basis.

(6) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

(1) The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

(2) Confidentiality agreements or confidentiality clauses are in place when the Group enters into significant negotiations.

(3) The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the terms of reference on corporate governance functions. The terms of reference of the Board in respect of corporate governance function are summarised as follows:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Code Provisions and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions during the year ended 31 December 2016 included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

Communication with Shareholders and Investors

The Company establishes different communication channels with shareholders and investors. Printed copies of the annual and interim reports and circulars are sent to shareholders. Shareholders are encouraged to attend general meetings of the Company which allows the Directors to meet and communicate with them.

Shareholders' Rights

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

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

Unit 3302, The Centre,
99 Queen's Road Central, Hong Kong
Email: victor.foo@chinagrandpharm.com

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

Constitutional Documents

In 2012, the Company adopted certain amendments on the Bye-laws of the Company in order to bring the Bye-laws in line with (i) current amendments made to the Listing Rules came into effect on 1 January 2012 and 1 April 2012; and (ii) amendments of the Companies Act 1981 of Bermuda pursuant to the Companies Amendment (No. 2) Act 2011 in Bermuda which became operative on 18 December 2011. The amended Bye-laws of the Company is available on the websites of the Company and the Stock Exchange.

Environment, Social and Governance Report

This report is prepared by the Company in accordance with the Environment, Social and Governance Reporting Guidelines as set out in Appendix 27 of the Listing Rules. This report covers entities with substantial effect to the financial and actual operational process, mainly being the companies and production plants located in Wuhan City, Hubei Province, the PRC. Save as otherwise indicated, the data and contents in this report are all in relation to the period from 1 January 2016 to 31 December 2016.

Environmental Policy and Performance

Abided by the rules and regulations as stipulated in Law of Environmental Protection of the People's Republic of China and Law of the People's Republic of China on the Prevention and Control of Water Pollution, the Group upheld the concept of ensuring compliance with the standards of pollutant emission and preventing the occurrence of environmental pollution accidents, and adherent to the corporate environmental protection principles of placing environmental friendliness as the first priority, taking precaution as the main measure, adopting comprehensive rectification and management, and implementing energy-saving and emission reduction in the production process, in order to practically assume our corporate social responsibility. The Group is committed to becoming a pharmaceutical enterprise receiving respect from doctors and patients in the PRC.

The Group has established the "Environment, Occupational Health and Safety Management Committee" to provide leaderships for the Group's environmental management measures. Concurrently, a safety and environmental protection center has been set up with dedicated environmental protection administrators, and the "Grand Pharma environmental protection and management system" has been formulated. The abovementioned has monitored and provided technical guidance to the Group on the aspects of environment rectification and control.

(1) Emission

The Group has adopted a proactive attitude to concern about the construction and investment of environmental facilities and place emphasis thereon. Production lines for main products have obtained the approval for acceptance of environmental protection inspection, and the applications for pollutant emission permit were made in accordance with requirements of the relevant rules. For solid waste management, pursuant to relevant rules, regulations, standards and requirements of competent authority for the environmental protection in the PRC, the Group has properly preserved and disposed of various hazardous wastes. Respective companies will successively enter into contracts for hazardous waste disposal with the qualified third party to ensure legal compliance of hazardous waste disposal.

In respect of control and management of wastewater and exhaust gas, in 2016, the Group has completed more than twenty environmental protection projects on environmental control and management. Meanwhile, in accordance with environmental protection rules and regulations and the requirements of the competent authority for environmental protection in the PRC, online monitoring devices for wastewater have been installed at discharge outlets to ensure that wastewater emission has met the requirements of the PRC laws, while monitoring has been conducted by a third party environmental monitoring company to ensure that wastewater emission has satisfied the required national and local emission standards.

Due to the tightening of monitoring measures by the State on environmental protection, the Group's Fuchi Industrial Park Zone located in Hubei Province, the PRC was fined for approximately RMB680,000 by relevant authority in 2016 as a result of the existing facilities failing to meet the requirements. At present, all of the environmental protection facilities of the companies under the Group have completed their consolidation and modification, and are in compliance with the requirements of the relevant State's rules and regulations. The environmental governance work of the Fuchi Industrial Park Zone has also received approval for acceptance and inspection from the Hubei Environmental Protection Bureau.

(2) Use of Resources

The resources mainly used by the Group in the production process include water, electricity and coal. In accordance with principles and policies, regulations and standards of the national, local and industry competent authorities on energy conservation, such as Law of the People's Republic of China on Energy Conservation, the Company has formulated an internal management guideline to effectively and reasonably allocate and raise the utilization of energy and resources, reduce waste of available energy and resources, and lower our operating cost at the same time. Specific measures include:

– Recycling water for quench furnace, saving the overall water consumption and reducing the risk of wastewater discharge;

– Phasing out old machines, introducing new production facilities with less water consumption and higher efficiency;

– Introducing the "contractual energy management" model, using the gain from energy-saving to upgrade equipment, lower operating cost, and raise energy utilization and efficiency; and

– Using heat energy generated in the production process to heat up the boiler, thus reducing coal consumption and hence air pollution.

Employment and Labour Practices

Sustainable development of talents serves as an important guarantee for the Group's to accomplish its strategic objectives. The Group highlights a sustainable development of talents and proactively builds a talented team comprising a hierarchy of young, professional and international personnel with recognition to the Group's values and beliefs. As such, the foundation of talents has been laid for the corporate sustainable development.

(1) Employee Rights

The Group has stringently implemented relevant rules and regulations such as the Labor Law of the People's Republic of China, and Labor Contract Law of the People's Republic of China, and formulated the "human resources management system" to proactively safeguard the legal rights of employees.

The Group promotes a cultural atmosphere of synergistic cooperation, advocates equality between people, and adheres to the principle of fairness and justice. We are against any form of discrimination. We have adopted the same starting salary for employees of the same gender, complied with the same minimum wage standard, and observed equal pay for equal work. The wages of the Group's almost all existing employees are higher than the minimum wage standard of their location, and are in compliance with the local labor rules and policies. The Group will, in accordance with requirements of the national law at the time of recruiting employees, stringently examine the identities and ages of applicants, and will never employ child labors and forced labor. The Group is not aware of any differentiation in salary packages in relation to gender, age and nationality during recruitment and examination, selection, employment and deployment of applicants.

For employee welfares, the Group abides by the local labor rules, pays for statutory benefits for all formal staff, and offers leaves as required by the law; it provides holidays and benefits in accordance with requirements of the national and local law for all such female employees during the "three periods" (periods of pregnancy, maternity and lactation), and allows them to return to the workforce except for those who voluntarily render resignation.

Environment, Social and Governance Report

(2) Employee Safety

The Group endeavors to safeguard occupational health and safety of employees, provides a safe working environment with proper equipment, and implements measures for safe working behaviors. During the period from June to July 2017, the Group has conducted activities for the Safe Production Month, with focuses on organizing trainings for professional management, safety cross-checks, external exchange and study, and has arranged for investigation and assessment of performance of safety duties undertaken by the responsible person and the safety management department in the enterprise, as well as flood season safety precautions, heatstroke preventions and cooling works. To conclude, various safety, occupational health, security and protection, fire prevention and administration works throughout the year have generally remained stable under control, without occurrence of flood disaster and severe physical injury accident.

(3) Employee Training

The Group is committed to nurturing senior leaderships, quality management personnel and capable professionals. By building a hierarchical, talented team established through a combined mode of project implementation practices and training developments, while upgrading all-roundly and systematically the integrated management of knowledge system and managerial behavior, and consolidating the advantageous resources in and out of the Group, a group of talents – who recognize the Group's values and beliefs, and are good at learning with international vision, organized mindset and logical thinking – was nurtured for the rapid development of the enterprise. In 2016, the Group has activated and implemented a number of talent development projects such as Grand Pharma Camp (GPC) etc., and the Yangxin Grand Pharma Training School has commenced its formal operation. Concurrently, the Group has been facilitating its management rotation and exchange to increase the overall quality of the management team. Through establishing a development pathway for professional technicians and skilled personnel, the standard on qualifications has been determined to provide employees of the enterprise with rooms for career development. Meanwhile, the Group has also led and incentivized employees to research for techniques and upgraded skills, as to leverage our employees to fully exert their capacities, thus fully demonstrate and unleash their capabilities to support the long term sustainable growth of the enterprise.

Community

The Group, whilst creating value for shareholders and wealth for customers, has proactively engaged in public service sector. We are concerned about minority groups and difficult public livelihood, and have fully assumed our social responsibility by giving full impetus to the progress and harmonious development of the community, enterprises and regional economies. In the second half of 2016, a number of areas in Hubei province encountered rainstorms. The Group, together with the Wuhan City Committee of the Communist Youth League and Wuhan Youth Volunteers Association, successively donated drugs of approximately RMB1,200,000 to the affected people scattering twelve disaster areas in the Wuhan city, donated drugs of approximately RMB1,000,000 to the Health and Family Planning Commission of Hubei Province, as well as medical equipment such as electric wheelchairs and electrocardiograph devices to the Wuhan Children Welfare Institution.

Environment, Social and Governance Report

Operational Practice

(1) Supply Chain Management

The majority of the Group's suppliers are located in the PRC. The Group has formulated a series of procurement management system and procurement control procedure, and has strictly selected suppliers and monitored the procurement process in accordance with the Drug Administration Law of the People's Republic of China and Good Manufacturing Practice. In selecting suppliers, the samples provided are required to pass the testing and trial production before such suppliers could become the Group's qualified suppliers. Procurement staffs have also conducted regular visits to suppliers to maintain close liaison and good cooperation relations with them. Meanwhile, the quality notices made by suppliers have been regularly monitored to ensure all of the raw materials used by the Group are in compliance with the standard requirements and ready for use.

(2) Product Liability

The production and sale of the Group's drugs are conducted in accordance with relevant rules as required in the Drug Administration Law of the People's Republic of China, Regulations for Implementation of the Drug Administration Law of the People's Republic of China, Good Manufacturing Practice and Norm on Production and Quality Control of Traditional Chinese Medicine. Most of the drugs produced have been certified by GMP, and 2 factories have been even rated as the training headquarters for Drug GMP inspectors of the Hubei Province.

Drug quality correlates with the life safety of patients, and even the lifespan of the enterprise. The Group has fully conducted activities for improvement of quality control by urging for high standard and high quality of products, reducing product errors during production, so as to lower the risk in terms of product quality during production. A system for product return and exchange analysis has been formulated in combination with relevant requirements such as Good Supplying Practice, as well as refrigeration, cold storage and logistics management of drugs, automatic temperature and humidity monitoring system, as set out in the appendices of the above.

(3) Anti-corruption

The Group, committed to pursuing operation in good faith, constantly enhances internal control and monitoring mechanism within the enterprise, and stringently observes the rule on fair competition. Employees are required to strictly comply with provisions in relation to prohibition of commercial bribery acts under the Law Against Unfair Competition of the People's Republic of China and Criminal Law, and all of the relevant management rules on integrity and self-discipline as stipulated by the Company. The Group is firmly against accepting commercial bribery, committing bribery and receiving gifts arising from other improper commercial acts, and establishes a management system and measures on capital management to prevent money laundering. The Company will promptly denounce and report to the relevant department for suspected personnel.

Report of the Directors

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

Principal Activities

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in notes 23 and 19 to the consolidated financial statements respectively.

Business Review

The business review of the Group for the year ended 31 December 2016 is set out in the section "Management Discussion and Analysis" on pages 3 to 5 of this annual report.

Description of principal risks and uncertainties that may be faced by the Group can be found in the section "Management Discussion and Analysis – Principal Risks and Uncertainties" on pages 9 to 10 of this annual report.

An analysis of the Group's performance during the year using financial key performance indicators is set out in the section "Management Discussion and Analysis – Financial Resources and Liquidity" on page 9 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which may have a significant impact on the Group are set out in the section "Management Discussion and Analysis – Environmental Policies" and "Management Discussion and Analysis – Compliance with Relevant Laws and Regulations" separately on page 10 of this annual report.

Results

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out on pages 36 to 129.

Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil). No interim dividend was declared during the year (2015: Nil).

Reserves

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 42 to the consolidated financial statements respectively.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 41 to the consolidated financial statements.

Pre-emptive Rights

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

Report of the Directors

Subsidiaries and Associates

Particulars of the Company's subsidiaries and associates at 31 December 2016 are set out in notes 23 and 19 to the consolidated financial statements respectively.

Property, Plant and Equipment

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

Bank Borrowings

Particulars of bank borrowings of the Group during the year are set out in note 33 to the consolidated financial statements.

Directors

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Liu Chengwei
Mr. Hu Bo
Dr. Shao Yan
Dr. Zhang Ji (Resigned on 11 November 2016)
Dr. Niu Zhanqi (Appointed on 14 November 2016)

Independent Non-executive Directors

Ms. So Tosi Wan, Winnie
Mr. Lo Kai, Lawrence
Dr. Pei Geng

Pursuant to bye-law 87(1) and 86(2), Dr. Shao Yan, Ms. So Tosi Wan, Winnie, Dr. Pei Geng and Dr. Niu Zhanqi will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Rights to Acquire Shares or Debentures

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Transactions, Arrangements or Contracts

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

Report of the Directors

Competing Interest

Save that Mr. Liu Chengwei, the chairman and an executive director, who is a director of some pharmaceutical companies in the PRC (including China Grand) and Dr. Niu Zhanqi, an executive director, who is an executive president of Pharmaceutical Management Headquarters of China Grand and a director of Huadong Medicine, and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group, so far as the Directors are aware of, no Directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

Related Party Transactions

For the year ended 31 December 2016, the related party transactions entered by the Group are all disclosed note 44 in the consolidated financial statements and in the section "Continuing Connected Transactions" in the report of the Directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 44 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

Continuing Connected Transactions

For the year ended 31 December 2016, the Group has entered the following continuing connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

1) On 23 October 2015, Grand Pharm (China) has entered into an agreement (the "Grand Pharm Supply Agreement") with Huadong Medicine Co., Ltd (the "Huadong Medicine"). Pursuant to the Grand Pharm Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations and raw materials to Huadong Medicine or its related companies and the maximum annual amount of products to be sold by the Group to Huadong Medicine for each of the periods commencing from the date where the terms of the Grand Pharm Supply Agreement become effective until 31 December 2015 and for the two years ending 31 December 2017 are RMB22.0 million, RMB25.0 million and RMB29.0 million respectively (the "Grand Pharm Supply Caps"). In 2016, the transaction amount under Grand Pharm Supply Agreement is approximately RMB19.45 million.

2) On 23 October 2015, Zhejiang Xianle has entered into an agreement (the "Xianle Purchase Agreement I") with Jiangsu Grand Xin Yi Pharmaceutical Co., Ltd. (formerly known as 鹽城信誼醫藥化工有限公司 (Yan Cheng Xin Yi Pharmaceutical Chemical Limited#)) (the "Jiangsu Xin Yi"). Pursuant to the Xianle Purchase Agreement I, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Jiangsu Xin Yi or its related companies and the maximum annual amount of products to be purchased by the Group from Jiangsu Xin Yi for each of the periods commencing from the date where the terms of the Xianle Purchase Agreement I become effective until 31 December 2015 and for the two years ending 31 December 2017 are RMB80.0 million, RMB100.0 million and RMB100.0 million respectively (the "Xianle First Purchase Caps"). In 2016, the transaction amount under Xianle Purchase Agreement I is approximately RMB30.49 million.

