

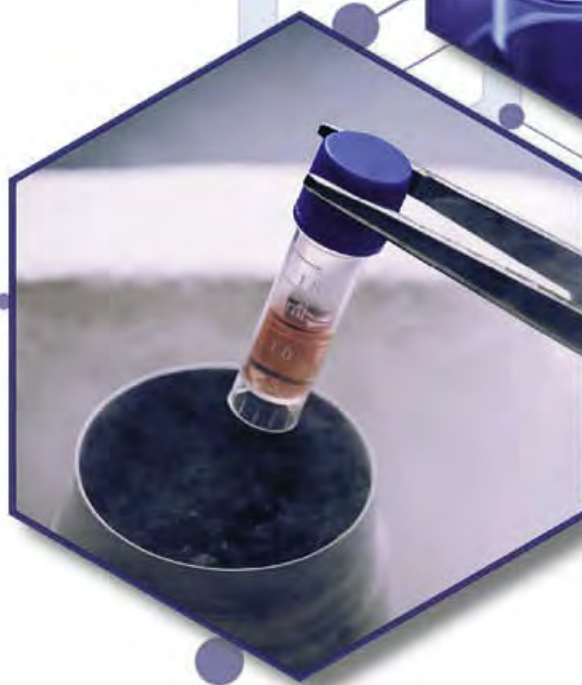
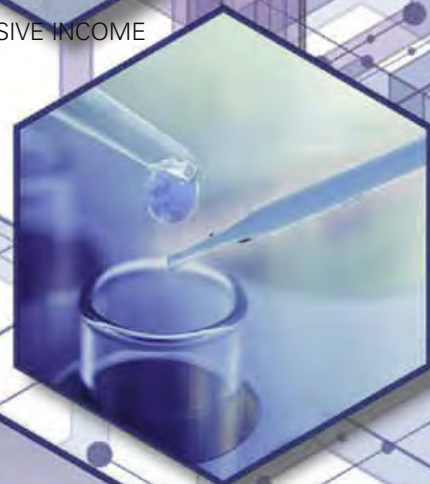
ESSEX BIO-TECHNOLOGY LIMITED
億勝生物科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 1061)

2016
Annual Report

Contents

2	CORPORATE INFORMATION
3	FINANCIAL HIGHLIGHTS
4	CHAIRMAN'S STATEMENT
9	PROFILES OF DIRECTORS AND SENIOR MANAGEMENT
11	MANAGEMENT DISCUSSION AND ANALYSIS
20	REPORT OF THE DIRECTORS
36	CORPORATE GOVERNANCE REPORT
47	INDEPENDENT AUDITOR'S REPORT
52	CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
53	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
54	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
55	CONSOLIDATED STATEMENT OF CASH FLOWS
57	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
113	FIVE YEAR FINANCIAL SUMMARY



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ngiam Mia Je Patrick (*Chairman*)
Fang Haizhou (*Managing Director*)
Zhong Sheng

Independent Non-executive Directors

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

AUDIT COMMITTEE

Fung Chi Ying (*Chairperson*)
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

REMUNERATION COMMITTEE

Yeow Mee Mooi (*Chairperson*)
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

NOMINATION COMMITTEE

Yeow Mee Mooi (*Chairperson*)
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

CORPORATE GOVERNANCE COMMITTEE

Yeow Mee Mooi (*Chairperson*)
Zhong Sheng
Fung Chi Ying
Mauffrey Benoit Jean Marie

COMPANY SECRETARY

Yau Lai Man MBA, ACA, CPA (practising)

AUTHORISED REPRESENTATIVES

Zhong Sheng
Yau Lai Man

AUDITOR

BDO Limited

WEBSITE ADDRESS

www.essexbio.com

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2818
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

HEADQUARTER IN CHINA

No. 88
Keji 6th Road
Hi-Tech Zone
Zhuhai
Guangdong, China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

Hong Kong Registrars Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
China Merchants Bank
Industrial and Commercial Bank of China
(Asia) Limited
Credit Suisse AG Hong Kong Branch

STOCK CODE

01061

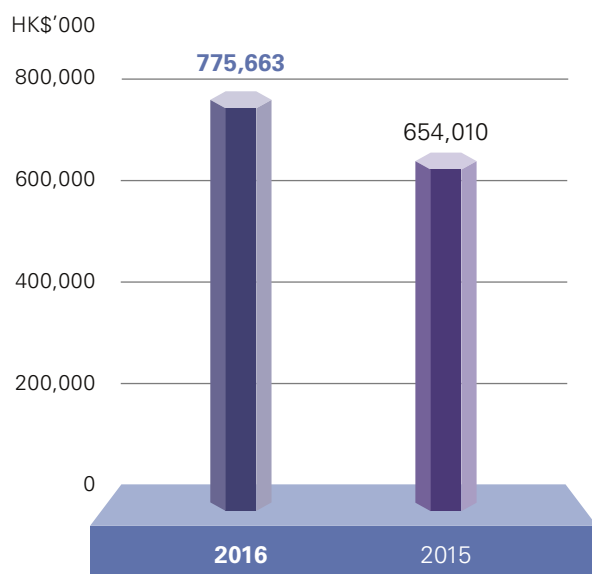
Financial Highlights

	2016 HK\$'000	2015 HK\$'000	Increase
Results			
Turnover	775,663	654,010	18.6%
Gross profit margin	80.3%	81.0%	
Profit for the year	136,284	104,895	29.9%
Earnings per share			
– Basic	HK24.33 cents	HK18.75 cents	29.8%
– Diluted	HK24.03 cents	HK18.51 cents	29.8%
Financial position			
Total assets	933,297	636,579	46.6%
Total liabilities	376,433	223,632	68.3%
Total equity	556,864	412,947	34.9%
Cash and cash equivalents	156,180	64,613	141.7%
Current ratio (Note 1)	2.28	1.73	
Debt ratio (Note 2)	0.40	0.35	

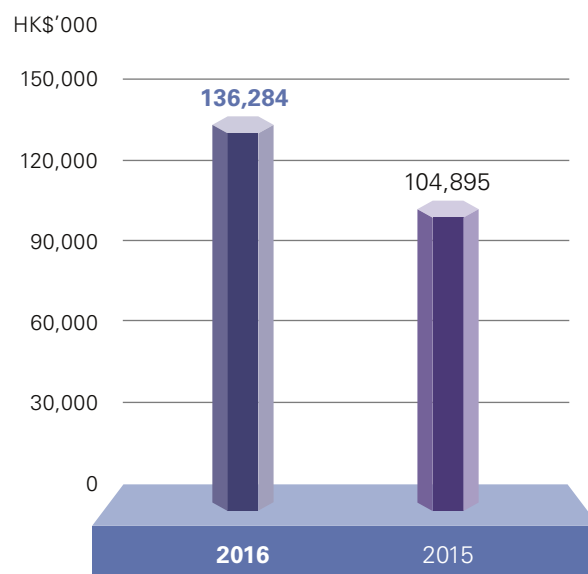
Notes:

- 1 *Current ratio: Total current assets/Total current liabilities*
- 2 *Debt ratio: Total liabilities/Total assets*

TURNOVER



PROFIT FOR THE YEAR



Chairman's Statement



I am pleased to announce that the Group has achieved encouraging developments in the financial year ended 31 December 2016.

Mr. Ngiam Mia Je Patrick
Chairman

Chairman's Statement

On behalf of the Board ("Board") of Directors ("Directors") of Essex Bio-Technology Limited ("Company", together with its subsidiaries, "Group"), I am pleased to announce that the Group has achieved encouraging developments in the financial year ended 31 December 2016.

THE ENRICHMENT PROGRAMME

In 2015, the Group initiated and implemented an enrichment programme ("Enrichment Programme") for enhancing its research and development pipeline and expanding its products portfolio, with an objective of enabling the Group to scale further heights over the next 10 years.

Under the Enrichment Programme, in 2016, the Group has successfully invested in several companies and secured the exclusive distribution right of an ophthalmic medical device.

Summary of details of the Group's investments made and/or the distribution right obtained during 2016 are outlined as follows:

Date	Description of the transactions	Objectives
Within China		
1. 8 January 2016	Further to the agency agreement entered on 22 September 2015 with Guangxi Medictop Pharmaceutical Co., Ltd ("Guangxi Medictop") as an exclusive sales agent for the distribution of Yi Xue An Granules (伊血安颗粒), the Group granted a convertible loan in the principal amount of RMB15.0 million to Guangxi Medictop at an interest rate of 6% per annum for a term of 3 years.	Fostering a strategic relationship with Guangxi Medictop.



Yi Xue An Granules



Henson 9000

Chairman's Statement

Date	Description of the transactions	Objectives
In Overseas		
2. 22 January 2016	Collaboration and license agreement for an initial term of 10 years, agreements for subscription of series C preferred stocks of Abpro Corporation ("Abpro") at the aggregate price of US\$3.5 million and subscription of warrants in Abpro. Abpro is a USA based company, with unmet bispecific antibody development capability in oncology and other therapeutic treatments.	Pursuing and accelerating the development of antibody based therapeutic drugs.
3. 3 March 2016	Distribution agreement with Elektron Technology UK Limited ("Elektron"), pursuant to which Elektron appointed the Group as its exclusive distributor of Henson 9000 for a period of 8 years.	Establishing a milestone of the Group in the ophthalmic medical device market and expanding the range of the Group's eye care solutions, which will together benefit the Group in striving for sustainable growth in the ophthalmology arena in the People's Republic of China ("PRC").
4. 11 April 2016	Subscription agreement for preferred shares of AC Immune SA ("ACI") at the aggregate price of US\$5.0 million. ACI is a Switzerland based company, specialising in novel therapies and diagnostics for neurodegenerative diseases with focus on Alzheimer's disease. ACI was successfully listed on NASDAQ on 23 September 2016 and the relevant preferred shares were automatically converted into common shares of ACI upon listing.	The subscription is in line with the Group's business strategy to actively explore the opportunity to invest in companies with growth potentials. The subscription also sets ground for future business cooperation between the Group and ACI.

OBTAINED A CONVERTIBLE LOAN OF HK\$150 MILLION FROM INTERNATIONAL FINANCE CORPORATION ("IFC")

On 6 July 2016, the Group obtained a convertible loan of HK\$150.0 million ("Convertible Loan") from IFC, a member of the World Bank Group. The proceeds of the Convertible Loan are for the Company's strategic investment in and development of the Group's biopharmaceutical business and general working capital requirements. The Directors are of the view that the entering into of the agreement for the convertible loan would allow the Company to raise additional funds for the Group's business. Furthermore, it is contemplated that the capital base of the Company would be enlarged and strengthened upon conversion of the Convertible Loan.

SALES AND DISTRIBUTION NETWORK

As at 31 December 2016, the Group has 39 Regional Sales Offices ("RSOs") and a total number of about 1,280 sales and marketing representatives, out of which approximately 730 people were full-time staff and approximately 550 people were hiring on contract basis and engaging from appointed agents.

The RSOs and sales and marketing representatives are deployed across major cities and provinces in the PRC, which are tasked with the function of promoting the Group's products to pharmaceutical companies and hospitals, and providing training on clinical applications of the Group's products to medical practitioners. In addition, these RSOs serve another vital role to the Group in gathering market intelligence and feedback for the Group's research and development planning and clinical studies.

Chairman's Statement

RESEARCH AND DEVELOPMENT PLATFORMS

The Group's key research and development platforms comprise: Growth Factor, Nano-antibody and Blow-Fill-Seal ("BFS"). Growth Factor platform and Nano-antibody platform are technology platforms, whereas BFS platform is the manufacturing platform. The establishment of the BFS platform, the state-of-the-art technology of manufacturing plant and equipment, has strengthened the Group's core competency and enabled the Group to develop and produce a series of preservative-free single dose drugs.

To strengthen the research and development capabilities, the Group has entered into the following agreements:

1. Cooperation agreement with Tasly Pharmaceutical Group Co., Ltd in 2015 and for the development of, in particular, a therapeutic product using Platelet-Derived Growth Factor (PDGF) for the treatment and healing of diabetic ulcers. The project is being planned for Phase III clinical trials in the PRC.
2. Collaboration and license agreement with Abpro, which offers the Group the opportunity to develop a new range of therapeutic products, using certain antibody candidates of Abpro, for the Group's ophthalmology and surgical businesses, as well as new drugs for the Group's oncology business.

FINANCIAL PERFORMANCE

Amid Yuan depreciation and operating under the new tendering system of drug pricing reform in 2016, the Group was able to overcome the adversities and delivered yet another year of good performances.

For the year ended 31 December 2016, the Group achieved a consolidated turnover of approximately HK\$775.7 million, representing an increase of 18.6% over previous year. Correspondingly, the Group's consolidated profits for the year rose to approximately HK\$136.3 million for the year ended 31 December 2016 from approximately HK\$104.9 million in the previous year, representing an increase of 29.9%. Such increase is mainly attributed to the increase in turnover, different product mix and better costs management.