3) On 23 October 2015, Zhejiang Xianle has entered into an agreement (the "Xianle Purchase Agreement II") with Grand Group Corporation Limited (the "Grand Group Corporation"). Pursuant to the Xianle Purchase Agreement II, Zhejiang Xianle or its related companies shall purchase raw materials for steroid hormones and intermediates from Grand Group Corporation or its related companies and the maximum annual amount of products to be purchased by the Group from Grand Group Corporation for each of the periods commencing from the date where the terms of the Xianle Purchase Agreement II become effective until 31 December 2015 and for the two years ending 31 December 2017 are RMB8.0 million, RMB10.0 million and RMB10.0 million respectively (the "Xianle Second Purchase Caps"). In 2016, the transaction amount under Xianle Purchase Agreement II is approximately RMB1.59 million.

Report of the Directors

4) On 25 April 2016, Grand Pharm (China) has entered into an agreement (the "Grand Pharm Purchase Agreement") with Baoding Jiufu Biochemical Co., Ltd (the "Baoding Jiufu"). Pursuant to the Grand Pharm Purchase Agreement, Grand Pharm (China) or its related companies shall purchase of agricultural antimicrobial from Baoding Jiufu or its related companies and the maximum annual amount of products to be purchased by the Group from Baoding Jiufu for each of the periods commencing from the date where the terms of the Grand Pharm Purchase Agreement become effective until 31 December 2016 and for the two years ending 31 December 2018 are RMB44.0 million, RMB50.0 million and RMB50.0 million respectively (the "Baoding Jiufu Purchase Caps"). In 2016, the transaction amount under Grand Pharm Purchase Agreement is approximately RMB3.53 million.

As Huadong Medicine, Jiangsu Xin Yi, Grand Group Corporation and Baoding Jiufu are regarded as connected persons of the Company since they are associates of the China Grand Enterprises Incorporation (which is a substantial shareholder of the Company), and the subject matters of each of the Grand Pharm Supply Agreement, Xianle Purchase Agreement I, Xianle Purchase Agreement II and Grand Pharm Purchase Agreement (collectively known as "Continuing Connected Transaction Agreements") are similar in nature, pursuant to Rule 14A.81 of the Listing Rules the transactions between the Group and each of these companies would be aggregated. As the aggregated amount of the Grand Pharm Supply Caps, the Xianle First Purchase Caps, the Xianle Second Purchase Caps and the Baoding Jiufu Purchase Caps will exceed HK$10,000,000 per annum, the transactions contemplated under the Continuing Connected Transaction Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed and confirmed that these transactions were entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the Continuing Connected Transaction Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange). The Auditors of the Company have:

(i) found that the continuing connected transactions have received the approval of the Board of Directors of the Company;

(ii) obtained the relevant agreements governing each of the continuing connected transactions from management;

(iii) found that the prices charged for each of the transactions selected were in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a price, the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and

(iv) found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcements dated 23 October 2015 and 25 April 2016 made by the Company in respect of each of the continuing connected transactions.

Report of the Directors

Share Option Scheme

During the year ended 31 December 2016, the Company did not adopt any share option scheme and no outstanding share options.

No share options were granted or exercised under any share option scheme during the year ended 31 December 2016 and 2015 and there were no outstanding share options as at 31 December 2016 and 2015.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2016, the Directors and the chief executive of the Company, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Long positions in the shares of the Company:

Name of Director	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Shao Yan	Interests in spouse (Note)	4,640,000	0.21%

Note: Dr. Shao Yan, a Director, is the spouse of Ms. Tian Wen Hong who is the holder of the above shares. By virtue of the SFO, Dr. Shao Yan shall be deemed to be interested in such 4,640,000 shares.

Apart from the foregoing, none of the Directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

Report of the Directors

Permitted Indemnity Provision

The articles of associations of the Company provides that the Directors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director or other officer of the Company in defending any proceedings, civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate insurance cover or other relevant arrangement in respect of potential legal actions against its Directors and senior management members as well as directors of the subsidiaries of the Group.

Substantial Shareholders

As at 31 December 2016, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name	Capacity	Number of Shares held or interested	Percentage of the Company's issued share capital
Outwit Investments Limited ("Outwit") (Note 1)	Beneficial owner	1,464,809,572	65.48%
Grand (Hongkong) International Investments Holdings Limited ("Grand Investment") (Note 1 & 2)	Interested in controlled corporation	1,464,809,572	65.48%
China Grand Enterprises Incorporation ("China Grand") (Note 2)	Interested in controlled corporation	1,489,726,515	66.59%
Mr. Hu Kaijun ("Mr. Hu") (Note 1 & 2)	Interested in controlled corporation	1,489,726,515	66.59%

Note 1: Outwit is the beneficial owner of 1,311,831,572 Shares, and is the grantor of two put options pursuant to which the option holders have the right to sell 108,408,000 and 44,570,000 Shares respectively to Outwit. Grand Investment held 60% equity interests of Outwit, and Mr. Hu held the remaining 40% equity interests. Grand Investment is therefore deemed to be interested in 1,464,809,572 Shares pursuant to the SFO.

Note 2: Grand Investment is wholly-owned by China Grand, which in turn is controlled and ultimately and beneficially owned by Mr. Hu. East Ocean Capital (Hong Kong) Company Limited, an indirect non-wholly owned subsidiary of the China Grand, also holds 24,916,943 Shares. China Grand and Mr. Hu are therefore deemed to be interested in 1,489,726,515 Shares pursuant to the SFO.

Save as disclosed above, as at 31 December 2016, the Directors or chief executive of the Company were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Report of the Directors

Management Contracts

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

Major Customers and Suppliers

For the year ended 31 December 2016, the five largest customers of the Group accounted for less than 30% of the Group's total revenue while the five largest suppliers accounted for less than 30% the Group's total purchases.

The information in respect of the Group's revenue and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2016 is as follows:

	Percentage of the Group's total	
	revenue	purchases
The largest customer	1.1%	N/A
The five largest customers in aggregate	4.6%	N/A
The largest supplier	N/A	6.7%
The five largest suppliers in aggregate	N/A	19.5%

So far as the Board are aware, neither the Directors, their close associates nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

Purchase, Sale or Redemption of Shares

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2016.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 15 to 19.

Auditors

The consolidated financial statements for the year ended 31 December 2016 have been audited by HLB Hodgson Impey Cheng Limited which shall retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorize the Board of Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Liu Chengwei
Chairman

Hong Kong, 27 March 2017

Independent Auditors' Report

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
CHINA GRAND PHARMACEUTICAL AND HEALTHCARE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 129, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditors' 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.

Material uncertainty related to going concern

We draw attention to note 3 to the consolidated financial statements, which indicates that as at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately HK$676,230,000. As stated in note 3, these events or conditions, along with other matters as set forth in note 3, indicate that a material uncertainty exist that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent Auditors' Report

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material uncertainty related to going concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters	How our audit addressed the key audit matter
Impairment assessment of pharmaceutical business Refer to notes 22 and 24 to the consolidated financial statements	
The Group has goodwill and intangible assets of approximately HK$481,075,000 and HK$796,418,000 respectively relating to the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialised pharmaceutical raw materials and other products, in the People's Republic of China as at 31 December 2016. Management performed impairment assessment of pharmaceutical business and concluded that no impairment is necessary to provide. This conclusion was based on value-in-use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order to support management's estimates.	Our procedures in relation to management's impairment assessment included: • Evaluation of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the pharmaceutical business and using our valuation experts; • Challenging the reasonable of key assumptions based on our knowledge of the business and industry; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.
Impairment assessment of trade and other receivables Refer to note 30 to the consolidated financial statements	
In determining whether there is objective evidence of impairment loss, the Group takes into consideration the credit history of the customers and the current market condition which may require management judgment.	Our procedures in relation to the management's impairment assessment of trade and other receivables included: • Discussing the Group's procedures on credit limits and credit periods given to customers with the management; • Evaluating the basis of management's impairment assessment of trade and other receivables; and • Checking, on a sample basis, the accuracy and relevance of information included in the impairment assessment of trade and other receivables. We consider the management conclusion to be consistent with the available information.

Independent Auditors' Report

Key audit matters	How our audit addressed the key audit matter
Acquisition of subsidiaries Refer to note 43 to the consolidated financial statements On 13 July 2016, the Group completed the acquisition of Xian Beilin Pharmaceutical Company Limited. HKFRS 3 Business Combinations requires the Group to recognised the identifiable assets, liabilities and contingent liabilities at fair value at the date of acquisition, with the excess of the acquisition cost over the identified fair values recognised as goodwill. This also requires a significant amount of management estimation, particularly in relation to the identification of assets acquired and the liabilities assumed and the consideration measured at their acquisition-date fair values, which require significant management judgement. Independent external valuations were obtained in order to support management estimates. The intangible assets and goodwill amounted to approximately HK$198,837,000 and HK$126,847,000, respectively.	 Our procedures in relation to valuation of acquisition of subsidiaries included: • Evaluation of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the business and using our valuation experts; • Challenging the reasonable of key assumptions based on our knowledge of the business and industry, useful lives of intangible assets; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

Independent Auditors' Report

Other information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("Other Information").

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

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

Responsibilities of directors and the audit committee for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981 of Bermuda, 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

Independent Auditors' Report

- 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 auditors' 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 auditors' 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 auditors' 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 director on the audit resulting in this independent auditors' report is Mr. Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 27 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	7	**3,696,164**	3,245,546
Cost of sales		**(1,963,736)**	(1,895,062)
Gross profit		**1,732,428**	1,350,484
Other revenue and income	8	**102,499**	138,325
Distribution costs		**(902,724)**	(641,662)
Administrative expenses		**(421,486)**	(431,575)
Other operating expenses	9	**(12,125)**	(12,181)
Share of results of associates	19	**(2,950)**	(5,673)
Finance costs	10	**(181,678)**	(157,155)
Profit before tax		**313,964**	240,563
Income tax expense	11	**(44,602)**	(40,156)
Profit for the year	12	**269,362**	200,407
Other comprehensive loss, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(133,784)**	(64,759)
Other comprehensive loss for the year, net of income tax		**(133,784)**	(64,759)
Total comprehensive income for the year, net of income tax		**135,578**	135,648
Profit for the year attributable to:			
– Owners of the Company		**269,143**	180,906
– Non-controlling interests		**219**	19,501
		269,362	200,407
Total comprehensive income/(loss) attributable to:			
– Owners of the Company		**174,057**	116,640
– Non-controlling interests		**(38,479)**	19,008
		135,578	135,648
Earnings per share			
Basic (HK cents)	14	**13.06**	9.22
Diluted (HK cents)	14	**12.48**	8.89

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	16	**2,643,606**	2,543,235
Investment properties	17	**45,650**	–
Prepaid lease payments	18	**276,787**	269,520
Interests in associates	19	**231,552**	224,520
Available-for-sale financial assets	20	**94,166**	97,332
Deposits for acquisition of non-current assets	21	**38,874**	7,592
Goodwill	22	**481,075**	380,589
Intangible assets	24	**796,418**	651,305
Deferred tax assets	25	**1,160**	1,244
Prepayments	26	**51,566**	37,743
Loan receivables	27	**–**	14,414
		4,660,854	4,227,494
Current assets			
Financial asset at fair value through profit or loss	28	**11,206**	1,201
Inventories	29	**636,226**	621,702
Trade and other receivables	30	**1,310,067**	1,048,763
Loan receivables	27	**–**	33,632
Prepaid lease payments	18	**8,332**	7,947
Pledged bank deposits	31	**30,844**	38,659
Cash and cash equivalents	31	**484,418**	653,987
		2,481,093	2,405,891
Current liabilities			
Trade and other payables	32	**1,363,970**	1,181,915
Bank and other borrowings	33	**1,663,874**	1,962,484
Obligations under finance leases	34	**48,220**	43,616
Amounts due to related companies	35	**21,680**	–
Income tax payable		**59,579**	60,744
		3,157,323	3,248,759
Net current liabilities		**(676,230)**	(842,868)
Total assets less current liabilities		**3,984,624**	3,384,626

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Bank and other borrowings	33	**713,825**	762,136
Convertible bonds	36	**276,453**	258,629
Bond payables	37	**111,237**	–
Deferred tax liabilities	38	**189,082**	143,877
Amount due to holding company	39	**23,247**	23,057
Deferred income	40	**585,500**	634,344
Obligations under finance leases	34	**109,193**	158,244
		2,008,537	1,980,287
Net assets		**1,976,087**	1,404,339
Capital and reserves attributable to owners of the Company			
Share capital	41	**22,370**	19,620
Reserves		**1,680,064**	1,140,048
Equity attributable to owners of the Company		**1,702,434**	1,159,668
Non-controlling interests		**273,653**	244,671
Total equity		**1,976,087**	1,404,339

The consolidated financial statements on pages 36 to 129 were approved and authorised for issue by the board of directors of the Company on 27 March 2017 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		Attributable to owners of the Company											
	Notes	Share capital HK$'000	Share premium HK$'000	Contribution surplus reserve HK$'000	Statutory reserve HK$'000 (Note a)	Safety fund reserve HK$'000 (Note b)	Translation reserve HK$'000	Other reserve HK$'000 (Note c)	Convertible bonds reserve HK$'000 (Note d)	Retained profits HK$'000	Equity attributable to owner of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015		19,620	281,949	121,273	86,944	15,479	62,467	25,923	72,577	427,179	1,113,411	194,956	1,308,367
Profit for the year		–	–	–	–	–	–	–	–	180,906	180,906	19,501	200,407
Other comprehensive loss for the year, net of income tax:													
Exchange difference on translation of foreign operations		–	–	–	–	–	(64,266)	–	–	–	(64,266)	(493)	(64,759)
Total comprehensive income for the year		–	–	–	–	–	(64,266)	–	–	180,906	116,640	19,008	135,648
Non-controlling interest arising on the acquisition of subsidiaries	43	–	–	–	–	–	–	–	–	–	–	195,856	195,856
Acquisition of additional interest in subsidiaries	49	–	–	–	–	–	–	(70,383)	–	–	(70,383)	(165,149)	(235,532)
Transfer		–	–	–	24,095	3,793	–	–	–	(27,888)	–	–	–
At 31 December 2015 and at 1 January 2016		19,620	281,949	121,273	111,039	19,272	(1,799)	(44,460)	72,577	580,197	1,159,668	244,671	1,404,339
Profit for the year		–	–	–	–	–	–	–	–	269,143	269,143	219	269,362
Other comprehensive loss for the year, net of income tax:													
Exchange difference on translation of foreign operations		–	–	–	–	–	(95,086)	–	–	–	(95,086)	(38,698)	(133,784)
Total comprehensive income for the year		–	–	–	–	–	(95,086)	–	–	269, 143	174,057	(38,479)	135,578
Non-controlling interest arising on the acquisition of subsidiaries	43	–	–	–	–	–	–	–	–	–	–	89,733	89,733
Placing and subscription for the year		2,750	382,210	–	–	–	–	–	–	–	384,960	–	384,960
Transaction cost related to placing and subscription for the year		–	(3,622)	–	–	–	–	–	–	–	(3,622)	–	(3,622)
Acquisition of additional interest in subsidiaries	49, 50	–	–	–	–	–	–	(12,824)	–	–	(12,824)	(15,485)	(28,309)
Effect from derecognise of a subsidiary		–	–	–	–	–	–	195	–	–	195	(4,202)	(4,007)
Dividend paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(2,585)	(2,585)
Transfer		–	–	–	25,199	3,056	–	–	–	(28,255)	–	–	–
At 31 December 2016		22,370	660,537	121,273	136,238	22,328	(96,885)	(57,089)	72,577	821,085	1,702,434	273,653	1,976,087

Notes:

a. Each of the Company's the PRC subsidiary's Articles of association requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

b. According to document (Cai Qi [2006] No.478), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

c. Other reserve represents the difference between the consideration paid to non-controlling interests for acquisition of additional equity interest in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired. Other reserve also represents the effect from derecognise of a subsidiary.

d. The amount represented the equity component of the convertible bonds issued in prior years.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
Operating activities			
Profit before tax		**313,964**	240,563
Adjustments for:			
Amortisation of intangible assets	24	**12,125**	12,181
Amortisation of prepaid lease payments	18	**8,602**	8,102
Depreciation of property, plant and equipment	16	**207,303**	179,197
Finance costs	10	**181,678**	157,155
Loss on disposal of property, plant and equipment	12	**435**	422
Write-off of property, plant and equipment	16	**20,247**	1,742
Reversal of impairment loss on inventories		**(518)**	(3,804)
Impairment loss on inventories		**2,078**	3,078
Impairment loss on trade and other receivables	30	**16,275**	5,796
Interest income	8	**(12,158)**	(14,769)
Reversal of impairment loss on trade and other receivables	30	**(20,365)**	(11,652)
Written off on trade and other receivable	30	**(568)**	(1,612)
Share of results of associates	19	**2,950**	5,673
Written off of accruals and other payables	8	**(1,670)**	(20,310)
Gain on sales and lease back transaction, net	8	**(24,329)**	(20,019)
Net gain in fair value of investment properties	17	**(467)**	–
Purchase of financial assets at fair value through profit or loss		**–**	(882,805)
Proceed of financial assets at fair value through profit or loss		**–**	929,651
Deferred income recognised	40	**(1,784)**	–
Investment income	8	**(413)**	(14,215)
Operating cash flows before movements in working capital		**703,385**	574,374
Decrease/(increase) in inventories		**23,213**	(40,940)
Increase in trade and other receivables		**(112,528)**	(89,541)
Increase in trade and other payables		**215,753**	87,083
Decrease in amounts due to related companies		**(732)**	–
Net cash generated from operations		**829,091**	530,976
Income tax paid		**(54,125)**	(34,535)
Net cash generated from operating activities		**774,966**	496,441

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Investing activities			
Purchase of property, plant and equipment	16	**(347,269)**	(466,561)
Purchase of intangible asset		**(1,586)**	–
Acquisition of prepaid lease payment		**(17,505)**	(12,993)
Decrease in pledged bank deposits		**5,222**	51,801
Increase in deposits for acquisition of non-current assets		**(38,874)**	(7,592)
Increase in non-current prepayments		**(16,354)**	(16,259)
Proceeds from disposal of property, plant and equipment		**1**	453
Interest income received		**12,158**	14,769
Investment income		**413**	14,215
Receipts of loan receivables		**44,824**	–
Net cash outflow from acquisition of subsidiaries	43	**(409,531)**	(668,262)
Net cash outflow from acquisition of an associate		**–**	(240,328)
Acquisition of additional interest in subsidiaries		**(28,309)**	(265,033)
Net cash used in investing activities		**(796,810)**	(1,595,790)
Financing activities			
Proceed from issue of equity, net		**381,338**	–
Proceed from bond payables, net		**111,215**	–
Proceed from sales and lease back transaction		**–**	240,232
Purchase of financial assets at fair value through profit or loss		**(11,206)**	–
Proceed of financial assets at fair value through profit or loss		**1,121**	–
Repayments of bank loans		**(2,094,129)**	(1,838,037)
Repayments of obligation under finance leases		**(44,533)**	(45,515)
Interest paid		**(163,296)**	(143,723)
Proceed from new borrowings		**1,760,826**	3,104,009
Repayment to holding company		**–**	(150)
Advance from holding company		**190**	879
Dividend paid to non-controlling interest		**(2,585)**	–
Net cash (used in)/generated from financing activities		**(61,059)**	1,317,695
Net (decrease)/increase in cash and cash equivalents		**(82,903)**	218,346
Cash and cash equivalents at the beginning of year		**653,987**	447,944
Effect of foreign exchange rate changes		**(86,666)**	(12,303)
Cash and cash equivalents at the end of year			
Cash and cash equivalents		**484,418**	653,987

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL INFORMATION

China Grand Pharmaceutical and Healthcare Holdings Limited (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate information" section of the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and nutrition products, specialized pharmaceutical raw materials and other products, in the People's Republic of China (the "PRC").

The directors consider that Outwit Investments Limited ("Outwit") is the parent company of the Company and China Grand Enterprises Incorporation is the ultimate holding company of the Company.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as functional currency of the Company, and the functional currency of the most of the subsidiaries in Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company are listed on the Stock Exchange. The consolidated financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2016. A summary of the new HKFRSs is set out as below:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012–2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operation
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

The Group has not early applied the following new and revised standards that have been issued but are not yet effective:

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

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

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

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may impact the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

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

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The Group is in the process of assessing the potential impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether the other new and revised HKFRSs, will have a significant impact on the Group's financial performance and position.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of approximately HK$676,230,000 (2015:HK$842,868,000) as at 31 December 2016. The directors of the Company have taken the following factors to consider the future liquidity which include, but not limited to, the followings:

(i) Alternative sources of external funding

- The Group has been approved by the China Securities Regulatory Commission to issue corporate bonds to qualified investors in an aggregate amount of not more than RMB490,000,000 (approximately HK$549,096,000) to acquire an external funding. During the year ended 31 December 2016, the Group has issued corporate bonds of amount of RMB100,000,000 (approximately HK$112,061,000).

- The Company can issue certain amount of new shares in according to the outstanding general mandate as approved by the shareholders of the Company in the last Annual General Meeting, and in the upcoming Annual General Meeting, the Board will seeking the shareholders' approval in regarding a general and unconditional mandate to allot, issue and deal with the new shares up to a maximum of 20% of the issued share capital of the Company as at the date of passing of the relevant resolution.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ii) Attainment of profitable and positive cash flow operations

The directors of the Company have reviewed the forecast and considered the Group will have positive net cash inflow in the coming 12 months.

(iii) Necessary facilities

The Group is in the process of negotiating with its bankers for the renewal and additional of bank facilities, and the restructuring of bank loan combination with an aim to transform the short-term bank loans to long-term bank loans, in order to meet the Group's working capital and financial requirements in the next 12 months.

(iv) Financial support and amount due to holding company

Outwit has agreed to provide the financial support for not less than 12 months from the year ended 31 December 2016 and also agreed not to request the repayment for the amount due of approximately HK$23,247,000 (2015:HK$23,057,000) in the following 12 months.

In the opinion of the directors of the Company, in light of the various measures or arrangements implemented after the end of reporting period together with the expected results of the other measures, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The principal accounting policies are set out below:

Basis of consolidation

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

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

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

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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

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

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

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

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRSs.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

Change in the values of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit and loss when the Group obtains control over the acquiree.

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

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is or a portion thereof, is classified as held for sales, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sales. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the carrying amount of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such change in ownership interests.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sale of goods

Revenue from sales of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend income

Dividend income from investments is recognised when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

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

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

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

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on the transactions entered in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is nether planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of foreign currency translation reserve.

Borrowing costs

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

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

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

Government grants

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants *(Continued)*

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax (Continued)

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

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

Current and deferred tax for the year

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

Property, plant and equipment

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

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than allocated land and construction in progress over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gain and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Investment properties under construction are accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Investment properties under construction are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under construction and their carrying amounts is recognised in profit or loss in the period in which they arise.

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

If an investment property become a stock of properties because its use has changed as evidenced by the commencement of development with view to sale, any difference the carrying amount and the fair value of the property at the date of transfer is recognised in profit or loss. Subsequent to the changes, the property is stated at lower of deemed cost, equivalent to the fair value at the date of transfer, and net realisable value.

The Group transfers a property from stock of properties to investment properties when there is a change in use to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. For a transfer from stock of properties to investment properties, any difference between the fair value of the property at the date of change in use and its previous carrying amount is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Research and development expenditure

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Research and development expenditure (Continued)

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

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

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

Inventories

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

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Provisions

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end if each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes of the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur, Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expenses or income; and
- remeasurement.

The Group presents all components of defined benefit costs in profit or loss in the line item cost of sales, distribution costs and administrative expenses. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits

A liability is recognised for benefit accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value if the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible bonds

Convertible bonds that can be converted into equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds reserve until either the bond is converted or redeemed.

If the convertible bond is converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the convertible bond is redeemed, the convertible bonds reserve is released directly to retained profits.

When the convertible bond is extinguished before maturity through an early redemption or repurchase where the original conversion privileges are unchanged, the consideration paid and any transaction costs for the redemption or repurchase are allocated to the liability component and equity component using the same allocation basis as when the convertible bond was originally issued. Once the allocation of consideration and transaction costs is made, any resulting gain or loss relating to the liability component is recognised in profit or loss and the amount of consideration relating to equity component is recognised in equity.

Financial instruments

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

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

Financial assets

The Group's financial assets are classified into one of the following categories, including available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity other than: a) those that the entity upon initial recognition designates as at fair value through profit or loss; b) those that the entity designates as available for sale; and c) those that meet the definition of loans and receivables. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

Financial assets at fair value through profit or loss ("FVTPL")

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

A financial asset is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designed as at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets at fair value through profit or loss ("FVTPL") (Continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 5b(v).

Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated or not classified as loans and receivables

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of it is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment loss at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

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

Impairment on financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment on financial assets (Continued)

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

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

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the available-for-sale financial assets revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Other financial liabilities

Other financial liabilities (including trade and other payables, bank and other borrowings, amount due to holding company and convertible bonds) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Derecognition

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition (Continued)

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

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

Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(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);

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

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

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of the person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

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

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in HKAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group's liabilities in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, management is satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs.

Valuation of inventories

Valuation of inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for raw materials and finished goods based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product by product basis at the end of each reporting period and assess the need for write down of inventories.

Key source of estimation uncertainty

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

Valuation of investment properties

Investment properties are included in the statement of financial position at their fair value, which is assessed annually by independent qualified valuers, after taking into consideration all readily available information and current market environment.

The methodology and assumptions adopted in the property valuations are mentioned in note 17.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key source of estimation uncertainty *(Continued)*

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation for requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill as at 31 December 2016 was HK$481,075,000 (2015: HK$380,589,000). Details of the recoverable amount calculation are disclosed in note 22.

Impairment of intangible assets

The Group performs annual tests on whether there has impairment of intangible assets in accordance with the accounting policy. The recoverable amounts of fair value are determinated based on income approach calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, post-tax discount rates, and other assumptions underlying the calculation.

The carrying amount of intangible assets as at 31 December 2016 was HK$796,418,000 (2015: HK$651,305,000). Detailed informations are disclosed in note 24.

Impairment of trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivable balance, debtor credit-worthiness, and historical write–off experience. If the financial conditions of the debtors were to deteriorate, actual write-offs would be higher than estimated.

Income tax and deferred tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Estimated useful lives of property, plant and equipment, prepaid lease payments and intangible assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key source of estimation uncertainty *(Continued)*

Estimated useful lives of property, plant and equipment, prepaid lease payments and intangible assets (Continued)

The patents, trademarks and capitalized development costs are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

The intangible asset will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

During the year ended 31 December 2016, the Group did not change the estimated useful lives of property, plant and equipment and intangible assets.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 5, 17, 28 and 36 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
AFS financial assets	**94,166**	97,332
Financial asset at FVTPL	**11,206**	1,201
Loans and receivables (including cash and cash equivalents)		
– Loan receivables	**–**	48,046
– Trade and other receivables	**1,130,614**	845,416
– Pledged bank deposits	**30,844**	38,659
– Cash and cash equivalents	**484,418**	653,987
	1,751,248	1,684,641
Financial liabilities		
At amortised costs		
– Trade and other payables	**1,275,071**	1,131,704
– Bank and other borrowings	**2,377,699**	2,724,620
– Bond payables	**111,237**	–
– Convertible bonds	**276,453**	258,629
– Obligations under financial leases	**157,413**	201,860
– Amount due to holding company	**23,247**	23,057
– Amounts due to related companies	**21,680**	–
	4,242,800	4,339,870

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include AFS financial assets, financial asset at FVTPL, loan receivables, trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings, bond payables, convertible bonds, obligation under financial leases, amount due to holding company and amounts due to related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i. Currency risk

The Group's presentation currency is HK$, however, the Group's functional currency is RMB in which most of the transactions are denominated. The functional currency is also used to settle expenses for the PRC operations. Certain trade and other receivables, cash and cash equivalents, trade and other payables, bank and other borrowings are denominated in foreign currencies of United State dollars ("USD"). Such USD denominated financial assets and liabilities are exposed to fluctuations in the value of RMB against USD.

The Group currently does not have any USD hedging policy but the management monitors USD exchange exposure and will consider hedging significant USD exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 10% (2015: 10%) in exchange rate of USD against RMB while all other variables are held constant. 10% (2015: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% (2015: 10%) change in foreign currency rates.