The Group's revenue is mainly derived from the biopharmaceutical ophthalmic drug, the Beifushu series, which accounted for approximately 35.1% of the Group's total revenue, whereas, the Beifuji series, biopharmaceutical products for surface wounds healing and treatment, contributed to approximately 42.7% of the Group's total revenue. Revenue from selling and distribution of third party products and provision of marketing services to third party contributed approximately 22.2% to the Group's total revenue for the year ended 31 December 2016.

OUTLOOK AND PROSPECTS

Barring unforeseen circumstances, the Group is optimistic of the continued growth in 2017 from its flagship biopharmaceutical products, the Beifushu and Beifuji series, as well as from its third party products under the distribution agreements.

The Group will continue to execute its Enrichment Programme to seek further investment opportunities in the PRC and overseas, while fostering closer development and business relationship with existing investees.

As disclosed in the announcement of the Company dated 8 March 2017, the Company is exploring the possibility for a Korean Depository Receipt Programme on the Korea Exchange, which if materialised, is expected to enable the Company to provide further liquidity for its shares, increase public awareness of it, promote its corporate image and broaden its shareholder base.

Chairman's Statement

DIVIDEND

To reward our shareholders for their years of valuable support, the Board is proposing a final dividend of HK\$0.032 per ordinary share to be approved at the upcoming annual general meeting of the Company.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to all stakeholders, business associates, valued customers and each and every member of the Group for the trust, support and cooperation accorded to us in developing the Company as a leading pharmaceutical company.

Ngiam Mia Je Patrick

Chairman

Hong Kong
21 March 2017

Profiles of Directors and Senior Management

NGIAM MIA JE PATRICK

Aged 62, Mr. Ngiam is the founder of the Group which was established in February 1999, an executive Director and Chairman of the Company. He is a member of the remuneration committee and nomination committee of the Company, a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Essex Medipharma (Zhuhai) Company Limited, Zhuhai Essex Technology Development Company Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company.

Mr. Ngiam graduated in electronics engineering and has received many accolades and awards for his achievements. Notably, in 1990, he was awarded the first KPMG Singapore High Tech Entrepreneur Award. Other awards include the DHL & Singapore Press Holdings Business Award for Businessman of the Year in 1994 and the Chevalier DE L' ORDRE NATIONAL DU MERITE conferred by Le President De La Republique Francaise in 1996.

As at the date of this report, Mr. Ngiam (i) was directly interested in 146,479,000 shares of the Company, and was also deemed to be interested in 6,666,667 shares of the Company held by Dynatech Ventures Pte Ltd, a wholly-owned subsidiary of Essex Investment (Singapore) Pte Ltd, which in turn was owned by Mr. Ngiam and Ngiam Mia Kiat Benjamin (who is a director of a wholly-owned subsidiary of the Company) in equal shares; and (ii) also held 500,000 share options of the Company. Mr. Ngiam is a brother of Ngiam Mia Kiat Benjamin. Mr. Ngiam is also a director of each of Dynatech Ventures Pte Ltd and Essex Investment (Singapore) Pte Ltd.

FANG HAIZHOU

Aged 51, Mr. Fang is an executive Director, the managing Director and the general manager of the Company. He is also a senior pharmaceutical engineer. He has a bachelor's degree in Bio-chemical Engineering from Southern China Institute (華南工學院) and a master's degree in Engineering from Southern China University of Technology (華南理工大學). He has been with Zhuhai Essex Bio-Pharmaceutical Company Limited since its establishment in June 1996. Mr. Fang is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Essex Medipharma (Zhuhai) Company Limited, Zhuhai Essex Technology Development Company Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company.

As at the date of this report, Mr. Fang was personally interested in 4,738,300 shares of the Company and also held 3,500,000 share options of the Company.

ZHONG SHENG

Aged 52, Mr. Zhong is an executive Director and is responsible for the financial management and administration of the Group. He holds a master's degree in Industrial Economics from Guangdong Academy of Social Sciences (廣東省社會科學院). Mr. Zhong joined the Group in February 1999. Mr. Zhong has more than 22 years' experience in financial management and project management. Mr. Zhong is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Essex Medipharma (Zhuhai) Company Limited, Zhuhai Essex Technology Development Company Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company. Mr. Zhong is also a member of the corporate governance committee and an authorised representative of the Company.

As at the date of this report, Mr. Zhong was personally interested in 1,251,150 shares of the Company and also held 1,060,000 share options of the Company.

Profiles of Directors and Senior Management

FUNG CHI YING

Aged 62, Mr. Fung was appointed as an independent non-executive Director on 13 June 2001. Mr. Fung is a practising solicitor in Hong Kong. He is presently a partner of Adrian Yeung & Cheng, Solicitors. Mr. Fung is also the chairman of the audit committee and a member of the remuneration committee, nomination committee and corporate governance committee of the Company.

As at the date of this report, Mr. Fung has no interests in the shares or underlying shares of the Company which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

MAUFFREY BENOIT JEAN MARIE

Aged 64, Mr. Mauffrey was appointed as an independent non-executive Director on 13 June 2001. He is experienced in business development and sales and marketing in several industries in the Asia Pacific region. He is also a member of the audit committee, remuneration committee, nomination committee and corporate governance committee of the Company.

As at the date of this report, Mr. Mauffrey has no interests in the shares or underlying shares of the Company which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

YEOW MEE MOOI

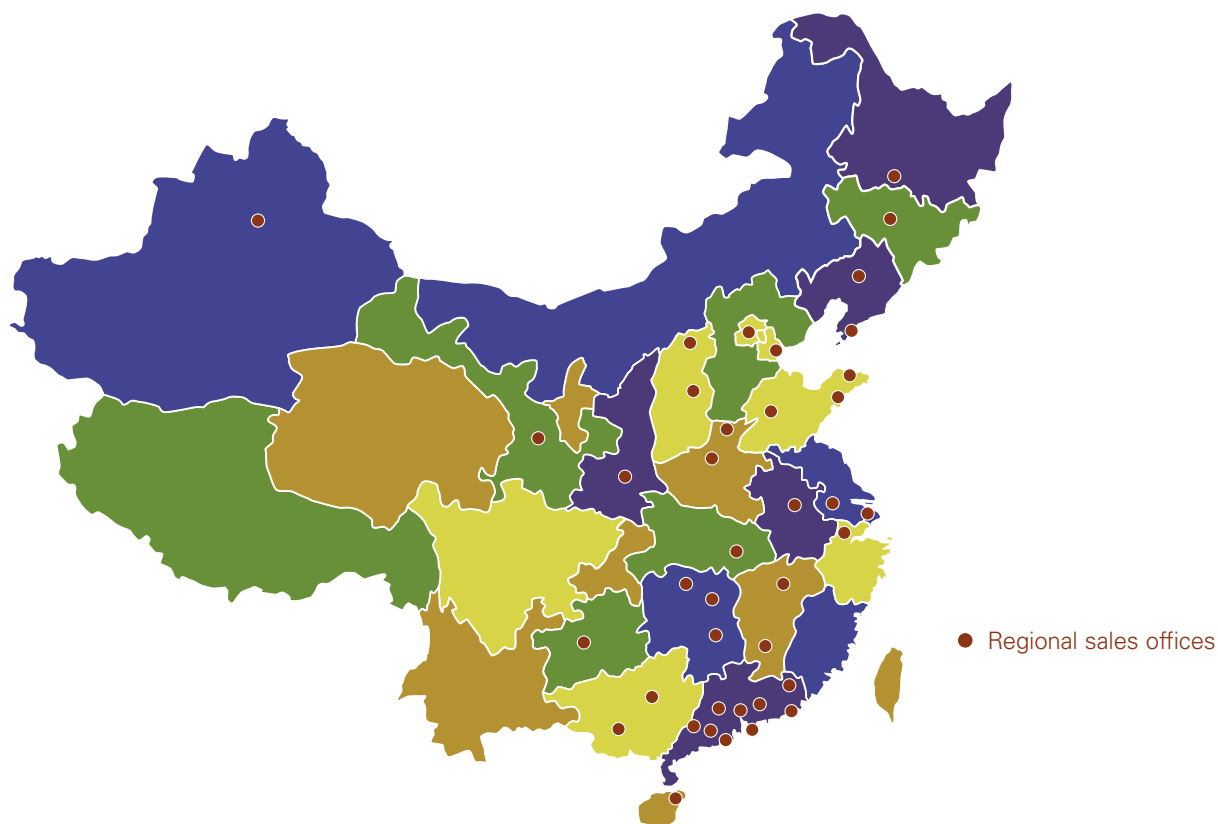
Aged 54, Ms. Yeow was appointed as an independent non-executive Director on 30 September 2004. Ms. Yeow graduated from The University of Southwestern Louisiana, the United States of America, with a bachelor's degree in business administration. Ms. Yeow further obtained her postgraduate diploma in financial management from The University of New England, Australia. Ms. Yeow is a certified practicing accountant of The Hong Kong Institute of Certified Public Accountants and The Australian Society of Certified Practising Accountants. Ms. Yeow has over 25 years' taxation, auditing and commercial experience in Hong Kong. Ms. Yeow is now a director of a management consulting firm in Hong Kong. She is also the chairperson of the remuneration committee, nomination committee and corporate governance committee and a member of the audit committee of the Company.

As at the date of this report, Ms. Yeow has no interests in the shares or underlying shares of the Company which are required to be disclosed under Part XV of the Securities and Futures Ordinance.

WANG XINZHI

Aged 53, Mr. Wang joined the Group on 10 November 2000 and was appointed as a director of Essex Medipharma (Zhuhai) Company Limited, Zhuhai Essex Bio-Pharmaceutical Company Limited and Zhuhai Essex Technology Development Company Limited, all being subsidiaries of the Company, on 9 January 2015, 28 August 2015 and 28 August 2015 respectively. Mr. Wang was appointed as the general manager of Zhuhai Essex Bio-Pharmaceutical Company Limited and Zhuhai Essex Technology Development Company Limited on 1 January 2011 and 28 August 2015 respectively. Mr. Wang has a master's degree in Genetics from Fudan University (復旦大學) and has extensive corporate management and marketing experience in several industries in the PRC.

Management Discussion and Analysis



Sales and distribution network of the Group

BUSINESS REVIEW AND PROSPECTS

The vision of Essex Bio-Technology Limited ("Company", together with its subsidiaries, "Group") is to be a great and socially responsible corporation. Strategically, the Group is in pursuit of innovations in biotechnology and pharmaceuticals to enhance the efficacy of healing and wellness of patients.

The Group stays focused on manufacturing and selling of flagship biopharmaceutical products for the treatment and healing of surface wounds and eye wounds. In addition, the Group strived to improve capacity utilisation, examine new clinical applications, and distribute third party products that are complementary to its core products to further expand the scope of business and strengthen the Group's competitive advantage.

The Group has initiated and implemented an Enrichment Programme since 2015 for enhancing its research and development pipeline and expanding its products portfolio for boosting its competitiveness and sustainable growth that would enable the Group to scale further heights over the next 10 years.

The Group has further invested in several companies and secured the exclusive distribution right of an ophthalmic medical device in 2016. Details are outlined under the sub-section headed "The Enrichment Programme" below.

As disclosed in the announcement of the Company dated 8 March 2017, the Company is exploring the possibility for a Korean Depository Receipt Programme ("KDR Programme") on the Korea Exchange, which if materialised, is expected to enable the Company to provide further liquidity for its shares, increase public awareness of it, promote its corporate image and broaden its shareholder base. As at the date of this report, the Company, through its legal adviser in Korea and the lead manager, is still in discussion with the Korea Exchange regarding the proposed KDR Programme and no application relating to the KDR Programme has been made to the Korea Exchange. The proposed KDR Programme may or may not proceed. The Company will comply with the relevant reporting, shareholders' approval and/or other requirements as and when appropriate.

Management Discussion and Analysis

THE ENRICHMENT PROGRAMME

Convertible Loan Agreement with Guangxi Medictop Pharmaceutical Co., Ltd (“Guangxi Medictop”)

On 8 January 2016, the Group entered into a convertible loan agreement with Guangxi Medictop and its shareholders, pursuant to which the Group agreed to make available a convertible loan in the principal amount of RMB15.0 million to Guangxi Medictop at an interest rate of 6% per annum for a term of 3 years.

The conversion of the principal amount of the convertible loan into such number of shares representing 10% of the enlarged total issued share capital of Guangxi Medictop. Please refer to the announcement of the Company dated 8 January 2016 for further details. As at the date of this report, the Group has not converted any of the principal amount of the convertible loan into shares of Guangxi Medictop or demanded early repayment.