	2016	2015
	HK$'000	HK$'000
Increase/(decrease) in profit for the year		
– if USD weakens against of RMB	**(10,680)**	35,135
– if USD strengthens against of RMB	**10,680**	(35,135)

A change of 10% (2015: 10%) in exchange rate of USD against RMB does not affect other components of equity except the translation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

i. Currency risk (Continued)

Sensitivity analysis (Continued)

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2016 **HK$'000**	2015 HK$'000
USD		
– Trade and other receivables	**104,658**	151,908
– Cash and cash equivalents	**24,378**	22,296
– Trade and other payables	**(22,237)**	(6,206)
– Bank and other borrowings	**–**	(519,352)

ii. Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate bank balances at prevailing market rates and variable-rate borrowings (see note 33). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2015: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

At 31 December 2016

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,275,071	1,275,071	–	–	–	1,275,071
Bank and other borrowings	5.02%	2,516,000	1,747,252	369,492	341,910	57,346	2,377,699
Bond payables	5.49%	142,316	5,630	6,152	130,534	–	111,237
Convertible bonds	9.29%	357,666	9,900	9,900	337,866	–	276,453
Obligation under finance lease	17.57%	106,820	50,114	45,365	11,341	–	157,413
Amount due to holding company	5.00%	23,844	23,844	–	–	–	23,247
Amounts due to related companies	–	21,680	21,680	–	–	–	21,680
		4,443,397	3,133,491	430,909	821,651	57,346	4,242,800

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. *Liquidity risk* *(Continued)*

At 31 December 2015

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Trade and other payables	–	1,131,704	1,131,704	–	–	–	1,131,704
Bank borrowings	4.51%	4,318,915	2,109,092	1,033,171	915,893	260,759	2,724,620
Convertible bonds	9.29%	367,539	9,900	9,900	347,739	–	258,629
Obligation under finance lease	7.19%	234,655	56,687	54,759	123,209	–	201,860
Amount due to holding company	5.00%	23,729	–	23,729	–	–	23,057
		6,076,542	3,307,383	1,121,559	1,386,841	260,759	4,339,870

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

iv. *Credit risk*

The Group's maximum exposure to credit risk in the event of the counter parties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group only trades with recognised, 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 ongoing basis.

With respect to credit risk arising from the other financial assets of the Group which comprise cash and cash equivalents, the Group's exposure to credit risk arising from default of the counter parties is limited as the counter parties have good credit standing and the Group does not expect to incur significant loss for unallocated advances/deposits from these entities.

The carrying amounts of loan receivables and trade and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk.

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. *Credit risk (Continued)*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods and provision of services are made to customers with an appropriate credit history. The Group's deposits in bank and deposits placed with a financial institution are placed in high quality financial institutions without significant exposure to credit risk.

The directors consider that there is no significant credit risk in respect of the Group's deposits in banks and deposits placed with a financial institution as the financial institution has no record of default payment.

v. *Fair value*

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

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

The directors consider the fair values of trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings reported in the consolidated statement of financial position approximate their carrying amounts due to their immediate or short-term maturities.

The directors consider the fair value of amount due to holding company approximate to its carrying amount as the impact of discounting is not significant.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. *Fair value* *(Continued)*

Assets measured at fair value

	2016			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Investment properties located in PRC (note 17)	**–**	**–**	**45,650**	**45,650**

	2015			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Investment properties located in PRC (note 17)	–	–	–	–

	2016			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial asset at FVTPL (note 28)	**11,206**	**–**	**–**	**11,206**

	2015			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial asset at FVTPL (note 28)	1,201	–	–	1,201

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. *Fair value* *(Continued)*

Fair value of financial liabilities that are not measured at fair value (but fair value disclosure are required):

	2016			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Convertible bonds (note a)	**–**	**–**	**274,547**	**274,547**

	2015			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Convertible bonds (note a)	–	–	252,313	252,313

Note:

(a) As at 31 December 2016 and 2015, the fair value of convertible bonds of approximately HK$ 274,547,000 and HK$ 252,313,000. The fair value of liabilities component of convertible bonds was valued by an independent valuer. The convertible bonds was calculated by discounting the future cash flow at market rate and including some unobservable inputs. See note 36 for the details information of convertible bonds.

Below is a summary of the valuation technique used and the key inputs to the valuation of convertible bonds:

	Valuation technique	**Significant unobservable inputs**	**2016**	2015
Convertible bonds	Discounted cash flow method	Risk free rate	**1.30%**	0.91%
		Volatility	**45.37%**	53.60%
		Discount rate	**9.84% to 10.22%**	10.14% to 10.90%

There were no transfers between all levels in both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes bank and other borrowings and amount due to holding company, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

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

	2016 **HK$'000**	2015 HK$'000
Debts (note 1)	**2,810,316**	3,006,306
Cash and cash equivalents	**(515,262)**	(692,646)
Net debt	**2,295,054**	2,313,660
Equity (note 2)	**1,702,434**	1,159,668
Net debt to equity ratio	**135%**	200%

Notes:

(1) Debts comprises long-term and short-term borrowings, convertible bonds, bond payables, amounts due to related companies and amount due to holding company respectively.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. REVENUE AND SEGMENT INFORMATION

For the year ended 31 December 2016, the Group is principally engaged in manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products, nutrition products, specialized pharmaceutical raw materials and other products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The Group's revenue represents the invoiced value of goods sold, net of discounts and sales related taxes.

Geographical information

The Group's operations are mainly located in the PRC (country of domicile) and it also derives revenue from America, Europe and Asia.

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		**Non-current assets**	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**2,959,845**	2,426,582	**4,341,311**	3,894,527
America	**232,835**	209,290	**–**	–
Europe	**266,479**	290,972	**–**	–
Asia other than the PRC	**214,087**	304,397	**–**	–
Others	**22,918**	14,305	**–**	–
Total	**3,696,164**	3,245,546	**4,341,311**	3,894,527

Note: Non-current assets excluded AFS financial assets, deferred tax assets and a part of interests in associates.

Information about major customers

For the years ended 31 December 2016 and 2015, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

8. OTHER REVENUE AND INCOME

	2016 HK$'000	2015 HK$'000
Government grants	**29,228**	47,183
Interest income	**12,158**	14,769
Sales of raw materials, scrap and other materials, net	**4,609**	5,423
Gain on sales and lease back transaction, net	**24,329**	20,019
Investment income	**413**	14,215
Rental income	**293**	19
Net gain in fair value of investment properties	**467**	–
Net foreign exchange gain	**4,184**	–
Reversal of impairment loss on trade and other receivables	**20,365**	11,652
Written off of accruals and other payables	**1,670**	20,310
Sundry incomes	**4,783**	4,735
	102,499	138,325

9. OTHER OPERATING EXPENSES

	2016 HK$'000	2015 HK$'000
Amortisation of intangible assets (note 24)	**12,125**	12,181

10. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on bank and other borrowings:		
– wholly repayable within five years	**135,635**	121,350
– not wholly repayable within five years	**3,293**	1,908
Interest on bond payables	**558**	–
Interest on convertible bonds (note 36)	**27,724**	22,870
Interest on amount due to holding company (note 44)	**451**	462
Interest on finance lease	**14,017**	10,565
	181,678	157,155

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

11. INCOME TAX EXPENSE

	2016 HK$'000	2015 HK$'000
Current tax:		
The PRC Enterprise Income Tax	**54,580**	47,542
Deferred tax (note 38)	**(9,978)**	(7,386)
	44,602	40,156

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong profits tax at the rate of 16.5% (2015: 16.5%). Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the relevant the PRC tax regulations, High-New Technology Enterprise ("HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax ("EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to review on every three years by the relevant government bodies.

The charge for the year is reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 HK$'000	2015 HK$'000
Profit before tax	**313,964**	240,563
Tax at the domestic income tax rate of 25% (2015: 25%)	**78,491**	60,141
Tax effect of share of loss of associates	**738**	1,418
Tax effect of expenses not deductible for tax purpose	**6,374**	16,724
Tax effect of income not taxable for tax purpose	**(16,011)**	(5,747)
Tax effect of deductible temporary differences not recognised	**8,722**	(4,387)
Effect of tax exemptions granted to the PRC subsidiaries	**(16,295)**	(14,875)
Income tax on concessionary rate	**(41,246)**	(35,744)
Utilisation of tax losses previously not recognised	**–**	(110)
Under provision in prior year	**215**	871
Tax effect of tax losses not recognised	**23,614**	21,865
Tax charge for the year	**44,602**	40,156

The applicable tax rate of 25% (2015: 25%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

12. PROFIT FOR THE YEAR

	2016 HK$'000	2015 HK$'000
Profit for the year is stated after charging/(crediting):		
Staff costs (excluding directors' emoluments) comprises:		
– Wages and salaries	**598,945**	405,132
– Retirement benefits schemes contributions (note 47)	**43,885**	43,068
	642,830	448,200
Depreciation of property, plant and equipment (note 16)	**207,303**	179,197
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses) (note 18)	**8,602**	8,102
Amortisation of intangible assets (included in other operating expenses) (note 24)	**12,125**	12,181
Total depreciation and amortisation	**228,030**	199,480
Impairment losses on financial assets		
– trade and other receivables	**16,275**	5,796
– reversal of impairment loss on trade and other receivables (included in other revenue and income) (note 8)	**(20,365)**	(11,652)
Reversal of impairment losses of financial assets, net	**(4,090)**	(5,856)
Auditors' remuneration		
– audit services	**2,400**	1,500
– non-audit services	**–**	1,550
Cost of inventories recognised as an expense	**1,963,736**	1,895,062
Operating lease rentals in respect of land and buildings	**10,743**	11,077
Gain on sales and lease back transaction, net	**(24,329)**	(20,019)
Write-off of property, plant and equipment	**20,247**	1,742
Write-off of trade and other payables	**(1,670)**	(20,310)
Research and development expenditure	**65,199**	106,898
Loss on disposal of property, plant and equipment	**435**	422
Net foreign exchange (gain)/loss	**(4,184)**	5,918

13. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016 (2015: Nil).

14. EARNINGS PER SHARE

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

	2016 HK$'000	2015 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share calculation	**269,143**	180,906
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds (net of tax)	**23,150**	19,096
– Deferred tax arising from convertible bonds	**(4,574)**	(3,774)
Earnings for the purpose of diluted earnings per share calculation	**287,719**	196,228

	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**2,061,325**	1,962,041
Effect of dilutive potential ordinary shares:		
– Convertible bonds	**244,444**	244,444
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**2,305,769**	2,206,485

The Company's outstanding convertible bonds were included in the calculation of diluted earnings per share because the effect of the Company's outstanding convertible bonds were diluted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2016 HK$'000	2015 HK$'000
Fees:		
Executive directors	150	150
Independent non-executive directors	300	300
	450	450
Other emoluments		
Salaries and allowances	2,094	1,531
Retirement benefits scheme contributions	18	18
	2,562	1,999

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2016 and 2015.

The emoluments paid or payable to each of the eight (2015: seven) directors for the year ended 31 December 2016 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	50	–	–	50
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan (Chief executive officer)	–	2,094	18	2,112
Dr. Niu Zhanqi (appointed on 14 November 2016)	8	–	–	8
Dr. Zhang Ji (resigned on 11 November 2016)	42	–	–	42
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	–	–	180
Mr. Lo Kai, Lawrence	60	–	–	60
Dr. Pei Geng	60	–	–	60
Total	450	2,094	18	2,562

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2015 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Liu Chengwei	50	–	–	50
Mr. Hu Bo	50	–	–	50
Dr. Shao Yan (Chief executive officer)	–	1,531	18	1,549
Dr. Zhang Ji	50	–	–	50
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	–	–	180
Mr. Lo Kai, Lawrence	60	–	–	60
Dr. Pei Geng	60	–	–	60
Total	450	1,531	18	1,999

During both years ended 31 December 2016 and 2015, no directors of the Company agreed to waive or waived any emoluments.

During both years ended 31 December 2016 and 2015, the executive director of the Company, Dr. Shao Yan, was the chief executive officer of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2015: one) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2015: four) individuals are as follows:

	2016 **HK$'000**	2015 HK$'000
Employees		
Salaries and allowances	**4,937**	3,695
Retirement benefits schemes contributions	**91**	50
	5,028	3,745

These emoluments were within the following bands:

	2016 **No. of employees**	2015 No. of employees
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**4**	3
	4	4

During both years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior Management of the Group

The emoluments of the senior management of the Group are within the following band.

	2016 **No. of employees**	2015 No. of employees
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**3**	2
	5	5

During both years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Allocated land HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Equipment HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2015	1,041,922	1,876	935,768	26,081	59,315	412	466,334	2,531,708
Additions	2,749	–	176,946	1,768	4,454	–	280,644	466,561
Acquisition of subsidiaries	52,641	–	10,726	1,561	2,161	–	–	67,089
Disposals	(886)	–	(421)	(1,128)	–	–	–	(2,435)
Write-off	–	–	(3,321)	(1,668)	(203)	–	–	(5,192)
Transfer	38,264	–	215,917	147	10,568	–	(264,896)	–
Exchange realignment	(43,911)	(73)	(47,328)	(1,058)	(2,778)	–	(18,637)	(113,785)
At 31 December 2015 and at 1 January 2016	1,090,779	1,803	1,288,287	25,703	73,517	412	463,445	2,943,946
Additions	28,803	–	49,089	1,191	3,235	–	264,951	347,269
Acquisition of subsidiaries	117,442	–	40,089	4,235	594	–	–	162,360
Disposals	–	–	(709)	(568)	(994)	–	–	(2,271)
Write-off	(13,551)	–	(34,041)	(1,677)	(1,123)	–	–	(50,392)
Transfer	183,065	–	159,120	308	2,557	–	(345,050)	–
Exchange realignment	(85,519)	(121)	(94,981)	(1,844)	(5,066)	–	(27,775)	(215,306)
At 31 December 2016	1,321,019	1,682	1,406,854	27,348	72,720	412	355,571	3,185,606
Accumulated depreciation and impairment								
At 1 January 2015	84,411	–	126,913	5,955	22,812	412	–	240,503
Depreciation provided for the year	46,563	–	117,706	3,771	11,157	–	–	179,197
Eliminated on disposals	(273)	–	(280)	(1,007)	–	–	–	(1,560)
Eliminated on write-off	–	–	(2,057)	(1,202)	(191)	–	–	(3,450)
Exchange realignment	(4,527)	–	(8,020)	(273)	(1,159)	–	–	(13,979)
At 31 December 2015 and at 1 January 2016	126,174	–	234,262	7,244	32,619	412	–	400,711
Depreciation provided for the year	56,704	–	134,637	4,629	11,333	–	–	207,303
Eliminated on disposals	–	–	(379)	(467)	(989)	–	–	(1,835)
Eliminated on write-off	(6,099)	–	(21,433)	(1,550)	(1,063)	–	–	(30,145)
Exchange realignment	(10,547)	–	(20,363)	(591)	(2,533)	–	–	(34,034)
At 31 December 2016	166,232	–	326,724	9,265	39,367	412	–	542,000
Net carrying amounts								
At 31 December 2016	**1,154,787**	**1,682**	**1,080,130**	**18,083**	**33,353**	**–**	**355,571**	**2,643,606**
At 31 December 2015	964,605	1,803	1,054,025	18,459	40,898	–	463,445	2,543,235

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

The above items of property, plant and equipment, except for construction in progress and allocated land are depreciated on a straight-line basis, at the following rates per annum:

Buildings	2.5% – 5%
Plant and machinery	5% – 10%
Equipment	12% – 25%
Motor vehicles	10% – 25%
Others	12.5% – 20%

Allocated land is located in the PRC and is not specified by the PRC government authorities with the period of usage. The allocated land is restricted for disposal or transfer, but can be leased or pledged to other parties upon obtaining the approval from the relevant PRC's authorities.

Buildings are held in the PRC under medium-term leases.

As at 31 December 2016, an allocated land and certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 45.

17. INVESTMENT PROPERTIES

	2016 **HK$'000**	2015 HK$'000
Completed investment properties	**45,650**	–

	2016 **HK$'000**	2015 HK$'000
At 1 January	**–**	–
Acquisition through business combinations (note 43)	**46,873**	–
Fair value gain recognised in profit or loss (note 8)	**467**	–
Exchange adjustments	**(1,690)**	–
At 31 December	**45,650**	–

(a) Valuation of investment properties

The investment properties amounted of approximately HK$45,650,000 of the Group were stated at fair value as at 31 December 2016. The fair value were arrived at based on the valuations carried out by an independent firm of qualified professional valuer, Wuhan Huasheng Zhenghao Assets Appraisal Co., Ltd. (this is the english translation of Chinese name or words which included for identification purpose only).

The valuer has valued the properties on the basis of comparable market transactions as available. Discussions of valuation processes and results are held between the Group and valuers at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2016, the fair values of the properties have been determined by the valuer. At each financial year end, the Group (i) verifies all major inputs to the independent valuation report; and (ii) holds discussions with the independent valuer.

17. INVESTMENT PROPERTIES *(Continued)*

(a) Valuation of investment properties *(Continued)*

Market approach method is adopted based on the principle of substitution, where comparison is made based on prices realized on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market values and capital values.

The valuation assumptions, unless otherwise stated, the valuer assumed that:

a) The assets within the scope of the assessment are owned by the appraised unit and there is no ownership dispute;

b) The assessment information provided by the entrusting party and the appraised unit is true, lawful and complete; and

c) The assessment data collected by the assessors in the capacity range is authentic and credible.

There has been no change from the valuation technique used during the year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The valuation of investment properties is determined by various major inputs:

The major key inputs applied in valuing the investment properties were market unit sales per each square meter. The range of unit market price were from RMB834.02 to RMB843.22.

Another unobservable input was volume rate of the land use right. The ranges of plot ratio of investment properties were from 1.00 to 3.15. An increase in volume rate would result in an increase in the fair value of investment properties.

The fair value of the investment properties of approximately HK$45,650,000 as at 31 December 2016. The investment properties were classified as level 3 of fair value hierarchy. There were no transfers into or out of level 3 during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

18. PREPAID LEASE PAYMENTS

	2016 HK$'000	2015 HK$'000
At the beginning of year	**277,467**	278,641
Acquisition of subsidiaries (note 43)	**18,380**	–
Additions	**17,505**	17,815
Amortisation for the year	**(8,602)**	(8,102)
Exchange realignment	**(19,631)**	(10,887)
At the end of year	**285,119**	277,467
Analysed for reporting purposes as:		
Current assets	**8,332**	7,947
Non-current assets	**276,787**	269,520
	285,119	277,467

Leasehold lands are held in the PRC under medium leases.

As at 31 December 2016 and 2015, certain leasehold land of the Group has been pledged to banks to secure bank loans granted to the Group as detailed in note 45.

19. INTERESTS IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
Cost of unlisted investments	**244,004**	241,505
Share of post-acquisition (losses)/profits and other comprehensive (loss)/profit	**(3,254)**	125
Share of net assets of associates	**240,750**	241,630
Amounts due to associates	**(9,198)**	(17,110)
	231,552	224,520

Amounts due to associates are unsecured, interest-free and not repayable within next twelve months.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

19. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

Yangxin Fuxin Chemical Company Limited (the "Yangxin Fuxin")

	2016 HK$'000	2015 HK$'000
Total assets	**15,661**	15,586
Total liabilities	**(755)**	(877)
Net assets	**14,906**	14,709
Group's share of net assets of the associate	**7,304**	7,207
Revenue	**11,688**	12,978
Profit for the year	**1,235**	472
Share of results of an associate for the year	**605**	232

Cardionovum Holding Company Limited (the "Cardionovum Holding")

	2016 HK$'000	2015 HK$'000
Total assets	**706,339**	712,236
Total liabilities	**(11,413)**	(6,657)
Net assets of the associate	**694,926**	705,579
Less: Non-controlling interests	**(2,176)**	(2,240)
Net assets attributable to owners of associate	**692,750**	703,339
Group's share of net assets of the associate	**230,894**	234,423
Revenue	**54,202**	19,216
Loss for the year	**(10,589)**	(17,717)
Share of results of an associate for the year	**(3,529)**	(5,905)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

19. INTERESTS IN ASSOCIATES *(Continued)*

Xian Aier Medical Technology Company Limited

	2016 **HK$'000**	2015 HK$'000
Total assets	**2,908**	–
Total liabilities	**(1,561)**	–
Net assets	**1,347**	–
Group's share of net assets of the associate	**311**	–
Revenue	**1,027**	–
Loss for the year	**(114)**	–
Share of results of an associate for the year	**(26)**	–

Xian Qiannian Lifeng Shiye Company Limited

	2016 **HK$'000**	2015 HK$'000
Total assets	**7,844**	–
Total liabilities	**–**	–
Net assets	**7,844**	–
Group's share of net assets of the associate	**2,241**	–
Revenue	**–**	–
Loss for the year	**–**	–
Share of results of an associate for the year	**–**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

19. INTERESTS IN ASSOCIATES *(Continued)*

Details of the principal associates as at 31 December 2016 and 2015 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2016	2015	Particulars of issued/ paid-up capital	Principal activities
Yangxin Fuxin (note (a))	PRC/PRC	Limited liability company	40.32% (indirect)	40.32% (indirect)	Contributed capital RMB2,000,000	Production and sales of fine chemicals and chemical medicine
Cardionovum Holding (note (b))	Hong Kong/ Hong Kong	Limited liability company	33.33 (direct)	33.33% (direct)	Contributed capital USD93,000,000	Development, production and distribution of advanced cardiovascular interventional medical devices and the provision of related services
Xian Aier Medical Technology Company Limited (note (c))	PRC/PRC	Limited liability company	17.79% (indirect)	–	Contributed capital RMB1,600,000	Development, production and distribution of healthcare products
Xian Qiannian Lifeng Shiye Company Limited (note (c))	PRC/PRC	Limited liability company	22.02% (indirect)	–	Contributed capital RMB7,000,000	Development, production and distribution of chinese medicine

Notes:

(a) Yangxin Fuxin was an associate of Hubei Grand Fuchi Pharmaceutical and Chemical Company Limited ("Hubei Fuchi") and Hubei Fuchi was acquired by the Group as a subsidiary pursuant to an agreement signed on 2 March 2010.

As at 31 December 2013, the Group held approximately 40.22% equity interest in Yangxin Fuxin and are accounted for the investment as an associate. During the year ended 31 December 2014, the Group had further acquired approximately 0.24% equity interest in Grand Pharm (China) on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the Group's equity interest in Yangxin Fuxin was increased from 40.22% to 40.32%.

(b) Cardionovum Holding was an associate of the Company and Cardionovum Holding was establish with individual third party. The Company had subscribed for approximately 33.33% of the enlarged issued share capital of the Cardionovum Holding pursuant to an agreement signed on 21 April 2015, and are accounted for the investment as an associate.

The Group is able to exercise significant influence over Cardionovum Holding because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

19. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(c) Xian Aier Medical Technology Company Limited and Xian Qiannian Lifeng Shiye Company Limited were associates of Xian Beilin Pharmaceutical Company Limited (the "Xian Beilin"). Xian Aier Medical Technology Company Limited and Xian Qiannian Lifeng Shiye Company Limited were acquired by the Group as associates pursuant to an agreement signed on 29 June 2016.

As at 31 December 2016, the Group held approximately 17.79% and 22.02% equity interest in Xian Aier Medical Technology Company Limited and Xian Qiannian Lifeng Shiye Company Limited and are accounted for the investment as associates.

The Group is able to exercise significant influence Xian Aier Medical Technology Company Limited and Xian Qiannian Lifeng Shiye Company Limited because it has the power to appoint one out of the two directors of that companies but cannot control the board of shareholders.

The above table lists associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 HK$'000	2015 HK$'000
Unlisted securities:		
– Unlisted equity securities, at cost	**94,166**	97,332

The above unlisted equity securities represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimated is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. DEPOSITS FOR ACQUISITION OF NON-CURRENT ASSETS

	2016 HK$'000	2015 HK$'000
Purchase of land use right (note (a))	**38,874**	–
Purchase of intangible assets (note (b))	**–**	7,592
	38,874	7,592

Note:

(a) During the year ended 31 December 2016, Beijing Jiu He Pharmaceutical Limited ("Jiu He") entered into an agreement with the independent third party to acquire a land use right and paid amount to approximately RMB34,690,000 (equivalent to approximately HK$38,874,000) within a specified period as stipulated in the agreement. As at 31 December 2016, the Group was in the progress of obtaining the land use right certificate.

(b) Hubei Grand Bio-technology Limited entered into an agreement to acquire certain pharmaceutical technology at RMB6,320,000 (equivalent to approximately HK$7,592,000). As at 31 December 2016, the Group completed the procedures of obtaining the certain pharmaceutical technology.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

22. GOODWILL

	HK$'000
At 1 January 2015	124,682
Arising on acquisition of subsidiaries (note 43)	269,469
Exchange realignment	(13,562)
At 31 December 2015 and 1 January 2016	380,589
Arising on acquisition of subsidiaries (note 43)	126,847
Exchange realignment	(26,361)
At 31 December 2016	**481,075**

Impairment Tests for Cash-generating Units Containing Goodwill

Goodwill acquired has been allocated for impairment testing purposes to the following cash generating units ("CGU"):

- Zhejiang Xianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")
- Wuhan Kernel Bio-tech Co., Ltd. ("Wuhan Kernel")
- Hubei Wellness Pharmaceutical Co., Ltd ("Hubei Wellness")
- Beijing Rui Yao Technology Limited ("Beijing Rui Yao")
- Jiu He
- Tianjin Jingming New Technology Development Co., Ltd. ("Tianjin Jingming")
- Xian Beilin

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	2016 **HK$'000**	2015 HK$'000
Zhejiang Xianle	**54,944**	54,944
Wuhan Kernel	**15,694**	16,823
Hubei Wellness	**22,643**	24,271
Beijing Rui Yao	**24,182**	25,920
Jiu He	**180,228**	193,183
Tianjin Jingming	**61,059**	65,448
Xian Beilin	**122,325**	–
	481,075	380,589

22. GOODWILL *(Continued)*

Notes:

Zhejiang Xianle

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 17% (2015: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2015: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2015: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2015: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Hubei Wellness

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 16% (2015: 15%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2015: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Beijing Rui Yao

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 18% (2015: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2015: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

22. GOODWILL *(Continued)*

Notes: *(Continued)*

Jiu He

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 17% (2015: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2015: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Tianjin Jingming

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 17% (2015: 16%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum (2015: 0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Xian Beilin

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 17% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using zero growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 3% of market share per year. The values assigned to the assumption reflect past experience and are consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

23. PARTICULAR OF SUBSIDIARIES

Particulars of the Group's principal subsidiaries as at 31 December 2016 and 2015 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2016	2015	Particulars of issued/ paid-up capital	Principal activities
Grand Pharm (China) (notes (iv), (vi),(vii) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB470,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao (notes (i) & (viii))	PRC/PRC	Limited liability company	**99.18% (indirect)**	99.18% (indirect)	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo (notes (ii), (viii) and (xvi))	PRC/PRC	Limited liability company	**59.71% (indirect)**	62.30% (indirect)	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Fuchi (note (viii))	PRC/PRC	Limited liability company	**82.29% (indirect)**	82.29% (indirect)	Contributed capital RMB38,990,000	Production and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Bright Eyes Company Limited ("Hubei Grand EBE") (note (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB114,000,000	Production and sales ophthalmic gel and eye drops
Zhejiang Xianle	PRC/PRC	Limited liability company	**67.00% (direct)**	67.00% (direct)	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related intermediates
Wuhan Kernel (notes (iii), (viii), (xvi) and (xvii))	PRC/PRC	Limited liability company	**95.01% (indirect)**	80.90% (indirect)	Contributed capital RMB57,368,880	Research and development, production and sale of bio-pesticides and additives
Hubei Wellness (notes (v) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB48,000,000	Manufacture and sales of pharmaceutical products in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2016	2015	Particulars of issued/ paid-up capital	Principal activities
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. ("Huangshi Feiyun") (notes (viii) & (ix))	PRC/PRC	Limited liability company	**59.90% (indirect)**	59.90% (indirect)	Contributed capital RMB125,000,000	Manufacture and sales of pharmaceutical products in the PRC
Beijing Huajin Pharmaceutical Co., Ltd. ("Beijing Huajiin") (notes (viii), (x) & (xii))	PRC/PRC	Limited liability company	**71.88% (indirect)**	71.88% (indirect)	Contributed capital RMB7,886,400	Manufacture and sales of pharmaceutical products in the
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water") (note (xi))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB1,000,000	Treatment of sewage in the PRC
Jiu He (note (xiii))	PRC/PRC	Limited liability company	**96.84% (indirect)**	96.84% (indirect)	Contributed capital RMB20,000,000	Manufacture and sales of capsules, pharmaceutical intermediates), tablets, granules and soft capsules in the PRC
Tianjin Jingming (note (xiv))	PRC/PRC	Limited liability company	**73.18% (indirect)**	73.18% (indirect)	Contributed capital RMB1,000,000	Research and development, manufacture and sales of ophthalmic medical devices and disposal surgical product
Zhu Hai Cardionovum Medical Device Co. Ltd. ("Zhu Hai Cardionovum") (note (xv))	PRC/PRC	Limited liability company	**77.89% (indirect)**	77.89% (indirect)	Contributed capital USD1,000,000	Development, manufacture and sales of ophthalmic medical devices
Xian Beilin (note (xvii))	PRC/PRC	Limited liability company	**77.09% (indirect)**	–	Contributed capital RMB27,800,000	Manufacture and sales of Chinese medicine and health food product

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes:

(a) Detail of subsidiaries

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

(i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.

(ii) Wuhan Grand Hoyo became a subsidiary of the Group in 2010 for the reason as mentioned therein.

During the year ended 2010, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%.

(iii) Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

(iv) Pursuant to an agreement dated 14 February 2012, the Group acquired additional 2.28% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB9.66 million (approximately HK$11.91 million). The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$18,047,000 and HK$6,133,000 respectively.

(v) Grand Pharm (China) entered into an agreement with 湖北絲寶藥業有限公司 to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. on 22 November 2012. The effective equity interest in Hubei Wellness held by the Group is 99.60% upon the completion of the acquisition on 22 November 2012.

(vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB136.40 million (approximately HK$169.66 million) (representing approximately RMB6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.

(vii) Pursuant to share transfer agreement dated on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) at the consideration of RMB20.06 million (representing approximately RMB5.92 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%. As a result of the acquisition detail on note (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 73.18% to 98.94%; Wuhan Grand Hoyo was increased from 45.97% to 62.15%; Hubei Fuchi was increased from 60.72% to 82.09%; Hubei Grand EBE was increased from 73.67% to 99.60% and Wuhan Kernel was increased from 59.69% to 80.70%.