The establishment of business relationship with Guangxi Medictop has expanded the surgical product line of the Group and enhanced sales of the Group’s core products, the Beifuji series and the Beifuxin series, in the market for obstetrics. In addition, the provision of the convertible loan to Guangxi Medictop offers the Group with an opportunity and, to a certain extent, flexibility to acquire equity interest in Guangxi Medictop, thereby fostering the strategic relationship with Guangxi Medictop.

Collaboration and License Agreement with Abpro Corporation (“Abpro”)

On 22 January 2016, the Group entered into a collaboration and license agreement (“Collaboration and License Agreement”) with Abpro for an initial term of 10 years, whereby both parties agreed to commercialise and jointly develop selected antibodies into the licensed products.

As part of the strategic business cooperation between the Group and Abpro, on 22 January 2016, both parties entered into a share subscription agreement (“Share Subscription Agreement”), pursuant to which the Group conditionally agreed to subscribe for, and Abpro conditionally agreed to issue, 616,197 shares of series C preferred stock for a total consideration of approximately US\$3.5 million (equivalent to approximately HK\$27.3 million). Completion of the subscription of the series C preferred stock by the Group took place on 12 March 2016.

In connection with the share subscription, on 22 January 2016, the Group and Abpro entered into a warrant subscription agreement (“Warrant Subscription Agreement”), whereby Abpro conditionally agreed to grant 61,619 warrants entitling the Group to subscribe for 61,619 shares of common stock of Abpro at the initial exercise price of US\$2.08 per Abpro common stock, subject to adjustments in accordance with the terms of the warrants. As at the date of this report, the Group has not exercised any of the conversion rights attaching to the warrants.

Abpro is a USA-based biotech company focusing on the field of industrial biotechnology and is principally engaged in the business of developing novel biomolecules for human and animal health, including antibodies against traditionally difficult targets, for companies developing products in the research, diagnostic and therapeutic markets.

The Collaboration and License Agreement enables the parties to leverage on their respective strengths and resources to pursue and accelerate the development of antibody-based products in which the Group has been highly interested. The Share Subscription Agreement and the Warrant Subscription Agreement are for the Group to maintain a strategic cooperation with Abpro.

Management Discussion and Analysis

Distribution Agreement with Elektron Technology UK Limited (“Elektron”)

On 3 March 2016, the Group entered into a distribution agreement (“Distribution Agreement”) with Elektron, pursuant to which Elektron agreed to appoint the Group as its exclusive distributor of an ophthalmic medical device known as “Henson 9000” (including any spare parts) in China (excluding Hong Kong, Macau and Taiwan) for a period of 8 years from the date on which the Group placed the first purchase order with Elektron and may be automatically extended for successive periods of 2 years each, subject to early termination as provided in the Distribution Agreement. Henson 9000 is a medical instrument for screening and managing glaucoma, which is the leading cause of preventable blindness worldwide.

The collaboration with Elektron establishes a milestone of the Group in the ophthalmic medical device market and expands the range of the Group’s eye care solutions, which will together benefit the Group in striving for sustainable growth in the ophthalmology arena in China.

Subscription Agreement with AC Immune SA (“ACI”)

On 11 April 2016, the Group entered into a subscription agreement with ACI, for the subscription of 518,758 series E preferred shares of ACI with a nominal value of CHF0.02 each in the share capital of ACI (“Subscribed Preferred Shares”) at the subscription price of US\$9.6384 per Subscribed Preferred Share for a total consideration of approximately US\$5.0 million (equivalent to approximately HK\$39.0 million). Please refer to the announcement of the Company dated 11 April 2016 for further details. ACI was subsequently listed on NASDAQ on 23 September 2016 and the Subscribed Preferred Shares were automatically converted into common share upon listing. The initial public offering price was at US\$11.0.

ACI is a Swiss-based biopharmaceutical company focused on Alzheimer’s disease and other neurodegenerative diseases. ACI designs, discovers and develops therapeutic and diagnostic products to prevent and modify diseases caused by misfolding proteins and has technology platforms to create antibodies, vaccines and small molecules to address a broad spectrum of neurodegenerative indications.

Convertible Loan from International Finance Corporation (“IFC”)

On 6 July 2016, the Company entered into a convertible loan agreement (“Convertible Loan Agreement”) with IFC, being a member of the World Bank Group and an international organisation established by Articles of Agreement among its member countries including the People’s Republic of China (“PRC”), pursuant to which IFC agreed to lend, and the Company agreed to borrow, a convertible loan in an aggregate principal amount of HK\$150.0 million at an interest rate of 1.9% per annum. Subject to the terms of the Convertible Loan Agreement, IFC has the right to convert all or any part of the outstanding principal amount of the convertible loan into ordinary shares of the Company (“Conversion Shares”) at a conversion price of HK\$5.90 per share (subject to adjustments as set out in the Convertible Loan Agreement) at any time after the date of the disbursement and prior to the maturity date (i.e. the date falling on the fifth anniversary of the date of the disbursement). The convertible loan was disbursed to the Company on 2 August 2016. On the assumption that the convertible loan would be converted into Conversion Shares in full at the initial conversion price of HK\$5.90 per share (which represented a premium of approximately 47.1% over the closing price of the shares of the Company on 6 July 2016), the aggregate principal amount of the convertible loan would be convertible into approximately 25,423,728 conversion shares (with aggregate nominal value of approximately HK\$2,572,372.8). As at the date of this report, the conversion right attaching to the convertible loan has not been exercised by IFC.

The net proceeds of the convertible loan (after deducting the fees and expenses in relation to the obtaining of the convertible loan) are approximately HK\$145.0 million, which are for the Company’s strategic investment in and development of the Group’s biopharmaceutical business and general working capital requirements. The directors of the Company (“Directors”) are of the view that the entering into of the Convertible Loan Agreement would allow the Company to raise additional funds for the Group’s business. Furthermore, it is contemplated that the capital base of the Company would be enlarged and strengthened upon conversion of the convertible loan (in part or in full).

Management Discussion and Analysis

MARKET DEVELOPMENT

As at 31 December 2016, the Group maintained 39 Regional Sales Offices (“RSOs”) and a total number of about 1,280 sales and marketing representatives, out of which approximately 730 people were full-time staff and approximately 550 people were hiring on contract basis and engaging from appointed agents.

The RSOs and sales and marketing representatives are deployed across major cities and provinces in the PRC. They are organised under two specialised teams; with each team responsible for the ophthalmic products and the surgical products, respectively. As at 31 December 2016, headcounts of ophthalmic team and surgical team were approximately 560 and 720 respectively.

RSOs are tasked with the function of promoting the Group’s products to pharmaceutical companies and hospitals, and providing training on clinical applications of the Group’s products to medical practitioners. In addition, these RSOs serve another vital role to the Group in gathering market intelligence and feedback for the Group’s research and development planning and clinical studies.

The Group’s flagship products are being prescribed by more than 4,500 hospitals spreading across the major cities and provinces in the PRC. During the year under review, the Group had conducted or participated in over 550 seminars and 1,500 market promotion activities in major cities and provinces in the PRC.

RESEARCH AND DEVELOPMENT

The Group’s technology platform is built upon a recombinant DNA, more particularly, the basic fibroblast growth factor (“bFGF”) and its industrialisation technology. To capitalise on the proprietary technique on bFGF, the Company plans to deliver a series of high quality products to establish itself as market leader in the arena of biopharmaceutical products for wounds healing and treatment. To strengthen the research and development capabilities, the Group has entered into a cooperation agreement with Tasly Pharmaceutical Group Co., Ltd in 2015 and for the development of, in particular, a therapeutic product using Platelet-Derived Growth Factor (PDGF) for the treatment and healing of diabetic ulcers. The project is being planned for Phase-III clinical trials in the PRC.



Blow-Fill-Seal production plant



Fermentation Control System

Management Discussion and Analysis

Furthermore, the Group has developed a nano-antibody research and development platform over the past few years. Through the nano-antibody platform, a new Vascular Endothelial Growth Factor nano-antibody has been investigated for formulating into therapeutic products for the treatment of cancers and age-related macular degeneration. On 22 January 2016, the Group entered into the Collaboration and License Agreement, the Share Subscription Agreement and the Warrant Subscription Agreement with Abpro. Abpro is a USA-based biotech company focusing on the field of industrial biotechnology and is principally engaged in the business of developing novel biomolecules for human and animal health, including antibodies against traditionally difficult targets, for companies developing products in the research, diagnostic and therapeutic markets. Entering into the Collaboration and License Agreement with Abpro offers the Group the opportunity to develop a new range of therapeutic products, using certain antibody candidates of Abpro, for the Group's ophthalmology and surgical businesses as well as new drugs for oncology business.

In addition, a production technology platform – the Blow-Fill-Seal ("BFS") has been established in 2014 and further enhanced in 2015. The establishment of BFS platform has strengthened the Group's core competency and enabled the Group to develop and produce a series of preservative-free single dose drugs. The Group currently has 10 categories of drugs for the treatment of ocular wound healing, ocular bacterial infection, fatigue, dry eyes and respiratory disease in the research and development pipeline, which are expected to be approved from 2017 and thereon over the next 3 years.

As at the date of this report, a total of 9 patents have been granted to the Group in China, 7 of which are innovation patents (發明專利) on the application of bFGF. These 7 innovation patents provide market protection for the products of the existing Beifuji and Beifushu series until 2034. The remaining 2 patents are utility patents (實用專利) on product packaging, which are being applied in the products of the existing Beifuji and Beifushu series. As at the date of this report, the Group has filled another 14 patent applications, including the nano-antibody.

OUR PRODUCTION CAPABILITY

The Group's factory in Zhuhai obtained the Good Manufacturing Practice ("GMP") certification from China Food and Drug Administration and commenced operation since January 2014.

The factory in Zhuhai is fully equipped with 7 production plants, 1 of which is for the production of active pharmaceutical ingredients – the bFGF, while 4 others are for the production of our flagship pharmaceutical formulations and the remaining 2 are the state-of-the-art BFS production plants for the production of preservative-free single dose drugs.

The Group has started the European Union GMP certification process and it is expected that the European Union GMP certificate will be obtained in 2019.

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2016, the Group achieved a turnover of approximately HK\$775.7 million (2015: HK\$654.0 million), representing a growth rate of 18.6%.

Composition of turnover for the years ended 31 December 2016 and 2015 is shown in the following table:

	2016			2015		
	Beifushu and Beifuji series	Third party products	Total	Beifushu and Beifuji series	Third party products	Total
Sales of pharmaceutical products						
– Surgical products	42.7%	3.5%	46.2%	41.0%	0.0%	41.0%
– Ophthalmic products	35.1%	12.5%	47.6%	43.0%	8.0%	51.0%
	77.8%	16.0%	93.8%	84.0%	8.0%	92.0%
Provision of marketing services						
– Surgical products	–	2.2%	2.2%	–	0.0%	0.0%
– Ophthalmic products	–	4.0%	4.0%	–	8.0%	8.0%
	–	6.2%	6.2%	–	8.0%	8.0%
	77.8%	22.2%	100.0%	84.0%	16.0%	100.0%

Sales of surgical products and ophthalmic products amounted to approximately HK\$358.4 million (2015: approximately HK\$268.1 million) and approximately HK\$369.2 million (2015: approximately HK\$333.5 million), increased by 33.7% and 10.7% respectively.

The revenue from selling of our own biopharmaceutical products achieved steadily growth of 9.8% in 2016, whereas selling of third party products dramatically increased by 137.2% for the year ended 31 December 2016 as compared to last year. The result from the diversification of our product range is on traction.

The Group's gross profit has grown in tandem with the expanded sales. The gross profit for the year ended 31 December 2016 was approximately HK\$623.0 million (2015: HK\$529.6 million), representing an increase of 17.6%.

Profit for the year was approximately HK\$136.3 million as compared to approximately HK\$104.9 million for the previous year, representing an increase of 29.9%.

The distribution and selling expenses were approximately HK\$410.5 million as compared to approximately HK\$352.1 million for the previous year, representing an increase of 16.6%. This increase in the distribution and selling expenses was mainly attributable to the expansion of sales and marketing function, in particular, for the flagship surgical product, Beifuxin and newly undertaken third party products during the year ended 31 December 2016. Distribution and selling expenses accounted mainly for remuneration and travelling expenses of sales personnel, advertisements, transportation and delivery, and organisation of seminars and conferences for product training and awareness, etc.

Management Discussion and Analysis

The administrative expenses for the year under review were approximately HK\$48.0 million compared to approximately HK\$51.2 million for the previous year, decreased by approximately HK\$3.2 million.

The decrease in administrative expenses is mainly due to the decrease in the provision for equity-settled share-based payments to approximately HK\$1.3 million for the year under review (2015: approximately HK\$4.7 million).

Research and development expenditures incurred in 2016 were increased to approximately HK\$30.0 million from which approximately HK\$24.3 million were capitalised, whereas total expenditures incurred in 2015 were approximately HK\$22.4 million from which only approximately HK\$11.6 million were capitalised. Hence the research and development expenses incurred as administrative expenses were decreased to approximately HK\$5.7 million as compared to approximately HK\$10.8 million in 2015.

The Group had cash and cash equivalents of approximately HK\$156.2 million as at 31 December 2016 (2015: HK\$64.6 million).

The bank borrowings as at 31 December 2016 were approximately HK\$38.8 million (2015: HK\$51.0 million), among which 25% repayable within 1 year and 75% repayable in more than 1 year but within 5 years. All of the bank borrowings were denominated in US Dollar and bear interest at floating rate. The interest rate of the Group's bank borrowings was 1.7% as at 31 December 2016. Please refer to the sub-section headed "Liquidity and Financial Resources" for details of banking facilities.

The total finance costs of the Group for the year ended 31 December 2016 were approximately HK\$9.7 million (2015: HK\$2.1 million) and were fully charged to expense for the year ended 31 December 2016. The increase was mainly attributable to the recognition of interest expenses amounted to approximately HK\$6.0 million in relation to the convertible loan payable.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this report, as at 31 December 2016, the Group did not have an immediate plan for any other material investments or acquisition of material capital assets.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group obtained banking facilities of approximately HK\$154.9 million, of which HK\$38.8 million was utilised. All of the banking facilities are secured by the land use rights, the building of the Group, corporate guarantees provided by the Company and a subsidiary within the Group and a pledged deposit of HK\$20.0 million.

On 6 July 2016, the Company entered into a Convertible Loan Agreement with IFC, an international organisation established by Articles of Agreement among its member countries including the PRC, pursuant to which IFC agreed to lend, and the Company agreed to borrow, a convertible loan in an aggregate principal amount of HK\$150.0 million at an interest rate of 1.9% per annum. The net proceeds from the convertible loan are approximately HK\$145.0 million, which are for the Company's strategic investment in and development of the Group's biopharmaceutical business and general working capital requirements. As at the date of this report, the net proceeds had been used as to (i) approximately HK\$80.0 million for the settlement of bank borrowings which were mainly obtained to finance the Group's strategic investments; and (ii) approximately HK\$26.1 million for working capital purpose. As at 31 December 2016, the balance of approximately HK\$38.9 million remained for intended use.

Management Discussion and Analysis

As at 31 December 2016, the Group had cash and cash equivalents of approximately HK\$156.2 million as compared to approximately HK\$64.6 million as at 31 December 2015, among which 61.3% was denominated in Renminbi, 30.3% was denominated in Hong Kong Dollar and 8.4% was denominated in US Dollar.

The Group monitors its capital structure on the basis of a net debts-to-adjusted capital ratio. For this purpose, the Group defines net debts as total debts (which include interest-bearing loans and borrowings and trade and other payables) less cash and cash equivalents and pledged bank deposits. Adjusted capital comprises all components of equity. The net debts-to-adjusted capital ratio as at 31 December 2016 was 32.2% (2015: 29.2%).

CHARGES ON GROUP ASSETS

As at 31 December 2016, the land use rights and the buildings of the Group with carrying amount in aggregate of approximately HK\$113.2 million and a deposits of HK\$20.0 million were pledged to secure its banking facilities.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had capital commitments amounted to approximately HK\$13.4 million (2015: HK\$27.6 million).

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities (2015: HK\$Nil).

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy to borrow and deposit cash in local currencies to minimise currency risk.

The Group's assets, liabilities and transactions are mainly denominated in either Hong Kong Dollar, Renminbi or US Dollar. The Directors are of the view that the Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks and therefore no hedging arrangements were made. So long as the linked exchange rate system in Hong Kong with US Dollar is maintained, it is expected that the Group will not be subject to any significant exchange risk. However, the Group will review and monitor the relevant foreign exchange exposure from time to time based on its business development requirements and may enter into foreign exchange hedging arrangements as appropriate.

TREASURY POLICY

The Group generally financed its operations with internally generated cash flows, bank and other borrowings. The Group placed these resources into interest-bearing bank accounts opened with PRC and Hong Kong banks and earned interests in accordance with the PRC and Hong Kong banks rates. Bank deposits were mainly denominated in Renminbi, Hong Kong Dollar and US Dollar.

Management Discussion and Analysis

EMPLOYEES

As at 31 December 2016, the Group had a total of 966 full-time employees (2015: 896 full-time employees). The aggregate remuneration of the Group's employees, including that of the Directors, for the year under review and the preceding year amounted to approximately HK\$85.6 million and approximately HK\$60.4 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Share options and bonuses are also available to employees of the Group at the discretion of the directors depending on the financial performance of the Group. Details of the share option scheme of the Company are disclosed in note 34 to the financial statements.

Each executive Director has entered into a service agreement with the Company for a term of three years commencing from 27 June 2016 and expiring on 26 June 2019 unless it is terminated by either party by giving the other not less than six months' written notice. The annual remuneration of each executive Directors was fixed in his service agreements and he is also entitled to a discretionary annual bonus of such amount (if any) as the Board may determine in its discretion from time to time having regard to the operating results of the Group and his performance in the relevant financial year, provided that (a) the aggregate amount of the discretionary annual bonuses payable to all of the Company in any financial year shall not exceed 5% of the consolidated net profit after taxation and non-controlling interests but before extraordinary items of the Company as shown in its consolidated audited accounts for such financial year ("Net Profit"); (b) the Net Profit for such financial year exceeds HK\$50,000,000; and (c) the amount of the discretionary annual bonus payable to each director of the Company in respect of any financial year shall not exceed 1.4 times of his annual basic salary as a director of the Company in respect of such financial year. The discretionary annual bonus, if any, shall be payable in respect of each financial year of the Company within three months after the issue of the consolidated audited accounts of the Group for such financial year.

Other remuneration and benefits, including retirement benefits scheme, remained at an appropriate level.

Report of the Directors

The directors ("Directors") of Essex Bio-Technology Limited ("Company", together with its subsidiaries, "Group") are pleased to present their report and the audited financial statements of the Company and the consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 37 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 52 to 112. The Directors have recommended the payment of a final dividend of HK\$0.032 per share for the financial year ended 31 December 2016 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 15 May 2017. Subject to shareholders' approval, the final dividend will be payable on Friday, 26 May 2017. As at the date of this report, there was no arrangement with any shareholder of the Company under which he/she/it has waived or agreed to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 24 April 2017 to Thursday, 27 April 2017 (both days inclusive) for ascertaining shareholders' right to attend and vote at the forthcoming annual general meeting to be held on Thursday, 27 April 2017. During this period, no transfer of shares will be registered. In order to be entitled to attend the aforesaid annual general meeting, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 21 April 2017.

The register of members of the Company will be closed from Thursday, 11 May 2017 to Monday, 15 May 2017 (both days inclusive) for ascertaining shareholders' entitlement to the proposed final dividend. No transfer of shares will be registered during this period. In order to be qualified for the proposed final dividend to be approved at the forthcoming annual general meeting to be held on Thursday, 27 April 2017, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 10 May 2017.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on pages 113 to 114. This summary does not form part of the audited financial statements.

Report of the Directors

BUSINESS REVIEW

Overview

The Group's emphasis continued primarily on manufacturing and selling of its flagship biopharmaceutical products for the treatment and healing of surface wounds and eye wounds. The Group has a range of ophthalmic biopharmaceutical drugs, namely the Beifushu series, for the treatment of various types of eye diseases, including dry eyes, keratitis, corneal abrasion, corneal surgery such as refractive surgery and cataract surgery, etc. In addition, the Group's medicine for general surgery, namely the Beifuji series, is for use in a variety of surface wound healing and treatment, including burns, ulcers, wounds and cosmetic plastic surgery. In addition, the Group undertakes distribution of third party products that are complementary to the Group's core products.

In 2015, the Group initiated and implemented an enrichment programme ("Enrichment Programme") for enhancing its research and development pipeline and expanding its products portfolio, with an objective of enabling the Group to scale further heights over the next 10 years.

The Group has further invested in several companies and secured the exclusive distribution right of an ophthalmic medical device in 2016.

Summary of projects in the Enrichment Programme:

Company	Relationship/ Stake of the Group	Extended Interests
Wuhan Adv. Dental Co., Ltd., PRC Website: http://yadiansci.com It focuses on developing medical equipment of minimally invasive medical technologies, particularly with minimally invasive repair of dental pain-free technology system.	Agent (by agency agreement dated 28 April 2015); lender under the convertible loan of RMB10.0 million (by loan agreement dated 30 November 2015)	Being exclusive distributor of Carisolv products in the People's Republic of China ("PRC").
Elektron Technology UK Limited, UK ("Elektron") Website: http://www.elektron-healthcare.com Elektron Technology is home to a number of world-class brands in fast-moving engineered products.	Distributorship Date of distribution agreements: 27 May 2015 and 3 March 2016	Application by the Group for import license for Macular Pigment Screener II and Henson 9000.
Humacyte Inc, USA ("Humacyte") Website: http://www.humacyte.com Humacyte is a regenerative medicine company focused on vascular therapies.	Investee, US\$1.0 million Date of subscription agreement: 29 July 2015	Ongoing discussion with Humacyte on marketing Humacyl in the PRC.

Report of the Directors

Company	Relationship/ Stake of the Group	Extended Interests
<p>Tasly Pharmaceutical Group Co., Ltd. ("Tasly") Website: http://www.tasly.com/gufen/default.aspx</p> <p>Tasly's strength is in the research and development and manufacturing of drugs in genetically engineered mammal expression system.</p>	<p>Strategic cooperation in R&D projects</p> <p>Date of the strategic cooperation framework agreement: 28 August 2015</p>	<p>Cooperate with Tasly to develop PDGF gel which is in phase III clinical trial.</p>
<p>Guangxi Medictop Pharmaceutical Co., Ltd., PRC Website: http://www.medictop.com/</p> <p>It is principally engaged in the manufacturing, research and development, and sales of Chinese patent medicines.</p>	<p>Agent (by agency agreement dated 22 September 2015); lender under the convertible loan of RMB15.0 million (by loan agreement dated 8 January 2016)</p>	<p>Being exclusive distributor of Yi Xue An Granules in the PRC.</p>
<p>Abpro Corporation, USA ("Abpro") Website: http://www.abpro-labs.com</p> <p>Abpro is a USA-based biotech company focusing on the field of industrial biotechnology; and it is principally engaged in the business of developing novel biomolecules for human and animal health, including antibodies against traditionally difficult targets, for companies developing products in the research, diagnostic and therapeutic markets.</p>	<p>Collaboration and license agreement and Investee, US\$3.5 million</p> <p>Date of collaboration and license and subscription agreements: 22 January 2016</p>	<p>Ongoing discussion with Abpro on collaboration of research and development projects and licensing products.</p>
<p>AC Immune SA, Switzerland ("AC Immune") Website: http://www.acimmune.com</p> <p>AC Immune is a clinical stage Swiss-based biopharmaceutical company focused on neurodegenerative diseases with four product candidates in clinical trials. AC Immune's two proprietary technology platforms create antibodies, small molecules and vaccines designed to address a broad spectrum of neurodegenerative indications, such as Alzheimer's disease.</p>	<p>Investee: US\$5.0 million</p> <p>Date of subscription agreement: 11 April 2016</p> <p>Listed on NASDAQ on 23 September 2016; Stock Quote: ACIU</p>	<p>Ongoing discussion with AC Immune on collaboration of research and development projects.</p>

Report of the Directors

FINANCIAL KEY PERFORMANCE INDICATORS

For the year ended 31 December 2016, the Group achieved a turnover of approximately HK\$775.7 million (2015: HK\$654.0 million), representing a growth rate of approximately 18.6% over last year. Profit for the year was approximately HK\$136.3 million, representing an increase of approximately 29.9% over last year.

For the year ended 31 December 2016, the revenue contributed from our own ophthalmic biopharmaceutical products and surgical biopharmaceutical products, namely the Beifushu series and Beifuji series, represented approximately 35.1% and 42.7% of Group's total revenue respectively, as compared to approximately 43% and 41% of the Group's total revenue respectively in 2015.

At present, the Group has 39 Regional Sales Offices ("RSOs") and a total number of about 1,280 sales and marketing representatives, out of which approximately 730 people are full-time staff and approximately 550 people are hiring on contract basis and engaging from appointed agents.

The RSOs and sales and marketing representatives are deployed across major cities and provinces in the PRC. They are organised under two specialised teams; with each team responsible for the ophthalmic products and the surgical products, respectively. As at 31 December 2016, headcounts of ophthalmic team and surgical team were approximately 560 and 720 respectively.