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(viii) Pursuant to share transfer agreement dated on 10 October 2014, Grand Pharm (China) had increased the paid-up capital to RMB470,000,000. The Group had paid RMB285,000,000 during the year ended 2014. After the payment of additional paid-up capital, the Group further acquired approximately 0.24% equity interest in Grand Pharm (China) at the consideration of RMB1.134million (representing approximately RMB4.725 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the equity interest held by the Group in Grand Pharm (China) was approximately 99.84%. As a result of the acquisition detail on notes (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 98.94% to 99.18%; Wuhan Grand Hoyo was increased from 62.15% to 62.30%; Hubei Fuchi was increased from 82.09% to 82.29%; Hubei Grand EBE was increased from 99.60% to 99.84%, Wuhan Kernel was increased from 80.70% to 80.90%. Hubei Wellness was increased from 99.60% to 99.84%; Huangshi Feiyun was increased from 59.76% to 59.90% and Beijing Huajin was increased from 50.80% to 50.92%.

(ix) Pursuant to an agreement dated 22 February 2013, the Group established and owned 60% equity interest in Huangshi Feiyun. The effective equity interest in Huangshi Feiyun held by the Group is 59.76% on 22 February 2013.

(x) Pursuant to an agreement dated 16 July 2013, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 70.84% equity interest in Beijing Rui Yao on 31 October 2013. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao acquisition, Grand Pharm (China) will own approximately 70.56% equity interest in Rui Yao and approximately 50.80% equity interest in Beijing Huajin indirectly through Rui Yao.

(xi) The Group established and owned 99.84% equity interest in Fuchi Water. The effective equity interest in Fuchi Water held by the Group is 99.84% on 30 September 2014.

(xii) Pursuant to an agreement dated 11 December 2014, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 29.16% equity interest in Beijing Rui Yao on 1 January 2015. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao additional acquisition, the Group will own approximately 99.84% equity interest in Rui Yao and approximately 71.88% equity interest in Beijing Huajin indirectly through Rui Yao.

(xiii) Pursuant to an agreement dated 17 July 2015, Grand Pharm (China) entered into an agreement with Ningbo CDH Jinxiu Investment Management Company Limited (the "Ningbo CDH") to acquire 67.00% equity interest in Jiu He on 31 July 2015 and upon completion of Jiu He acquisition, the Group will own approximately 66.89% equity interest in Jiu He.

During the year ended 2015, a further 30.00% equity interest in Jiu He was acquired by Grand Pharm (China). As a result, the effective equity interest in Jiu He held by the Group was increased from 66.89% to 96.84%.

(xiv) Pursuant to an agreement dated 22 December 2014, Grand Pharm (China) entered into an agreement with Wu Liang and Fan Li Jin to acquire 73.30% equity interest in Tianjin Jingming on 1 January 2015. The effective equity interest in Tianjin Jingming held by the Group is 73.18% on 1 January 2015.

(xv) The Group established and owned 77.89% equity interest in Zhu Hai Cardionovum. The effective equity interest in Zhu Hai Cardionovum held by the Group is 77.89% on 9 October 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xvi) During the year ended 31 December 2016, the Group increase effective equity interest by 13.44% in Huang Gang Fuchi Pharmaceutical Co., Ltd. from the non-controlling interests at consideration of three subsidiaries shares of 2.59% in Wuhan Grand Hoyo; 2.11% in Wuhan Kernel and 3.47% in Hubei Grand Bio-technology Limited.

(xvii) During the year ended 31 December 2016, the Group acquired additional 1.55% and 16.05% equity interest in Wuhan Kernel from the non-controlling interests of Wuhan Kernel at a cash consideration of RMB3,000,000 and RMB20,180,000 (approximately HK$3,362,000 and HK$22,614,000). The Group recognised an decrease in non-controlling interests and decrease in other reserve of approximately HK$28,165,000 and HK$2,059,000 respectively.

(xviii) Pursuant to an agreement dated 29 June 2016, Grand Pharm (China) entered into an agreement with independent third parties to acquire 77.21% equity interest in Xian Beilin on 13 July 2016. Xian Beilin also owing 100%, 100% and 79% equity interest in Shenxi Xin Beilin Medical Company Limited (the "Shenxi Xin Beilin"), Xian Hanyuan Shiye Company Limited (the "Xian Hanyuan Shiye") and Xian Beilin Biological Technology Company Limited (the "Xian Beilin Biological") without any encumbrances and potential disputes, and upon completion of Xian Beilin acquisition, the Group will own approximately 77.09% equity interest in Xian Beilin and approximately 77.09%, 77.09% and 60.91% equity interest in Shenxi Xin Beilin, Xian Hanyuan Shiye and Xian Beilin Biological indirectly through Xian Beilin.

(xix) The above table lists the subsidiaries of the Group, which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive lengths.

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests

Name of Company	Place of incorporation/ registration and operation	Proportion of ownership interests and voting rights held by non-controlling interests	Profits allocated to non-controlling interests		Accumulated non-controlling interests	
			2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Xian Beilin	PRC/PRC	22.79%	**7,375**	–	**7,375**	–

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

23. PARTICULAR OF SUBSIDIARIES *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

(i) Xian Beilin

	2016 HK$'000	2015 HK$'000
Current assets	316,800	–
Non-current assets	261,628	–
Current liabilities	286,355	–
Non-current liabilities	36,495	–
Equity attributable to owners of the Company	197,340	–
Non-controlling interests	58,238	–

	2016 HK$'000	2015 HK$'000
Revenue	305,463	–
Other revenue and income	11,703	–
Expenses	(283,381)	–
Share of results of associates	(26)	–
Profit for the year	33,759	–
Total comprehensive income attributable to owners of the Company	19,834	–
Total comprehensive income attributable to non-controlling interests	5,853	–
Total comprehensive income for the year	25,687	–
Dividend paid to non-controlling interest	–	–
Net cash inflow from operating activities	82,518	–
Net cash outflow from investing activities	(68,405)	–
Net cash inflow from financing activities	(11,798)	–
Net cash inflow	2,315	–

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

24. INTANGIBLE ASSETS

	Pharmaceutical technology HK$'000	Patent, trademark and capitalised development cost HK$'000	Acquired patent rights HK$'000	Total HK$'000
Cost				
At 1 January 2015	–	–	84,139	84,139
Acquisition through business combinations	–	620,759	33	620,792
Exchange realignment	–	(23,407)	(3,290)	(26,697)
At 31 December 2015 and 1 January 2016	–	597,352	80,882	678,234
Acquisition through business combinations	–	198,837	–	198,837
Addition	7,082	–	1,586	8,668
Exchange realignment	–	(47,150)	(5,423)	(52,573)
At 31 December 2016	7,082	749,039	77,045	833,166
Accumulated amortisation and impairment loss				
At 1 January 2015	–	–	15,685	15,685
Provided for the year (note 9)	–	–	12,181	12,181
Exchange realignment	–	–	(937)	(937)
At 31 December 2015 and 1 January 2016	–	–	26,929	26,929
Provided for the year (note 9)	585	–	11,540	12,125
Exchange realignment	(24)	–	(2,282)	(2,306)
At 31 December 2016	561	–	36,187	36,748
Net carrying amounts				
At 31 December 2016	**6,521**	**749,039**	**40,858**	**796,418**
At 31 December 2015	–	597,352	53,953	651,305

The economic useful life of recognised intangible assets are as follows:

Intangible assets	**Economic useful life**
Pharmaceutical technology	20 years
Acquired patent rights	5 years – 7 years
Patents, trademarks and capitalised development cost	indefinite useful lives

The patents and trademarks will expire in the coming two to five years and subject to renewal. The directors of the Company are not aware of any expected impediment with respect to the renewal of the patents and trademarks and consider that the possibility of failing in renewal is remote and the patents and trademarks will generate net cash flows for the Group for an indefinite period. Therefore, the patents and trademarks are treated as having an indefinite useful life.

24. INTANGIBLE ASSETS *(Continued)*

For the purposes of impairment testing, goodwill, patents and trademarks above have been allocated to the acquired cash generating units, details of impairment assessment was set out in note 22. During the year ended 31 December 2016, the management of the Group determines that there is no impairment need of any of its CGUs containing goodwill, patents and trademarks.

25. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and the movements thereof during the current and prior years:

	Impairment loss on trade and other receivables HK$'000
At 1 January 2015	1,294
Exchange realignment	(50)
At 31 December 2015 and 1 January 2016	1,244
Exchange realignment	(84)
At 31 December 2016	**1,160**

As at 31 December 2016, the Group has unused tax losses of approximately HK$81,157,000 (2015: HK$69,484,000) available to offset against future profits. No deferred tax asset has been recognised during the year (2015: Nil). No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$81,157,000 (2015: HK$69,484,000) due to the unpredictability of future profit streams.

26. PREPAYMENTS

The amount represented prepayment of RMB46,016,000 (equivalent to approximately HK$51,566,000) (2015: RMB30,232,000 (equivalent to approximately HK$36,313,000)) paid to certain third party pharmaceutical institutes located in the PRC for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

The amount represented prepayment of RMBNil (2015: RMB1,190,000 (equivalent to approximately HK$1,430,000)) paid to PRC Government for the usage right of certain land.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

27. LOAN RECEIVABLES

	2016 **HK$'000**	2015 HK$'000
Current portion	**–**	33,632
Non-current portion	**–**	14,414
	–	48,046

The amount is neither past due nor impaired for whom there was no recent history of default. The loan receivables are five year terms and non-secured. The loan receivables had been early repaid during the year ended 31 December 2016.

The principle amount is RMB Nil (2015: RMB40,000,000 (equivalent to approximately HK$48,046,000)).

The effective interest rates on the Group's loan receivables are Nil (2015: 5.40%).

28. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 **HK$'000**	2015 HK$'000
Investment at fair value	**11,206**	1,201

As at 31 December 2016 and 2015, the Group's investment in wealth management products were designed at financial asset at fair value through profit or loss of which fair values are determined by reference to the quoted market bid prices available on the relevant PRC market.

The financial asset at fair value through profit or loss was classified as level 1 of fair value hierarchy.

29. INVENTORIES

	2016 **HK$'000**	2015 HK$'000
Raw materials	**145,986**	121,417
Work-in-progress	**226,428**	223,804
Finished goods	**263,812**	276,481
	636,226	621,702

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

30. TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables, net	696,607	465,703
Bills receivables	362,025	289,624
Prepayments	141,152	153,283
Deposits paid	577	579
Other tax receivables	38,301	49,852
Other receivables, net	71,405	88,288
Interest receivables	–	1,224
Prepaid rental	–	210
	1,310,067	1,048,763

The Group generally allows a credit period of 30 – 180 days (2015: 30 – 90 days) to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aged analysis of trade receivables presented based on the invoice date at the reporting date. The bills receivables were all with maturity within 180 days from the reporting date.

The ageing analysis is as follows:

	2016 HK$'000	2015 HK$'000
Within 90 days	406,881	412,012
91 – 180 days	57,964	40,645
181 – 365 days	237,799	18,954
Over 365 days	29,712	19,026
	732,356	490,637
Less: accumulated impairment loss (note a)	(35,749)	(24,934)
	696,607	465,703

The other receivables breakdown is as follows:

	2016 HK$'000	2015 HK$'000
Other receivables	93,035	109,881
Less: impairment loss on other receivables (note b)	(21,630)	(21,593)
	71,405	88,288

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables balances directly.

The Group does not hold any collated or other credit enhancement over its trade and other receivables balances. Trade and other receivables are non-interest bearing.

30. TRADE AND OTHER RECEIVABLES *(Continued)*

The Directors considered that the residual amounts of trade and other receivables are fully recoverable and no provision for impairment.

(a) The movement in the impairment loss of trade receivables is as follows:

	2016 **HK$'000**	2015 HK$'000
Balance at the beginning of the year	**24,934**	32,244
Arising on acquisition of subsidiaries	**19,123**	–
Impairment losses recognised	**10,409**	5,417
Amounts written off during the year	**(409)**	(1,576)
Impairment losses reversed	**(16,202)**	(8,774)
Exchange realignment	**(2,106)**	(2,377)
Balance at the end of the year	**35,749**	24,934

At the end of each reporting period, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, current market conditions and subsequent repayment condition after reporting report. Consequently, specific impairment loss was recognised.

(b) The movement in the impairment loss of other receivables is as follows:

	2016 **HK$'000**	2015 HK$'000
Balance at the beginning of the year	**21,593**	24,295
Arising on acquisition of subsidiaries	**4**	–
Impairment losses recognised on other receivables	**5,866**	379
Impairment losses reversed	**(4,163)**	(2,878)
Amounts written off during the year	**(159)**	(36)
Exchange realignment	**(1,511)**	(167)
Balance at the end of the year	**21,630**	21,593

(c) Ageing of trade receivables which are past due but not impaired:

Included in the Group's trade receivables balances are balances with aggregate carrying amount of HK$282,279,000 (2015: HK$53,326,000) which was past due as at the reporting date for which the Group has not provided for impairment loss. The average age of these receivables is approximately 103 days (2015: 113 days).

	2016 **HK$'000**	2015 HK$'000
Within 90 days	**240,717**	39,701
91 – 180 days	**41,562**	13,625
	282,279	53,326

Notes to the Consolidated Financial Statements
For the year ended 31 December 2016

31. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2016 HK$'000	2015 HK$'000
Cash in banks	484,401	653,899
Cash on hand	17	88
	484,418	653,987

At the end of the reporting period, cash and cash equivalents comprise of the followings:

	2016 HK$'000	2015 HK$'000
HKD	8	2,160
USD	29,920	22,296
Euro dollars (the "EURO")	4	4
RMB	454,486	629,527
	484,418	653,987

As at 31 December 2016, bank deposits of approximately HK$30,844,000 (2015: HK$38,659,000) are pledged as collateral for bills payables and bank borrowings respectively.

As at 31 December 2016, the annual effective interest rate on pledged bank deposits is 0.76% (2015: 1.19%).

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

32. TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	360,695	357,921
Bills payables	341,102	295,022
Accruals and other payables	473,646	408,934
Deposit received	801	–
Other tax payables	110,579	50,212
Receipts in advance	77,147	69,826
	1,363,970	1,181,915

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

32. TRADE AND OTHER PAYABLES *(Continued)*

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2016	2015
	HK$'000	HK$'000
Within 90 days	**227,327**	266,619
Over 90 days	**133,368**	91,302
	360,695	357,921

The average credit period on purchases of goods is 90 days.

The bills payables are mature within 180 days from the end of the reporting period.

33. BANK AND OTHER BORROWINGS

	2016	2015
	HK$'000	HK$'000
Bank borrowings (secured)	**2,357,528**	2,724,620
Other borrowing (unsecured)	**20,171**	–
	2,377,699	2,724,620
Carrying amount repayable:		
On demand or within one year	**1,663,874**	1,962,484
More than one year but not exceeding two years	**337,302**	287,678
More than two years but not more than five years	**320,493**	360,348
More than five years	**56,030**	114,110
	2,377,699	2,724,620

As at 31 December 2016 and 2015, certain bank loans are guaranteed by China Grand Enterprises Incorporation, a related company with common controlling shareholder of the Company, and secured by the plant and machinery, buildings, prepaid lease payments and pledged bank deposits of the Group in the PRC as detailed in note 45 and independent third parties.