To reward our shareholders for their years of valuable support, the board of Directors ("Board") is proposing a final dividend of HK\$0.032 per ordinary share to be approved at the upcoming annual general meeting of the Company.

The increase in revenue and profit for the year ended 31 December 2016 was mainly attributed to the organic growth of flagship biopharmaceutical products through our distribution network, and boosted by contributions from selling of third party products that are complementary to the Group's core products in 2016. The latter is the result of the Enrichment Programme implemented in 2015, which is on traction meeting its purpose and objective.

The Group had cash and cash equivalents of approximately HK\$156.2 million as at 31 December 2016 (2015: HK\$64.6 million).

The bank borrowings as at 31 December 2016 were approximately HK\$38.8 million (2015: HK\$51.0 million), among which 25% repayable within 1 year and 75% repayable in more than 1 year but within 5 years. All of the bank borrowings were denominated in US Dollar and bear interest at floating rate. The interest rate of the Group's bank borrowings was 1.7% as at 31 December 2016.

The total finance costs of the Group for the year ended 31 December 2016 were approximately HK\$9.7 million and were fully charged to expense for the year ended 31 December 2016. The increase was mainly attributable to the recognition of interest expenses amounted to approximately HK\$6.0 million in relation to the convertible loan payable.

FUTURE DEVELOPMENT

The Group expects continued organic growth from its flagship biopharmaceutical products, the Beifushu and Beifuji series, into near future years. This will be assured through expanding sales into lower-tier cities in China and executing its clinical plans to create wider therapeutics reach.

In addition, the immediate future growth will be boosted from third party products such as Carisolv products, Yi Xue An Granules and Iodized Lecithin Capsules which were secured under the Enrichment Programme in 2015.

Report of the Directors

For the medium-term to long-term strategic research and development planning, we entered into a strategic cooperation agreement with Tasly Pharmaceutical Group Co., Ltd and a collaboration and license agreement with Abpro Corporation for the development of recombinant protein drugs and antibody-based products, respectively.

EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 8 March 2017, the Board announced that the Company is exploring for a Korean Depositary Receipt Programme (“KDR Programme”) on the Korea Exchange and the Company has appointed Daishin Securities Co., Ltd. (“Lead Manager”), headquartered in Korea, as the lead manager to advise on the proposed KDR Programme. As at the date of this report, the Company, through its legal adviser in Korea and the Lead Manager, is still in discussion with the Korea Exchange regarding the proposed KDR Programme and no application relating to the KDR Programme has been made to the Korea Exchange. The proposed KDR Programme may or may not proceed. The Company will comply with the relevant reporting, shareholders’ approval and/or other requirements as and when appropriate.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of factors that may affect the performance of the Group. The summary of major risks and uncertainties is as follows:

1 *Compliance with the GMP Standards*

All pharmaceutical manufacturers in the PRC will be required to comply with the Good Manufacturing Practice (“GMP”) standards by certain time limits, otherwise the pharmaceutical manufacturing enterprise permits will be revoked or will not be renewed, resulting in the termination of the production. The GMP certificate in respect of the facilities necessary for the production of the Group’s commercialised biopharmaceutical products has been granted by China Food and Drug Administration on 23 December 2013. The certificate will expire on 22 December 2018. There can be no assurance that the Group may be able to renew its pharmaceutical manufacturing enterprise permit when the GMP certificate expires and in the event that the GMP certificate is not renewed upon its expiry, the Group’s production will have to cease. In such case, the Group’s operations and profitability may be materially and adversely affected.

2 *Research and Development Risk*

The Group’s future prospect is dependent upon the continuous development and successful commercialisation of new products. As one of its expansion strategies, the Group intends to form strategic alliances with suitable partners or candidates that would offer the Group access to promising research projects. The success of biopharmaceutical product development is highly unpredictable. Products that appear to be promising at the early phases of research and development may fail to reach the market for numerous reasons, including the discovery of harmful side effects in pre-clinical tests and clinical trials, unsatisfactory results in clinical trials and the failure of obtaining the necessary regulatory approvals. Consequently, the corresponding research and development expenditure incurred would have to be expensed, which will have an adverse impact on the profitability of the Group.

Report of the Directors

3 *Reliance on Key Personnel*

The Group has experienced a constant growth in the number of employees. The Group's development has also resulted in an increase in responsibilities for its management and employees. There can be no assurance that the Group will be able to manage its expansion by retaining its existing executives and technical personnel and by recruiting additional employees as competition for such personnel is intense. The Group's success is, to a certain extent, attributable to the expertise and experience of its senior management and researchers. Should any of them cease to be involved in the Group's management and/or research and development, the Group's business operations and research capability may be adversely affected.

4 *Product Substitution*

New drug discoveries and developments in recombinant DNA technology and other pharmaceutical processes are expected to continue at a rapid pace. It is difficult to predict the effect of future technological changes and discoveries on the viability or competitiveness of the Group's products. It is essential for the Group to respond to these changes by developing new products in a timely manner to meet technological advances in the market. In addition, new alliances may have to be formed with new technological partners to enable the Group to have access to emerging technologies and new discoveries. The Group has to adopt and modify development methods, processes and programmes in response to new technologies and discoveries. The failure of the Group to respond rapidly to changing technologies and new discoveries could have a material and adverse impact on the Group's performance. There is also no assurance that other parties will not independently develop products having therapeutic effects similar or superior to the Group's products.

5 *Tender and Price Control*

In each province where we market our products, we have to participate in a government-led tender process every year or every few years. In the event that we fail to win the tender in a provincial tender process, the sale of our products to public hospitals in such province will be prohibited and we will lose market share in such province. In addition, certain new methods have been recently adopted in the provincial tender process, which may exert further downward pressure against the price of pharmaceutical products and our market share, revenue and profitability may be adversely affected.

6 *Healthcare Reform in China*

The healthcare system in the PRC is undergoing a crucial reform period, where laws, regulations and policies in effect governing the medical, healthcare and pharmaceutical industry are constantly evolving. Moreover, regulatory bodies in the PRC may regularly or unexpectedly make changes to its implementation practice. Accordingly, past enforcement actions taken may not be reflective of future actions. Any enforcement action taken by the government against us may subject us to material and adverse effects. It may also incur significant costs, divert the resources and attention of the management and result in negative publicity and reputation damage. In addition, such changes may be applied on a retrospective basis, thus leading to more uncertainties and risks in respect of our business and operation.

Report of the Directors

ENVIRONMENTAL POLICIES AND PERFORMANCE

We are committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. We strive to minimise our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also require our suppliers to operate in strict compliance with the relevant environmental regulations and rules and obtain all necessary permission and approval from the relevant government authorities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report of the Company prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") will be published within three months after the publication of the annual report of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2016, the Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group.

KEY RELATIONSHIPS

1 *Employees*

Human resources are one of the greatest assets of the Group and the Group considers the personal development of its employees as highly important. The Group wants 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. The Group provides on-the-job training and development opportunities to our staff members. The training programs cover areas such as managerial skills, sales and production, customer services, quality control and training of other areas relevant to the industry.

The Group offers competitive remuneration packages to our employees. The Group has also adopted share option schemes to recognise and reward the contribution of the employees to the growth and development of the Group.

2 *Suppliers*

We have developed long-standing relationships with a number of our vendors and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

3 *Marketing agents and distributors*

We sell our products to hospitals through RSOs, marketing agents and distributors. We require our RSOs, marketing agents and distributors to comply with the relevant laws and regulations and our sales and marketing policies, including but not limited to selling price, promotional activities and use of our enterprise resource planning (ERP) system. We also monitor the financial condition and repayment history of our distributors, and sales performance of them.

Report of the Directors

4 *Hospitals and doctors*

The Group's flagship ophthalmic and surgical products are being marketed by more than 3,500 and 2,200 hospitals respectively, spreading across the major cities and provinces in the PRC. During the year under review, the Group had conducted or participated in over 550 seminars and 1,500 market promotion activities in major cities and provinces in the PRC.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year under review are set out in note 17 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the Company's authorised share capital during the year under review. For the year ended 31 December 2016, 2,608,000 ordinary shares of the Company were issued as a result of the exercise of 2,608,000 share options ("Options") granted under the Company's share option scheme as approved by the shareholders of the Company at the annual general meeting held on 3 May 2013 ("Scheme"). Details of the Company's share capital and details of the Scheme are set out in notes 32 and 34 respectively to the financial statements.

Summary of the Scheme

1. Purpose of the Scheme:
 - (a) To recognise and acknowledge the contributions that Eligible Participants (as defined below) have made or may make to the Group.
 - (b) To provide the Eligible Participants (as defined below) with the opportunity of acquiring proprietary interests in the Company with the view to (1) motivate them to optimise their performance and efficiency for the benefit of the Group; and (2) attract and retain or otherwise maintain ongoing business relationship with them whose contributions are, will or expected to be beneficial to the Group.
2. Participants of the Scheme:
 - (a) any director, officer, employee or officer employed by any company in the Group or by any member of the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate") (whether full time or part time) ("Employee"), consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to an Affiliate; or
 - (b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate; or
 - (c) a company beneficially owned by any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate ("Eligible Participants").

The basis of eligibility of any of the above classes of the Eligible Participants to the grant of any right(s) to subscribe for fully paid share(s) of HK\$0.10 each of the Company (or such other nominal amount prevailing from time to time) ("Share(s)") granted pursuant to this Scheme shall be determined by the Board from time to time on the basis of their contribution to the Group and/or the Affiliate(s) in line with the purposes of the Scheme.

Report of the Directors

3. (a) Total number of ordinary shares of HK\$0.10 each in the capital of the Company available for issue under the Scheme (excluding those to be issued upon exercise of the outstanding Options) as at the date of this annual report:

31,375,000 Shares.
- (b) Percentage of the issued share capital that it represents as at the date of this annual report:

5.58%.
4. Maximum entitlement of each Eligible Participant under the Scheme:

Not to exceed 1% of the Shares in issue in any 12-month period unless approved by shareholders of the Company.
5. Period within which the Shares must be taken up under an Option:

Within 10 years from the date on which the Option is offered or such shorter period as the Board may determine.
6. Minimum period for which an Option must be held before it can be exercised:

No minimum period unless otherwise determined by the Board.
7. (a) Price payable on application or acceptance of the Option:

HK\$1.00.
- (b) The period within which payments or calls must or may be made:

14 days after the offer date of an Option.
- (c) The period within which loans for the purposes of the payments or calls must be repaid:

Not applicable.
8. Basis of determining the exercise price:

The exercise price shall be determined by the Board and notified to each grantee and shall not be less than the highest of:
 - (a) the closing price of a Share as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheet on the date of grant of the relevant Option, which must be a business day;
 - (b) an amount equivalent to the average closing price of a Share as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheets for the 5 business days immediately preceding the date of grant of the relevant Option; and
 - (c) the nominal value of a Share.
9. The remaining life of the Scheme:

Approximately 6 years (expiring on 2 May 2023).

Report of the Directors

Details of Share Options Granted

Details of the share options granted to the Directors are set out in the section headed “Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures” and the relevant movement(s) during the financial year ended 31 December 2016 is set out below.