As at 31 December 2016, other than the amount of HK$Nil (2015: HK$519,352,000) which are denominated in USD, the Group's other bank loans and other borrowings are denominated in RMB.

As at 31 December 2016 and 2015, the bank loans are granted by banks in the PRC and Hong Kong.

Except for the bank loans of HK$437,036,000 (2015: HK$564,545,000) that were charged at fixed interest rate of 4.65% to 6.53% (2015: 3.40% to 6.16%) per annum, all other bank loans bear variable interest rates from 3.99% to 9.60% (2015: 0.83% to 7.45%) per annum.

The Group has borrowed unsecured other borrowings of HK$20,171,000 (2015: Nil) from Huangshi Zhongbang City Housing Investment Co., Ltd, independent third party, during the year ended 31 December 2016 and 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. OBLIGATIONS UNDER FINANCE LEASES

During the year ended 31 December 2013, the Group leased certain of its manufacturing equipment under finance lease. The lease term is 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates at 5.6% per annum. The ownership of these manufacturing equipment under finance lease will be returned to the Group at the end of the lease terms. No arrangement have been entered into for contingent rental payments. During the year ended 31 December 2016, the ownership of these manufacturing equipment under finance lease have returned to the Group.

During the year ended 31 December 2015, the Group leased certain of its manufacturing equipment under finance lease. The lease term is 5 years. Interest rates underlying all obligations under finance leases are (i) 1.033 times of; or (ii) 0.2% higher than the 1-5 years basic borrowing rate as promulgated by the People's Bank of China, whichever is higher. At the end of the lease term of the finance lease contract, Grand Pharm (China) will have the right to purchase these manufacturing equipment at a nominal purchase price of RMB100 (equivalent to approximately HK$112). No arrangement have been entered into for contingent rental payments.

During the year ended 31 December 2016, the Group leased certain of its manufacturing equipment under finance lease from the business combination. The lease term is 3 years. Interest charges underlying all obligations under finance leases are fixed repayment on RMB474,907 and RMB474,598 (equivalent to approximately HK$532,183 and HK$531,836) and adjustment based on 0.1% higher or lower than the 1-5 years basic borrowing rate as promulgated by the People's Bank of China when it is amended during the lease term. At the end of the lease term of the finance lease contracts, Xian Beilin will have the right to purchase these manufacturing equipment at a nominal purchase price of RMB100 and RMB100 (equivalent to approximately HK$112 and HK$112). No arrangement have been entered into for contingent rental payments.

As at 31 December 2016 and 2015, the Group's finance lease liabilities were repayable as follows:

	2016 **HK$'000**	2015 HK$'000
Amounts payable under finance leases:		
Within one year	**62,540**	56,687
In the second to fifth year	**119,701**	177,968
	182,241	234,655
Future finance charges on finance lease	**(24,828)**	(32,795)
Present value of finance lease liabilities	**157,413**	201,860

The present value of finance lease liabilities is as follows:

	2016 **HK$'000**	2015 HK$'000
Current portion	**48,220**	43,616
Non-current portion	**109,193**	158,244
	157,413	201,860

The carrying amounts of the finance lease liabilities approximate their fair values. As at 31 December 2016 and 2015, the Group has lease property, plant and equipment under finance leases with net book value of HK$201,099,000 (2015: HK$ 220,048,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

35. AMOUNTS DUE TO RELATED COMPANIES

Members of the shareholder of the Group have controlling interests over the related companies.

The amounts are unsecured, interest-free and repayable on demand.

36. CONVERTIBLE BONDS

As at 31 December 2016, the carrying amount of convertible bonds amount of HK$276,453,000 (“Convertible bonds”). Each bond entitles the holder to convert to Company’s ordinary share at a conversion price of HK$ 1.35 and will be matured on 17 October 2019.

The Company issued the Convertible bonds for the principal amount of HK$330 million to mainly finance the acquisition of 上海衛康光學眼鏡有限公司 (unofficially translated as “Shanghai Weicon Optics Co., Ltd.”) (the “Acquisition”) and general working capital. The Company does not have the intention to apply for the listing of the Convertible Bonds, therefore, an active market does not exist.

However, the Acquisition has been terminated on 28 May 2015, the net proceeds from the issue of the convertible bonds will no longer be used to finance the Acquisition. As a result, the Directors intend to use such unused proceeds (i) for financing potential mergers and acquisitions when opportunities arise in the future; and (ii) as the general working capital of the Group.

The Convertible bonds may be converted into shares of the Company at any time on or after issue date up to the close of business on the maturity date.

Unless previously redeemed, converted, purchased and cancelled, the Company will redeem each Convertible bonds at its principal amount with accrued and unpaid interest thereon on the maturity date.

The Convertible bonds bear interest from and including the issue date at 3% per annum in arrears on 31 December in each year. The interest payable amount is calculated by 3% to outstanding principal amount of such Convertible bonds.

The Convertible bonds contain two components: liability and equity elements. The equity element is presented in equity heading “convertible bonds equity reserve”. The effective interest rate of the liability component on initial recognition is 9.29% per annum. The valuation of Convertible bonds was performed by an independent qualified professional valuer of the Company.

As at 31 December 2016 and 2015, the Convertible bonds with the principal amount of HK$330,000,000 were outstanding and the maximum number of share to be converted is 244,444,000 shares.

There was no movement in the number of these Convertible bonds during the year.

The carrying amounts of the Convertible bonds approximate to its fair value as at 31 December 2016 and 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

36. CONVERTIBLE BONDS *(Continued)*

The Convertible bonds information are presented as follows:

	Convertible bonds HK$'000
Principal amounts:	
– as at 31 December 2015	330,000
– as at 31 December 2016	330,000
Interest:	in HK$ settlement 3% p.a. payable per annum
Issue date:	17 October 2014
Maturity date:	17 October 2019
Conversion price per share:	HK$ 1.35
Risk free rate	1.45%
Discount rate	9.15% to 10.38%

The convertible bonds recognised in the statement of financial position were calculated as follows:

	Convertible bonds HK$'000
As at 1 January 2015	245,659
Imputed interest charge (note 10)	22,870
Less: interest paid	(9,900)
As at 31 December 2015 and 1 January 2016	258,629
Imputed interest charge (note 10)	27,724
Less: interest paid	(9,900)
As at 31 December 2016	**276,453**

37. BOND PAYABLES

	2016 **HK$'000**	2015 HK$'000
Listed corporate bond	**111,237**	–

On 1 December 2016, the Group issued an listed corporate bond at a principal amount of RMB100,000,000 (equivalent to approximately HK$112,061,000) which is unsecured, bears a fixed interest rate of 5.49% per annum in first three years and is fully redeemable by the Group after 5 years from the issue date at its principal amount of RMB100,000,000 (equivalent to approximately HK$112,061,000).

The bond payables have been approved by the China Securities Regulatory Commission as part of the proposed corporate bond offerings to qualified investors in Shenzhen Stock Exchange. The Group has an option to adjust the coupon rate, and bond holders have an option to resell to the issuer, at the end of the third interest-bearing year.

The effective interest rate of the listed corporate bond is approximately 5.67%.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2016

37. BOND PAYABLES *(Continued)*

The movement of the listed corporate bond is set out as below:

	2016 HK$'000	2015 HK$'000
Listed corporate bond issued on 1 December 2016	**112,061**	–
Transaction costs for issuance of the listed corporate bond	**(846)**	–
Initial amortised cost as at 1 December 2016	**111,215**	–
Imputed interest charged	**558**	–
Less: Coupon interest payable	**(535)**	–
Exchange realignment	**(1)**	–
As at 31 December 2016	**111,237**	–

38. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Inventories HK$'000	**Trade and other receivables** HK$'000	**Intangible assets** HK$'000	**Property, plant and equipment and prepaid lease payments** HK$'000	**Investment properties** HK$'000	**Convertible bonds** HK$'000	**Total** HK$'000
At 1 January 2015	–	–	8,676	36,725	–	13,575	58,976
Fair value adjustment from acquisition of subsidiaries	4,085	47	93,114	410	–	–	97,656
Credited to profit or loss (note 11)	–	–	(2,132)	(1,480)	–	(3,774)	(7,386)
Exchange realignment	(156)	(2)	(3,794)	(1,417)	–	–	(5,369)
At 31 December 2015 and 1 January 2016	3,929	45	95,864	34,238	–	9,801	143,877
Fair value adjustment from acquisition of subsidiaries	–	–	49,735	6,883	9,623	–	66,241
Credited to profit or loss (note 11)	(3,823)	(44)	(2,020)	(2,018)	117	(2,190)	(9,978)
Exchange realignment	(106)	(1)	(8,144)	(2,458)	(349)	–	(11,058)
At 31 December 2016	**–**	**–**	**135,435**	**36,645**	**9,391**	**7,611**	**189,082**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$126,723,000 (2015: HK$85,667,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

39. AMOUNT DUE TO HOLDING COMPANY

As at 31 December 2016 and 2015, the amount is unsecured, interest bearing at 5% per annum and not repayable within next twelve months.

40. DEFERRED INCOME

The movement of deferred income is set out below:

	HK$'000
At 1 January 2015	661,014
Received from acquisition of subsidiary (note 2(a)/note 43)	1,933
Exchange realignment	(28,603)
At 31 December 2015 and 1 January 2016	634,344
Credit to profit or loss (note 2(a))	(1,784)
Exchange realignment	(47,060)
At 31 December 2016	**585,500**

Note 1

On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

(a) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(b) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

40. DEFERRED INCOME *(Continued)*

Note 1 *(Continued)*

(c) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semi-annual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011 and 2013, RMB85,500,000 and RMB283,500,000 (equivalent to approximately HK$105,330,000 and HK$357,580,000) were received by Grand Pharm (China) respectively. During the year ended 31 December 2014, RMB58,500,000 (equivalent to approximately HK$73,629,000) was received by Grand Pharm (China).

(d) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China). During the year ended 31 December 2014, RMB171,000,000 (equivalent to approximately HK$215,219,000) was received by Grand Pharm (China).

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

The relocation commencement fee of RMB100,000,000 (equivalent is approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the years ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively. During the years ended 31 December 2012, the Group did not receive any Compensation. During the year ended 31 December 2013 and 2014, the Group has received part of Compensation of RMB283,500,000 (equivalent to approximately HK$357,580,000) and RMB229,500,000 (equivalent to approximately HK$288,848,000) respectively.

As at 31 December 2016 and 2015, the Group did not achieve all consideration and obtain the approval from the PRC Government.

Note 2

(a) The deferred income arises as a result from the Government financial support. The consideration of the financial support included increasing investment in medical production size, ability to perform the quality production, obtain the Good Manufacturing Practices Certification and incurred the accumulated sales of RMB 6,700,000 for the mixed ocular surface detection testing paper. As at 31 December 2016, the Group achieved all consideration and obtain the approval from the PRC Government.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

41. SHARE CAPITAL

	Number of shares at		Share capital at	
	31 December 2016 '000	31 December 2015 '000	**31 December 2016 HK$'000**	31 December 2015 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
At 1 January 2016 and 2015	**1,962,041**	1,962,041	**19,620**	19,620
Issue under placing (note (a))	**122,428**	–	**1,224**	–
Issue under subscription (note (b))	**152,543**	–	**1,526**	–
At 31 December 2016 and 2015	**2,237,012**	1,962,041	**22,370**	19,620

Notes:

(a) On 22 July 2016, the Company through a placing agent, placed 122,428,000 shares ("Placing") of par value HK$0.01 each at a placing price of HK$1.40 for a total consideration, before expenses, of HK$171,399,000.

(b) On 19 August 2016, the Company placed to an independent subscriber of 44,570,000 shares ("Subscription 1") of par value HK$0.01 each at a placing price of HK$1.40 for a total consideration, before expenses, of HK$62,398,000. The proceeds used for general working capital purposes and/or financing any potential investment shall such opportunity arises in the future.

On 27 September 2016, the Company placed to Outwit and East Ocean Capital (Hong Kong) Company Limited (formerly known as Emporium Energy Limited) of 83,056,478 and 24,916,943 shares respectively ("Subscription 2") of par value HK$0.01 each at a placing price of HK$1.40 for a total consideration, before expenses, of HK$151,163,000. The proceeds used for general working capital purposes and/or financing any potential investment shall such opportunity arises in the future.

East Ocean Capital (Hong Kong) Company Limited is an indirect non-wholly owned subsidiary of China Grand Enterprises Incorporation established in the PRC with limited liability, which is controlled and ultimately and beneficially owned by Mr Hu Kaijun, a controlling shareholder of the Company.

The net proceeds from the Placing, Subscription 1 and Subscription 2 used for (i) the repayment of existing bank loans; (ii) the payment of part of the consideration for the acquisition of Xian Beilin Pharmaceutical Company Limited (西安碑林藥業股份有限公司), details of which were announced by the Company dated on 29 June 2016; and (iii) funding the Group's general working capital.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

42. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2016 HK'000	2015 HK'000
Non-current assets		
Property, plant and equipment	–	–
Interest in an associate	230,638	234,391
Interests in subsidiaries	785,802	685,129
	1,016,440	919,520
Current assets		
Other receivables	1,183	838
Cash and cash equivalents	1,788	2,157
	2,971	2,995
Current liabilities		
Other payables	402	3,860
Bank borrowing	–	255,750
	402	259,610
Net current assets/(liabilities)	2,569	(256,615)
Total assets less current liabilities	1,019,009	662,905
Non-current liabilities		
Amount due to holding company	23,247	23,057
Deferred tax liabilities	7,611	9,803
Convertible bonds	276,453	258,629
	307,311	291,489
Net assets	711,698	371,416

42. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(Continued)*

	2016	2015
	HK'000	HK'000
Capital and reserves attributable to owners of the Company		
Share capital	**22,370**	19,620
Reserves	**689,328**	351,796
Total equity	**711,698**	371,416

The financial statement was approved and authorised for issue by the board of directors of the Company on 27 March 2017 and are signed on its behalf by:

Liu Chengwei
Director

Shao Yan
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

42. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(Continued)*

Movements of the Company's reserve

	Share premium HK$'000	Convertible Contributed surplus HK$'000	Bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	281,949	121,273	72,577	(82,856)	392,943
Loss and total comprehensive for the year	–	–	–	(41,147)	(41,147)
Total comprehensive loss for the year	–	–	–	(41,147)	(41,147)
At 31 December 2015 and 1 January 2016	281,949	121,273	72,577	(124,003)	351,796
Loss and total comprehensive for the year	–	–	–	(41,056)	(41,056)
Total comprehensive loss for the year	–	–	–	(41,056)	(41,056)
Placing and subscription for the year	382,210	–	–	–	382,210
Transaction cost related to placing and subscription for the year	(3,622)	–	–	–	(3,622)
At 31 December 2016	**660,537**	**121,273**	**72,577**	**(165,059)**	**689,328**

Note: Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution be made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

43. ACQUISITION OF SUBSIDIARIES

Xian Beilin

On 29 June 2016, Grand Pharm (China) has entered into an agreement to acquire 77.21% equity interest in Xian Beilin at a total consideration of approximately RMB386,067,000 (approximately HK$448,622,000) (the "Xian Beilin Acquisition"). The Xian Beilin Acquisition has been completed on 13 July 2016. The aggregate consideration of approximately RMB386,067,000 has been settled by cash.

Acquisition-related costs of approximately was HK$700,000 have been recognised as expenses in the year and included in the administrative expenses.

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Fair value of net assets recognised on acquisition HK$'000
Net assets acquired:	
Property, plant and equipment (note 16)	162,360
Investment in associates	2,673
Prepaid lease payments (note 18)	18,380
Investment properties (note 17)	46,873
Available-for-sale financial assets	3,486
Intangible assets (note 24)	198,837
Inventories	79,431
Trade and other receivables	222,111
Cash and cash equivalents	39,091
Trade and other payables	(82,381)
Amount due to an associate	(8,018)
Amount due to related company	(23,241)
Bank borrowings	(157,571)
Tax payables	(2,015)
Obligations under finance leases	(22,267)
Deferred tax liabilities	(66,241)
	411,508
Non-controlling interests	(89,733)
Goodwill arising on acquisition (note 22)	126,847
Total consideration	448,622
Satisfied by:	
Cash	448,622
Net cash outflow arising on Acquisition:	
Consideration paid in cash	(448,622)
Less: Cash and cash equivalents acquired	39,091
	(409,531)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Xian Beilin *(Continued)*

The goodwill arising on the Xian Beilin Acquisition is attributable to the network of its manufacturing of pharmaceutical products, pre-processing and extraction of Chinese medicine and sale of health food. The recognition of the property, plant and equipment, prepaid lease payments, intangible assets and other payables have been referenced to the valuation report issued by an independent professional valuer.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

Had the acquisition of Xian Beilin been effected at 1 January 2016, the Group's revenue for the year ended 31 December 2016 would have been HK$3,933,418,000 and the consolidated profit for the year would have been HK$278,547,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 13 July 2016, nor is it intended to be a projection of future results.

Jiu He

On 17 July 2015, Grand Pharm (China) has entered into an agreement to acquire 67.00% equity interest in Jiu He at a total consideration of approximately RMB452,220,000 (approximately HK$563,602,000) (the "Jiu He Acquisition"). The Jiu He Acquisition has been completed on 31 July 2015. The aggregate consideration of approximately RMB452,220,000 has been settled by cash.

Acquisition-related costs of approximately was HK$2,373,000 have been recognised as expenses in the year and included in the administrative expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Jiu He *(Continued)*

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Fair value of net assets recognised on acquisition HK$'000
Net assets acquired:	
Property, plant and equipment (note 16)	48,249
Prepaid rental	1,792
Intangible assets (note 24)	561,367
Inventories	76,535
Trade and other receivables	22,891
Cash and cash equivalents	9,140
Tax recoverable	723
Trade and other payables	(30,946)
Amounts due to former shareholders	(36,111)
Bank borrowings	(1,869)
Receipt in advance	(22,017)
Deferred tax liabilities	(87,728)
	542,026
Non-controlling interests	(178,869)
Goodwill arising on acquisition (note 22)	200,445
Total consideration	563,602
Satisfied by:	
Cash	563,602
Net cash outflow arising on Acquisition:	
Consideration paid in cash	(563,602)
Less: Cash and cash equivalents acquired	9,140
	(554,462)

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Jiu He *(Continued)*

The goodwill arising on the Jiu He Acquisition is attributable to the network of its manufacturing of capsules, pharmaceutical intermediates (Tremella Polysaccharide), tablets, granules and soft capsules. The recognition of the intangible assets and inventories have been referenced to the valuation report issued by an independent professional valuer.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Impact of acquisition on the results of the Group

Had the acquisition of Jiu He been effected at 1 January 2015, the Group's revenue for the year ended 31 December 2015 would have been HK$3,348,955,000 and the consolidated profit for the year would have been HK$226,543,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 31 July 2015, nor is it intended to be a projection of future results.

Tianjin Jingming

On 22 December 2014, Grand Pharm (China) has entered into an agreement to acquire 73.30% equity interest in Tianjin Jingming at a total consideration of approximately RMB91,300,000 (approximately HK$115,657,000). The acquisition has been completed on 9 January 2015. The aggregate consideration of approximately RMB91,300,000 has been settled by cash.

Acquisition-related costs of approximately of HK$254,000 have been recognised as expenses in the year and included in the administrative expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

Tianjin Jingming *(Continued)*

The net assets acquired in the transaction and the goodwill arising therefrom, are as follows:

	Fair value of net assets recognised on acquisition HK$'000
Net assets acquired:	
Property, plant and equipment (note 16)	18,840
Intangible assets (note 24)	59,425
Inventories	7,845
Trade and other receivables	1,951
Cash and cash equivalents	1,857
Trade and other payables	(13,876)
Deferred income	(1,933)
Tax liabilities	(561)
Deferred tax liabilities	(9,928)
	63,620
Non-controlling interests	(16,987)
Goodwill arising on acquisition (note 22)	69,024
Total consideration	115,657
Satisfied by:	
Cash	115,657
Net cash outflow arising on acquisition:	
Consideration paid in cash	(115,657)
Less: Cash and cash equivalents acquired	1,857
	(113,800)

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The goodwill arising on the acquisition of Tianjin Jingming is attributable to the network of its international advanced technology which specialising in developing and distributing ophthalmic medical devices and surgical supplies. The recognition of the property, plant and equipment, intangible assets, inventories and trade and other receivables have been referenced to the valuation report issued by an independent professional valuer.

Impact of acquisition on the results of the Group

Had the acquisition of Tianjin Jingming been effected at 1 January 2015, the Group's revenue for the year ended 31 December 2015 would have been HK$3,246,546,000 and the consolidated profit for the year would have been HK$200,700,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 9 January 2015, nor is it intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

44. RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associate as disclosed in note 19, related companies as disclosed in note 35 and holding company as disclosed in note 39 and Subscription 2 as disclosed in note 41(b), during the years ended 31 December 2016 and 2015, the Group entered into following transactions with its related parties:

	2016 HK$'000	2015 HK$'000
Interest charged to the Group by holding company (note (i), note 10)	**451**	462
Sales of goods to Yangxin Fuxin (note (ii))	**1,724**	2,248
Purchases of goods from Yangxin Fuxin (note (ii))	**8,674**	–
Sales of goods to the companies with common controlling shareholder:		
華東醫院股份有限公司(unofficially translated as "Huadong Medicine Co. Ltd") (note (iii))	**22,732**	24,947
Purchase of goods from the Companies with common controlling shareholder:		
江蘇遠大信誼藥業有限公司(unofficially translated as "Jiangsu Grand Xin Yi Pharmaceutical Co. Ltd" (note (iii))	**35,632**	48,393
遠大物產集團有限公司(unofficially translated as "Grand Group Corporation Limited" (note (iii))	**1,860**	3,965
保定九孚生化有限公司(unofficially translated as "Baoding Jiufu Biochemical Company Limited" (note (iii))	**4,127**	–

Notes:

(i) Interest was charged on an amount due to the holding company as disclosed in note 39.

(ii) Transactions were conducted with terms mutually agreed with the contracting parties.

(iil) The transactions constitute continuously connected transactions under Chapter 14A of the Listing Rules. Please also refer to "Continuing Connected Transactions" under "Report of the Directors".

(b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2016 and 2015 are set out in note 33.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2016 HK$'000	2015 HK$'000
Short-term benefits	**8,028**	7,013
Post-employment benefits	**122**	98
	8,150	7,111

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

45. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the bank borrowings and banking facilities granted to the Group:

	2016 HK$'000	2015 HK$'000
Prepaid lease payments (note 18)	**21,503**	23,464
Buildings (note 16)	**129,428**	127,210
Plant and machinery (note 16)	**149,349**	175,399
Pledged bank deposits (note 31)	**30,844**	38,659
	331,124	364,732

46. COMMITMENTS

(a) Operating lease commitment

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**3,686**	9,599
In the second to fifth year inclusive	**2,439**	5,268
	6,125	14,867

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to three years and rentals are fixed for an average of one to three years.

The Group as lessor

The Group sub-leases certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$293,000 (2015: HK$19,000). The Group has no future minimum lease payments from tenants under non-cancellable operating lease.

(b) Capital commitment

	2016 HK$'000	2015 HK$'000
Capital expenditure contracted but not provided for:		
Acquisition of property, plant and equipment	**22,000**	58,908

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

47. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2015:HK$1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2015: HK$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately HK$43,885,000 (2015: HK$43,068,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

48. LITIGATION

In June 2016, the Group has successfully applied to the court to freeze RMB20,000,000 (equivalent to approximately HK$22,414,000) assets of the original shareholders of Tianjin Jingming, an indirect non-wholly owned subsidiary of the Company since January 2015 in order to secure the Group's pending responsibilities regarding certain litigations related to an incident as stated in a press release issued by the China Food and Drug Administration (the "CFDA") on 14 April 2016, which is about a product quality incident related to some Ophthalmic Perfluoro propane Gases produced by Tianjin Jingming. According to the terms of the sales and purchase agreement in relation to the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for such product incident. The Group is claiming them for their responsibilities and also indemnified those related losses suffered by the Group.

(a) Writ issued in PRC by China Pharm (China) and original shareholders of Tianjin Jingming

Although such product incident is still under investigation, being taking up the social responsibilities and fulfilling related requirements, the Group had recalled all products of the related batches and also temporary suspended the production and sales of such related products. According to the terms of the Tianjin Jingming acquisition agreement, Tianjin Jingming had already fully settled the penalty of approximately RMB5,190,000 (equivalent to approximately HK$5,816,000) imposed by the CFDA. As at the date of this report, Tianjin Jingming is undertaking certain claim actions for approximately RMB21,000,000 (equivalent to approximately HK$23,535,000) given to the above incident. Given that (i) referring to the opinions from the professional organized by the CFDA, it is unable to identify the impurity that caused the product incident with the existing technology and it will need further investigation and research to find out the cause thereof; (ii) Ophthalmic Perfluoro propane Gases is not the core product of the Group, the Board considers that the suspension of the production of such product and the recall of the relevant batches by Tianjin Jingming do not have any material impact on the Group's operations or financial position; and (iii) according to the terms of the Tianjin Jingming Acquisition Agreement, the original shareholders of the Tianjin Jingming should responsible for the compensation of such product incident. Hence, the Directors are of the view that the said incident and related litigations do not have material impact to the Group. For the detail information, please refer to the Group's interim report date on 20 September 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

48. LITIGATION *(Continued)*

(a) Writ issued in PRC by China Pharm (China) and original shareholders of Tianjin Jingming *(Continued)*

On 22 August 2016, original shareholders of Tianjin Jingming filed its objection to the Rulings of Enforcement to the Wuhan Intermediate People's Court.

On 5 September 2016, the Group received the Wuhan Intermediate People's Court's dismissal to its objection.

(b) Writs issued in PRC by Tianjin Jingming and certain plaintiffs

In April and September 2016, the Group received writs issued by certain plaintiffs against Tianjin Jingming (as defendant) and demand for payment with claiming of plaintiffs legal charges.

On 17 January 2017, Tianjin Jingming received judgments dated 17 January 2017 issued by Beijing Haidian District People's Court. The court made orders to request Tianjin Jingming to provide the compensation payment with the relevant legal charges of approximately RMB3,952,000 (equivalent to approximately HK$4,619,000).

Upon the report date, there are still certain litigations which are under legal procedure.

The Company is also seeking legal advice as to the possible impacts of the court's judgment on the Group, if any. Directors consider the impacts are limited and the provisions are made appropriately for the year ended 31 December 2016.

Save as disclosed above, as at 31 December 2016, so far as the Directors were aware, the Group was not engaged in any litigation or claims of material importance, and no litigation or claims of material importance are pending or threatened against the Group.

49. ACQUISITION OF ADDITIONAL EQUITY INTEREST OF SUBSIDIARIES

During the year ended 31 December 2016, the Group acquired additional 1.55% and 16.05% equity interest in Wuhan Kernel from the non-controlling interests of Wuhan Kernel at a cash consideration of RMB3,000,000 and RMB20,180,000 (approximately HK$3,362,000 and HK$22,745,000). The Group recognised a decrease in non-controlling interests and increase in other reserve of approximately HK$28,166,000 and HK$2,059,000 respectively.

During the year ended 31 December 2016, the Group acquired additional 21.00% equity interest in Xian Beilin Biological Technology Company Limited from the non-controlling interests of Xian Beilin Biological Technology Company Limited at a cash consideration of RMB2,100,000 (approximately HK$2,202,000). The Group recognised an increase in non-controlling interests and decrease in other reserve of approximately HK$4,236,000 and HK$6,438,000 respectively.

During the year ended 31 December 2015, the Group acquired additional 20.16% equity interest in Beijing Rui Yao from the non-controlling interests of Beijing Rui Yao at a cash consideration of RMB7,000,000 (approximately HK$8,840,000). The Group recognised an increase in non-controlling interests and decrease in other reserve of approximately HK$4,483,000 and HK$13,323,000 respectively.

During the year ended 31 December 2015, the Group acquired additional 30.00% equity interest in Jiu He from the non-controlling interests of Jiu He at a cash consideration of RMB210,080,000 (approximately HK$256,193,000) and written off the amount due to a shareholder assigned of approximately RMB24,191,000 (approximately HK$29,501,000). The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$169,632,000 and HK$57,060,000 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

50. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, the Group increase effective equity interest by 13.44% in Huang Gang Fuchi Pharmaceutical Co., Ltd. from the non-controlling interests at consideration of three subsidiaries shares of 2.59% in Wuhan Grand Hoyo; 2.11% in Wuhan Kernel and 3.47% in Hubei Grand Bio-technology Limited.

During the year ended 31 December 2016, the Group derecognised Xian Beilin Biological Technology Company Limited.

The Group entered in the above non-cash investing activities which are not reflected in the consolidated statement of cash flows.

The effects of the above equity translations are presented in non-controlling interests and other reserve.

51. EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events after the end of the reporting period.

52. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2017.

Financial Summary

For the year ended 31 December 2016

Results

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**3,696,164**	3,245,546	3,122,116	2,658,282	2,059,307
Profit before tax	**313,964**	240,563	202,921	132,280	115,535
Income tax expense	**(44,602)**	(40,156)	(27,198)	(26,994)	(10,830)
Profit for the year	**269,362**	200,407	175,723	105,286	104,705

Assets and liabilities

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**7,141,947**	6,633,385	4,990,681	4,565,349	3,354,085
Total liabilities	**(5,165,860)**	(5,229,046)	(3,682,314)	(3,474,560)	(2,474,356)
Net assets	**1,976,087**	1,404,339	1,308,367	1,090,789	879,729