The following table discloses the movements in the Company’s share options held by each of the Directors, the substantial shareholders of the Company, the employees of the Company in aggregate and other participants granted under the Scheme during the year ended 31 December 2016:

Participants	Date of grant	Exercise price HK\$	Exercisable period	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Outstanding as at 31 December 2016
Ngiam Mia Je Patrick	30.10.2013	2.3	30.04.2014 – 29.10.2018	100,000	0	0	100,000
<i>Director and substantial shareholder of the Company</i>	30.10.2013	2.3	30.10.2014 – 29.10.2018	100,000	0	0	100,000
	30.10.2013	2.3	30.04.2015 – 29.10.2018	100,000	0	0	100,000
	30.10.2013	2.3	30.10.2015 – 29.10.2018	100,000	0	0	100,000
	30.10.2013	2.3	30.04.2016 – 29.10.2018	100,000	0	0	100,000
	30.10.2013	2.3	30.04.2016 – 29.10.2018	100,000	0	0	100,000
Fang Haizhou <i>Director</i>	30.10.2013	2.3	30.04.2014 – 29.10.2018	700,000	0	0	700,000
	30.10.2013	2.3	30.10.2014 – 29.10.2018	700,000	0	0	700,000
	30.10.2013	2.3	30.04.2015 – 29.10.2018	700,000	0	0	700,000
	30.10.2013	2.3	30.10.2015 – 29.10.2018	700,000	0	0	700,000
	30.10.2013	2.3	30.04.2016 – 29.10.2018	700,000	0	0	700,000
Zhong Sheng <i>Director</i>	30.10.2013	2.3	30.10.2015 – 29.10.2018	468,000	0	108,000	360,000
	30.10.2013	2.3	30.04.2016 – 29.10.2018	700,000	0	0	700,000
Ngiam Mia Kiat Benjamin <i>Non-executive director of a wholly-owned subsidiary of the Company and substantial shareholder of the Company</i>	30.10.2013	2.3	30.04.2014 – 29.10.2018	100,000	0	0	100,000
	30.10.2013	2.3	30.10.2014 – 29.10.2018	100,000	0	0	100,000
	30.10.2013	2.3	30.04.2015 – 29.10.2018	100,000	0	0	100,000
	30.10.2013	2.3	30.10.2015 – 29.10.2018	100,000	0	0	100,000
	30.10.2013	2.3	30.04.2016 – 29.10.2018	100,000	0	0	100,000
Total for directors of the Group				5,668,000	0	108,000	5,560,000
Employees	30.10.2013	2.3	30.04.2014 – 29.10.2018	1,940,000	0	0	1,940,000
	30.10.2013	2.3	30.10.2014 – 29.10.2018	2,201,000	0	0	2,201,000
	30.10.2013	2.3	30.04.2015 – 29.10.2018	2,300,000	0	0	2,300,000
	30.10.2013	2.3	30.10.2015 – 29.10.2018	2,300,000	0	0	2,300,000
	30.10.2013	2.3	30.04.2016 – 29.10.2018	2,300,000	0	0	2,300,000
	11.11.2016	5.9	11.05.2017 – 10.11.2021	0	460,000	0	460,000
	11.11.2016	5.9	11.11.2017 – 10.11.2021	0	460,000	0	460,000
	11.11.2016	5.9	11.05.2018 – 10.11.2021	0	460,000	0	460,000
	11.11.2016	5.9	11.11.2018 – 10.11.2021	0	460,000	0	460,000
	11.11.2016	5.9	11.05.2019 – 10.11.2021	0	460,000	0	460,000
	Total for employees				11,041,000	2,300,000	0
An investor relations consultant	30.10.2013	2.3	30.04.2014 – 29.10.2016	1,250,000	0	1,250,000	0
	30.10.2013	2.3	30.10.2014 – 29.10.2016	1,250,000	0	1,250,000	0
Total for an investor relations consultant				2,500,000	0	2,500,000	0
Total for the Scheme				19,209,000	2,300,000	2,608,000	18,901,000

Report of the Directors

During the year under review, no Option has been cancelled or lapsed.

The valuation of share options is set out in note 34 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient prescribed public float under the Listing Rules throughout the year under review and up to the date of this report.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year under review are set out in note 33 to the financial statements and in the consolidated statement of changes in equity on page 54, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company has reserves of HK\$5,186,820 available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands as detailed in note 33 to the financial statements. Before the date of this report, subsidiaries of the Company had declared dividends to the Company and the Company's reserves available for distribution, calculated in accordance with the relevant provisions of the Companies Law of the Cayman Islands, amounted to HK\$45,186,820 of which HK\$17,988,768 has been proposed as a final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 45.1% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 23.6% of the Group's total sales.

In the year under review, purchases from the Group's five largest suppliers accounted for approximately 89.4% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 49.6% of the Group's total purchases.

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

Report of the Directors

DIRECTORS

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

Executive Directors:

Ngiam Mia Je Patrick (Chairman)
Fang Haizhou (Managing Director)
Zhong Sheng

Independent non-executive Directors:

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

In accordance with the Company's articles of association and as recommended by the nomination committee of the Company, Mr. Mauffrey Benoit Jean Marie and Ms. Yeow Mee Mooi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting to be held on Thursday, 27 April 2017.

DIRECTORS' SERVICE CONTRACTS

Each executive Director has entered into a service agreement with the Company for a term of three years commencing from 27 June 2016 and expiring on 26 June 2019 unless terminated by either party by giving the other not less than six months' written notice.

Details of the appointments of the independent non-executive Directors are set out in the Corporate Governance Report on page 36 of this report.

Save as disclosed in note 11 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors which are required to be disclosed under the Listing Rules, or section 383 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) or the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G, Laws of Hong Kong). Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There has been no transaction, arrangement or contract of significance in relation to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director or an entity connected with the Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year under review.

Report of the Directors

EMOLUMENT POLICY

The emolument policy of the employees of the Group is implemented by the human resources department on the basis of their merit, qualifications, and competence and is reviewed by the executive Directors.

The Company has adopted the model whereby the remuneration committee of the Board (“Remuneration Committee”) makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments and any compensation payable for loss or termination of their office(s) or appointment(s), and to make recommendations to the Board on the remuneration of non-executive Directors (if any).

In determining or recommending the remuneration packages of the Directors and senior management, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. In reviewing and approving performance-based remuneration, reference will be made by the Remuneration Committee to the Group’s corporate goals and objectives resolved by the Board from time to time.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST-PAID EMPLOYEES

Details of the remuneration of Directors (on a named basis) and the five highest-paid employees (including the senior management of the Group) are set out in notes 11 and 12 to the financial statements, respectively.

Report of the Directors

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

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules were as follows:

Long positions in shares of the Company:

Name	Capacity	Number of ordinary shares/ underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital as at 31 December 2016
Ngiam Mia Je Patrick	Beneficial owner and interests of controlled corporations	153,645,667 <i>(Note 1)</i>	27.33%
Fang Haizhou	Beneficial owner	8,238,300 <i>(Note 2)</i>	1.47%
Zhong Sheng	Beneficial owner	2,376,150 <i>(Note 3)</i>	0.42%

Notes:

- 146,479,000 ordinary shares where registered in the name of Ngiam Mia Je Patrick.*
 - 6,666,667 ordinary shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which was wholly owned by Essex Investment (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares, Ngiam Mia Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.*
 - 500,000 underlying shares are his share option entitlement granted on 30 October 2013 under the Scheme.*
- Comprised of (i) 4,738,300 ordinary shares held by him; and (ii) 3,500,000 underlying shares, which are his share option entitlement granted on 30 October 2013 under the Scheme.*
- Comprised of (i) 1,316,150 ordinary shares held by him; and (ii) 1,060,000 underlying shares, which are his share option entitlement granted on 30 October 2013 under the Scheme.*

Save as disclosed above, as at 31 December 2016, none of the Directors and the chief executive of the Company had any interest and short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the Part XV of the SFO) which was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year under review were rights to acquire benefits by means of the acquisition of shares or underlying shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouses or minor children to acquire such rights in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 December 2016, the following persons or entities, other than a Director or chief executive of the Company had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares/ underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital as at 31 December 2016
Ngiam Mia Kiat Benjamin	Beneficial owner and interests of controlled corporations	152,020,667 <i>(Note 1)</i>	27.04%
Lauw Hui Kian	Family interest	153,645,667 <i>(Note 2)</i>	27.33%

Notes:

- 144,854,000 ordinary shares were registered directly in the name of Ngiam Mia Kiat Benjamin.*
 - 6,666,667 ordinary shares were held by Dynatech which was wholly owned by Essex Singapore, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares. Therefore, Ngiam Mia Kiat Benjamin was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.*
 - 500,000 underlying shares are his share option entitlement granted on 30 October 2013 under the Scheme.*
- Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director). Lauw Hui Kian was deemed to be interested in 153,645,667 shares in which Ngiam Mia Je Patrick was interested/deemed to be interested, of which 500,000 shares are Ngiam Mia Je Patrick's interest in option to subscribe for ordinary shares of the Company granted/exercisable under the Scheme.*

Save as disclosed above, as at 31 December 2016, no other persons or entities (other than the Directors and chief executive of the Company whose interests are set out under the paragraph headed "Directors' and Chief Executive's interests and short positions in the shares, underlying shares and debentures above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO.

Report of the Directors

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year under review are set out in note 42 to the financial statements. None of these related party transactions constitutes connected transaction or continuing connected transaction which is required to be disclosed under the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year under review.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the substantial shareholders of the Company and any of their respective close associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group during the year under review which are required to be disclosed under the Listing Rules.

AUDITOR

BDO Limited will retire and a resolution for the re-appointment of auditor of the Company will be proposed at the forthcoming annual general meeting to be held on Thursday, 27 April 2017.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year under review. Please refer to the Corporate Governance Report on pages 36 to 46 of this report.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick

Chairman

Hong Kong
21 March 2017

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Essex Bio-Technology Limited (“Company”, together with its subsidiaries, “Group”) is committed to achieving good corporate governance practices by emphasising its accountability, transparency, independence, responsibility and fairness. The Company is dedicated to exercise corporate governance through regular reviews of its adopted practices with reference to the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (“Listing Rules”).

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the financial year ended 31 December 2016.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted procedures governing directors’ securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (“Model Code”). Having made specific enquiry of all directors of the Company (“Directors”), all the Directors have confirmed that they have fully complied with the required standards and provisions as set out in the Model Code throughout the financial year ended 31 December 2016.

BOARD OF DIRECTORS

The board of Directors (“Board”), which currently comprises six Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Board and the other Directors are set out in the section headed “Profiles of Directors and Senior Management” of this report. All the Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

To improve the transparency and independency of the corporate governance of the Company, the chairman and the managing Director (who is responsible for the day-to-day management of the Company’s business) of the Company are segregated and are not exercised by the same individual since August 2005. Ngiam Mia Je Patrick is the chairman of the Board and an executive Director, and Fang Haizhou is the managing Director and an executive Director.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of the shareholders of the Company. Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi are the independent non-executive Directors. Each of their term of appointment is two years commencing from 30 September 2016, determinable by either party serving not less than one month’s written notice on the other.

All the Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s articles of association.

The Company has arranged for appropriate insurance cover in respect of legal actions against the Directors.

The Board held a full board meeting for each quarter.

Corporate Governance Report

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances. The Board is delegated with the authority and responsibility for the management of the Group. In addition, the Board has also established various Board committees, including the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee"), the nomination committee ("Nomination Committee") and the corporate governance committee ("Corporate Governance Committee") and has delegated various responsibilities to them.

The Company has adopted the practice of holding regular Board meetings at least four times a year. Apart from regular board meetings, the Board will meet on other occasions when a board level decision on a particular matter is required. Each of the members of the Board has full access to relevant information at the meetings.

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

Five Board meetings and one annual general meeting were held during the year ended 31 December 2016. The attendance record for the Board meetings and general meeting is as follows:

Directors	Board meetings attendance	General meetings attendance
<i>Executive Directors</i>		
Ngiam Mia Je Patrick	5/5	1/1
Fang Haizhou	5/5	1/1
Zhong Sheng	5/5	1/1
<i>Independent Non-executive Directors</i>		
Fung Chi Ying	5/5	1/1
Mauffrey Benoit Jean Marie	5/5	1/1
Yeow Mee Mooi	5/5	1/1

Corporate Governance Report

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by individual Directors in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2016 is recorded in the table below:

Directors	Reading regulatory updates	Attending external seminars/ programmes
<i>Executive Directors</i>		
Ngiam Mia Je Patrick	✓	✓
Fang Haizhou	✓	✓
Zhong Sheng	✓	✓
<i>Independent Non-executive Directors</i>		
Fung Chi Ying	✓	✓
Mauffrey Benoit Jean Marie	✓	✓
Yeow Mee Mooi	✓	✓

REMUNERATION COMMITTEE

The Remuneration Committee was established in August 2005. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors. The majority of the members of the Remuneration Committee are independent non-executive Directors.

The existing terms of reference of the Remuneration Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and the making of recommendations to the board of the remuneration of non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The Company has adopted the model whereby the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of their office(s) or appointment(s), and to make recommendations to the Board on the remuneration of non-executive Directors.

Corporate Governance Report

During the year under review, two meetings of the Remuneration Committee were held. Details of the attendance of the Remuneration Committee meeting are as follows:

Members	Attendance
Yeow Mee Mooi (chairperson)	2/2
Ngiam Mia Je Patrick	2/2
Fung Chi Ying	2/2
Mauffrey Benoit Jean Marie	2/2

The Remuneration Committee has considered and reviewed the terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors and has assessed the performance of the Directors. The Remuneration Committee considers that the terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION COMMITTEE

The Nomination Committee was established in August 2005. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the Chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

The existing terms of reference of the Nomination Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The role and function of the Nomination Committee include recommending the appointment and removal of Directors. The Nomination Committee considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review. The Nomination Committee also reviews the structure, size and composition of the Board and assesses the independence of the independent non-executive Directors.

In addition, the Board adopted a board diversity policy on 7 March 2014 ("Policy"). Under the Policy, the Company recognises the benefits of board diversity and supports the principle that diversity can strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring.

The Company believes that a diverse board will include and make good use of the difference in skills, experience and background, technical and industry experience, ethnicity, gender, age, nationality, knowledge and length of service and other qualities of the members of the Board. These factors will be considered in determining the optimum composition of the Board and all Board appointments will be based on merit, having due regard to the overall effective function of the Board as a whole.

Corporate Governance Report

The Nomination Committee reviews and assesses the composition of the Board and, where appropriate, makes recommendation to the Board on the appointment of new Directors. The Nomination Committee also reviews the structure, size and diversity of the Board annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience appropriate to the requirements of its business. The Board will continue to review its composition from time to time taking into consideration specific needs for the Group's business.

During the year under review, two meetings of the Nomination Committee were held. Details of the attendance of the Nomination Committee meeting are as follows:

Members	Attendance
Yeow Mee Mooi (chairperson)	2/2
Ngiam Mia Je Patrick	2/2
Fung Chi Ying	2/2
Mauffrey Benoit Jean Marie	2/2

During the meetings, the Nomination Committee considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association, Mauffrey Benoit Jean Marie and Yeow Mee Mooi will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee in June 2001. The Audit Committee comprises three members, namely Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi, all being independent non-executive Directors. The chairman of the Audit Committee is Fung Chi Ying. The existing terms of reference of the Audit Committee have been adopted on 31 December 2015, with effect from 1 January 2016 in compliance with the applicable Listing Rules. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The main responsibilities of the Audit Committee are to review and supervise the financial statements and the auditors' reports and monitor the integrity of the financial statements of the Group. Other responsibilities include the appointment of auditor, approval of the auditor's remuneration, discussion of audit procedures and any other matters arising from the above. The Audit Committee is also responsible for overseeing the financial reporting system, internal control and risk management systems and their effectiveness.

The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal control, risk management and financial reporting. External auditor and the Directors are invited to attend the committee meetings as and when necessary. The Audit Committee also serves as a channel of communication between the Board and the external auditor.

Corporate Governance Report

The Audit Committee held four meetings during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

Members	Attendance
Fung Chi Ying (chairperson)	4/4
Mauffrey Benoit Jean Marie	4/4
Yeow Mee Mooi	4/4

The work performed by the Audit Committee during the year under review and up to the date of this report included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2016, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2016 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly. The Group's unaudited interim results for the six months ended 30 June 2016 and the audited annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been duly made.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee was established on 23 March 2012. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Zhong Sheng, an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

The existing terms of reference of the Corporate Governance Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. The role and function of the Corporate Governance Committee include developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, reviewing and monitoring the code of conduct and compliance manual applicable to the Directors and employees, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Company's compliance with the Corporate Governance Code and disclosures in the Company's corporate governance report.

The Corporate Governance Committee held one meeting during the year under review. Details of the attendance of the Corporate Governance Committee meetings are as follows:

Members	Attendance
Yeow Mee Mooi (chairperson)	1/1
Zhong Sheng	1/1
Fung Chi Ying	1/1
Mauffrey Benoit Jean Marie	1/1

Corporate Governance Report

During the year under review, the work performed by the Corporate Governance Committee included reviewing and monitoring appropriate training and continuous professional development of the Directors and senior management, and reviewing the Company's compliance with the Corporate Governance Code and disclosures in the Company's corporate governance report.

COMPANY SECRETARY

Yau Lai Man, the company secretary of the Company, has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during the year ended 31 December 2016.

AUDITOR'S REMUNERATION

During the year under review, the Group has paid in aggregate of HK\$846,000 and HK\$93,400 to the external auditor for its audit and non-audit services respectively.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting

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

Procedures for shareholders to put forward proposals at a general meeting

Shareholders may suggest proposals relating to the Company to be discussed at a general meeting by sending written requisition to the Board or the company secretary of the Company and following the procedures set out in the paragraph headed "Procedures for shareholders to convene an extraordinary general meeting" above to convene an extraordinary general meeting for any business specified in such written requisition.

Procedures for shareholders to propose a person for election as a director

Subject to applicable laws and regulations, including the Companies Law, Cap. 22 (as revised and amended) of the Cayman Islands and the Listing Rules, and the memorandum and articles of association of the Company as amended from time to time, the Company may by ordinary resolution in general meeting elect any person to be a director of the Company either to fill a casual vacancy on the board of directors or as an addition to the existing board of directors. A shareholder of the Company may propose a person for election as a director of the Company by lodging a written notice to that effect at the head office and principal place of business of the Company in Hong Kong for the attention of the Company Secretary of the Company or at the branch register of members of the Company.

Corporate Governance Report

In order for the Company to inform shareholders of the Company of that proposal, the written notice must state the full name of the person proposed for election as a director of the Company, include the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The minimum length of the period during which such a written notice is given shall be at least seven days and the period for lodgment of such a written notice shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may direct their queries to the Board and may at any time make a request for the Company's information to the extent such information is publicly available through the company secretary of the Company whose contact details are as follows:

Address: Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
Fax: (852) 2587 7363
Email: essex@essexbio.com

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge that they are responsible for the preparation of financial statements for each financial period which gives a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 December 2016, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The external auditor of the Group have also stated their reporting responsibility in the auditor's report of the consolidated financial statements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that a sound system of internal control and risk management practices are essential in ensuring good corporate governance and pursuing the achievement of the strategic goals of the Group. The Board also acknowledges that it is the Board's responsibility to ensure that the Group maintains sound and effective internal controls to safeguard the assets of the Group at all times, it has conducted a review of the risk management and internal control systems during the year under review.

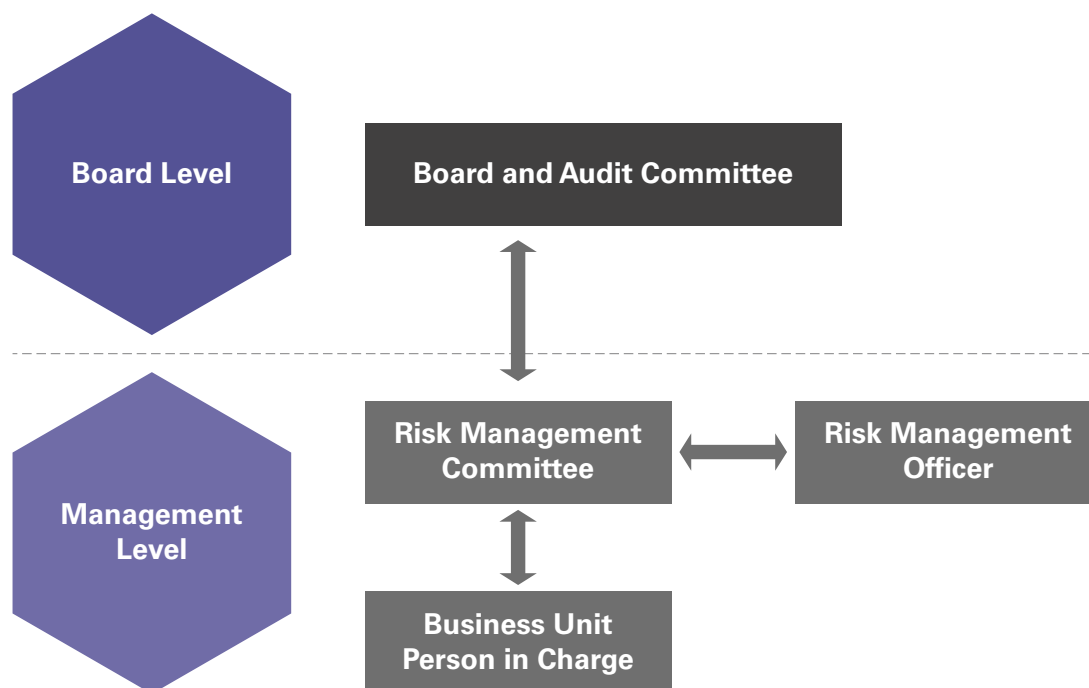
The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance Report

Risk management and internal control framework

Risk Management

In order to continuously improve the risk management and internal control systems, as well as to enhance the level of management and risk prevention capabilities, the Company has developed a risk management manual ("Risk Management Manual"), established risk management strategy and structure, as well as defined the measures for risk assessment and risk management reporting procedures during the year under review. The organisational structure for risk management is set out as follows:



The Board and Audit Committee oversee the structure and performance of the risk management functions, and assess the effectiveness of the underlying risk management system.

The Risk Management Committee of the Group ("Risk Management Committee") comprises executive Directors and management personnel from the Group. The committee aims to promote the awareness of risk management in daily operations. The Risk Management Committee is responsible for coordinating and conducting risk assessments in accordance with the Risk Management Manual.

Management of business units work together with the Risk Management Officer to perform risk assessment at operational level, and is responsible for monitoring and managing the risks identified in activities and operations. Risk Management Officer is responsible for reporting risk management status to the Risk Management Committee annually.

Corporate Governance Report

The four key steps in the risk management process are:

- **Risk identification and assessment** – identify the key risks of the Group and analyse the risk by considering the possibility of occurrence and the impact to the Group;
- **Risk handling** – adopt an appropriate risk management strategy (i.e. risk response) for each key risk;
- **Risk monitoring** – apply monitoring mechanism to ensure the risk response are operated effectively;
- **Risk reporting** – summarise the result of risk assessment and report to Risk Management Committee.

In the risk management process, the top risks within the Group are identified and assessed; and the respective risk management measures as well as the corresponding mitigating controls are discussed, agreed and implemented by the management. Risk assessment results are reported by Risk Management Committee to the Board annually.

Internal Control

The internal control framework of the Group has been established based on the framework developed by Committee of Sponsoring Organisations of the Treadway Commission (“COSO”) for internal controls. To assist the Audit Committee in its oversight and monitoring activities, the Group maintains an independent internal audit function. The role of internal audit is to provide independent assurance that the risk management, governance and internal control processes of the Group are operating effectively.

To further strengthen the internal control systems, the head of all departments are required to confirm the effectiveness of the internal controls of their respective departments, including the identification of key issues in the control system and develop the action plan to remediate the weaknesses of the internal controls. Management is required to submit a confirmation to the Audit Committee and the Board annually to confirm the effectiveness of the risk management and internal control systems of the Group.

Review the effectiveness of the risk management and internal control systems

The Risk Management Committee met three times during the year under review and reported to the Audit Committee for the annual risk assessment, internal control review and testings. Key risks are identified and their responsive mitigating controls are documented in the risk registers and reported to the Board by the Risk Management Committee.

For the year ended 31 December 2016, the Board has conducted the review of risk management and internal control system functions of the Group and considered they are effective and adequate. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. No significant areas of concern that may affect the Company to achieve strategic goals have been identified.

During the review of risk management and internal control systems of the Group, the Board has assessed the adequacy of resources, staff qualifications, experience, training programmes and budget of the Group’s accounting and financial reporting function and considered that these resources are properly allocated.

Corporate Governance Report

Disclosure of inside information

The Company has established policies and internal controls for the handling and dissemination of inside information to ensure that disclosures are made and/or announcements are published on a timely basis in accordance with the applicable laws and regulations. The Company has implemented procedures for responding to external enquiries about the Group's affairs and has in place a strict prohibition on unauthorized use of inside information.

CONSTITUTIONAL DOCUMENTS

During the year under review, the Company had not amended its constitutional documents.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company has established the following communication channels with its shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders of the Company; (ii) the opportunity for shareholders of the Company to raise comments and exchange views with the Board during each annual general meeting; (iii) providing the latest and key information of the Group through the website of the Company; and (iv) the Company's share registrar serves the shareholders of the Company in respect of all share registration matters.

Independent Auditor's Report



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Essex Bio-Technology Limited (the "Company") and its subsidiaries (hereafter referred to as the "Group") set out on pages 52 to 112, 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report

(1) CAPITALISATION OF DEVELOPMENT EXPENDITURE AS INTANGIBLE ASSETS AND SUBSEQUENT VALUATION

Refer to notes 4(h), 5 and 20 in the consolidated financial statements.

Key Audit Matter

Capitalised development expenditure amounted to the net carrying value of HK\$54,670,539 as at 31 December 2016. Development expenditure mainly comprised development of biopharmaceutical products. The Group capitalises eligible product development costs upon meeting the criteria as described in Hong Kong Accounting Standard 38 "Intangible Assets" ("HKAS 38"). Capitalisation criteria assessment under HKAS 38 requires significant judgement and measurement uncertainty at inception and throughout the lives of the individual projects. Judgements involved to determine the eligibility of the costs for capitalisation and the subsequent measurement requires detailed and sensitivity analysis.

How the matter was addressed in our audit

Our audit procedures included, amongst others, the following:

- (i) Assessing the eligibility of the development costs for capitalisation as intangible assets under HKAS 38 and evaluating the assumptions and methodologies used by the Group to test the impairment of these intangible assets.
- (ii) Reviewing the design of the controls identified by the management surrounding the intangible assets capitalisation and subsequent measurement and which we considered key, testing such controls and performing substantive test of details on the capitalised development costs. These procedures included on a sample basis testing underlying evidence including hours registration, testing estimates of useful life, testing estimates surrounding future economic cash flows.

(2) IMPAIRMENT ON CONVERTIBLE LOAN RECEIVABLES AND AVAILABLE-FOR-SALE FINANCIAL ASSETS

Refer to notes 4(i), 5, 21 and 22 in the consolidated financial statements.

Key Audit Matter

The Group has debt component of convertible loan receivables of HK\$21,942,402 at amortised cost and unlisted available-for-sale financial assets of HK\$31,183,750 at cost as at 31 December 2016.

Management has concluded that there is no impairment in respect of convertible loan receivables and unlisted available-for-sale financial assets. This conclusion required significant management judgement and estimates with respect to the impairment assessment of convertible loan receivables and unlisted available-for-sale financial assets.

How the matter was addressed in our audit

Our procedures in relation to management's assessment included:

- (i) Discussing the recoverability of convertible loan receivables with the management with reference to contracted payment terms of the relevant agreements; and
- (ii) Evaluating management's assessment on impairment of unlisted available-for-sale financial assets with reference to the financial information on the underlying investees.

Independent Auditor's Report

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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.

Independent Auditor's Report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report

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

BDO Limited

Certified Public Accountants

Lam Siu Fung

Practising Certificate Number: P05308

Hong Kong, 21 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK\$	2015 HK\$
Turnover	6&7	775,662,998	654,010,499
Cost of sales		(152,636,311)	(124,418,858)
Gross profit		623,026,687	529,591,641
Other revenue, and other gains and losses	8	7,395,501	6,382,673
Distribution and selling expenses		(410,539,424)	(352,109,409)
Administrative expenses		(47,958,700)	(51,157,864)
Finance costs	9	(9,686,016)	(2,056,200)
Profit before income tax	10	162,238,048	130,650,841
Income tax	14	(25,953,667)	(25,755,651)
Profit for the year		136,284,381	104,895,190
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		(32,413,062)	(21,827,038)
Change in fair value of available-for-sale financial assets, net of tax	22	13,440,257	–
Total comprehensive income for the year		117,311,576	83,068,152
Earnings per share attributable to owners of the Company			
– Basic	16	HK24.33 cents	HK18.75 cents
– Diluted	16	HK24.03 cents	HK18.51 cents

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 HK\$	2015 HK\$
Non-current assets			
Property, plant and equipment	17	163,901,646	174,335,835
Land use rights	18	6,189,091	6,774,816
Goodwill	19	2,227,853	2,416,690
Other intangible assets	20	74,700,268	34,367,867
Convertible loan receivables	21	27,016,775	11,937,448
Available-for-sale financial assets	22	83,397,434	3,882,008
Deposits and prepayments	25	382,385	23,398,660
Pledged bank deposit	27	20,000,000	20,000,000
Total non-current assets		377,815,452	277,113,324
Current assets			
Inventories	23	106,216,070	38,678,761
Trade and other receivables	24	256,007,080	206,427,250
Deposits and prepayments	25	35,327,800	49,746,406
Convertible note receivable	26	–	–
Convertible loan receivables	21	1,750,887	–
Cash and cash equivalents	27	156,180,115	64,613,176
Total current assets		555,481,952	359,465,593
Total assets		933,297,404	636,578,917
Current liabilities			
Trade and other payables	28	195,128,065	154,288,480
Bank borrowings – secured	29	38,780,000	51,000,000
Current tax liabilities		10,048,758	2,940,843
Total current liabilities		243,956,823	208,229,323
Net current assets		311,525,129	151,236,270
Total assets less current liabilities		689,340,581	428,349,594
Non-current liabilities			
Convertible loan payable	30	121,434,340	–
Deferred tax liabilities	31	11,042,175	15,402,758
Total non-current liabilities		132,476,515	15,402,758
Total liabilities		376,433,338	223,632,081
NET ASSETS		556,864,066	412,946,836
Capital and reserves attributable to owners of the Company			
Share capital	32	56,214,900	55,954,100
Reserves		500,649,166	356,992,736
TOTAL EQUITY		556,864,066	412,946,836

On behalf of the Board

Fang Haizhou

Zhong Sheng

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Equity attributable to owners of the Company									
	Share capital HK\$ Note 32	Share premium HK\$	Capital reserve HK\$ Note 33(i)	Statutory surplus reserve HK\$ Note 33(ii)	Foreign currency translation reserve HK\$ Note 33(iii)	Share option reserve HK\$ Note 34	Available-for-sale financial assets reserve HK\$ Note 22	Conversion component of convertible loan payable HK\$ Note 30	Retained earnings HK\$	Total HK\$
At 1 January 2015	55,675,000	969,871	362,442	41,516,886	19,801,930	15,666,606	-	-	197,053,097	331,045,832
Profit for the year	-	-	-	-	-	-	-	-	104,895,190	104,895,190
Other comprehensive income										
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(21,827,038)	-	-	-	-	(21,827,038)
Total comprehensive income for the year	-	-	-	-	(21,827,038)	-	-	-	104,895,190	83,068,152
2014 final dividend paid	-	-	-	-	-	-	-	-	(12,248,500)	(12,248,500)
Proceeds from shares issued under share option scheme	279,100	6,140,200	-	-	-	-	-	-	-	6,419,300
Exercise of share options	-	2,798,156	-	-	-	(2,798,156)	-	-	-	-
Equity-settled share-based payment transactions	-	-	-	-	-	4,662,052	-	-	-	4,662,052
At 31 December 2015 and 1 January 2016	55,954,100	9,908,227	362,442	41,516,886	(2,025,108)	17,530,502	-	-	289,699,787	412,946,836
Profit for the year	-	-	-	-	-	-	-	-	136,284,381	136,284,381
Other comprehensive income										
- Exchange differences on translation of financial statements of foreign operations	-	-	-	-	(32,413,062)	-	-	-	-	(32,413,062)
- Change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-	13,440,257	-	-	13,440,257
Total comprehensive income for the year	-	-	-	-	(32,413,062)	-	13,440,257	-	136,284,381	117,311,576
2015 final dividend paid	-	-	-	-	-	-	-	-	(13,988,525)	(13,988,525)
Exercise of share options	260,800	7,645,877	-	-	-	(1,908,277)	-	-	-	5,998,400
Equity-settled share-based payment transactions	-	-	-	-	-	1,272,561	-	-	-	1,272,561
Issue of convertible loan	-	-	-	-	-	-	-	33,323,218	-	33,323,218
At 31 December 2016	56,214,900	17,554,104	362,442	41,516,886	(34,438,170)	16,894,786	13,440,257	33,323,218	411,995,643	556,864,066

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK\$	2015 HK\$
Cash flows from operating activities			
Profit before income tax:		162,238,048	130,650,841
Adjustments for:			
Gain on disposal of trading securities	8	(3,772,836)	–
Interest income from convertible loan receivables	8	(3,230,461)	–
Interest income from bank deposits	8	(218,327)	(278,491)
Change in fair value of derivative component of convertible loan receivables	8	854,574	–
Interest expenses	9	9,686,016	2,056,200
Amortisation of land use rights	10	157,274	167,276
Amortisation of other intangible assets	10	1,834,615	248,571
Depreciation of property, plant and equipment	10	10,934,795	9,793,104
Equity-settled share-based payments		1,272,561	4,662,052
Exchange losses, net	10	1,233,468	2,028,251
Loss on disposal of property, plant and equipment	10	36,487	–
Write-off of inventories	10	2,685,773	3,411,021
Impairment loss on convertible note receivable	10	–	1,925,910
Impairment loss on other intangible assets	10	–	1,281,571
		183,711,987	155,946,306
Operating cash flows before working capital changes			
Increase in inventories		(75,967,202)	(9,108,560)
Increase in trade and other receivables		(63,960,952)	(58,983,560)
Decrease/(increase) in deposits and prepayments		12,105,034	(50,913,034)
Increase in trade and other payables		52,858,441	52,625,764
Purchase of trading securities		(8,576,623)	–
Proceeds from disposal of trading securities		12,349,459	–
		112,520,144	89,566,916
Cash generated from operations			
Interest paid		(4,928,458)	(2,056,200)
Tax paid		(22,313,000)	(18,870,251)
		85,278,686	68,640,465
Net cash generated from operating activities			

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK\$	2015 HK\$
Cash flows from investing activities			
Acquisition of property, plant and equipment	17	(11,769,279)	(11,384,774)
Increase of other intangible assets	20	(24,289,512)	(11,644,249)
Purchase of convertible loan receivables		(17,528,115)	(12,428,536)
Purchase of available-for-sale financial assets		(66,075,169)	(3,882,008)
Bank interest received	8	218,327	278,491
Interest received from convertible loan receivables		1,495,121	–
Increase in pledged bank deposits		–	(20,000,000)
Receipt of the repayment of convertible note receivable		–	774,220
Net cash used in investing activities		(117,948,627)	(58,286,856)
Cash flows from financing activities			
Proceeds from bank borrowings		121,910,356	51,000,000
Repayments of bank borrowings		(134,130,356)	(49,714,144)
Proceeds from issue of convertible loan payables	30	150,000,000	–
Proceeds from shares issued under share option scheme		5,998,400	6,419,300
Dividends paid to owners of the Company		(13,988,525)	(12,248,500)
Net cash generated from/(used in) financing activities		129,789,875	(4,543,344)
Net increase in cash and cash equivalents		97,119,934	5,810,265
Cash and cash equivalents at beginning of year		64,613,176	61,974,415
Effect of exchange rate changes on cash and cash equivalents		(5,552,995)	(3,171,504)
Cash and cash equivalents at end of year		156,180,115	64,613,176

Non-cash transaction

During the year ended 31 December 2016, additions of distribution rights of HK\$22,047,944 were transferred from deposits and prepayments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. General

Essex Bio-Technology Limited ("Company") is a limited liability company incorporated in the Cayman Islands on 31 July 2000 under Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in investment holding, the developing, manufacturing and selling of biopharmaceutical products in the People's Republic of China ("PRC").

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity's share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no impact on these financial statements.

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not previously used revenue-based depreciation methods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. Adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2016 (Continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a subsidiary of an investment entity (including investment entities that account for their subsidiaries at fair value rather than consolidating them). An investment entity parent will consolidate a subsidiary only when the subsidiary is not itself an investment entity and the subsidiary’s main purpose is to provide services that relate to the investment entity’s investment activities. A non-investment entity applying the equity method to an associate or joint venture that is an investment entity may retain the fair value measurements that associate or joint venture used for its subsidiaries. An investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss (“FVTPL”) should provide the disclosures related to investment entities as required by HKFRS 12. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Company is neither an intermediate parent entity nor an investment entity.

Amendments to HKFRS 11– Accounting for Acquisitions of Interests in Joint Operations

The amendments require an entity to apply the relevant principles of HKFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined in that standard. The principles of HKFRS 3 are also applied upon the formation of a joint operation if an existing business as defined in that standard is contributed by at least one of the parties. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not acquired or formed a joint operation.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

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

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2017

⁽²⁾ Effective for annual periods beginning on or after 1 January 2018

⁽³⁾ Effective for annual periods beginning on or after 1 January 2019

⁽⁴⁾ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 15 – Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of 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 each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

2. Adoption of Hong Kong Financial Reporting Standards (“HKFRSs”) (Continued)

(b) *New/revised HKFRSs that have been issued but are not yet effective (Continued)*

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors’ interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

3. Basis of Preparation

(a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

(b) *Basis of measurement*

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values. The measurement bases are fully described in the accounting policies set out in note 4 below.

(c) *Functional and presentation currency*

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

(b) *Subsidiaries*

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) *Associates*

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

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amounts are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount below its fair value less cost of disposal (if measurable) or its value-in-use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(e) Property, plant and equipment (Continued)

Property, plant and equipment, other than construction in progress, are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The annual rates are as follows:

Buildings and leasehold improvements	2% – 18% or the remaining lease period whichever is shorter
Plant and machinery	9% – 19%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	18%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Land use rights

Land use rights represent payments for leasehold land held for own use under operating leases. The Group made up-front payments to obtain land use rights as operating leases on which properties are developed. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as expense.

(g) Leasing

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

The total rental payable under the operating leases are recognised in profit or loss (other than goodwill) on a straight-line basis over the period of the lease. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(h) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on unit-of-production method or straight-line basis over their useful lives, where appropriate. The amortisation expense is recognised in profit or loss.

Distribution rights depreciated under straight-line method	5 – 10 years
---	--------------

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(h) Intangible assets (Continued)

(ii) Research and development expenditure

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- (1) it is technically feasible to develop the product for it to be sold;
- (2) adequate resources are available to complete the development;
- (3) there is an intention to complete and sell the product;
- (4) the Group is able to sell the product;
- (5) sale of the product will generate future economic benefits; and
- (6) expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired.

(i) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(i) Financial instruments (Continued)

(ii) Financial assets (Continued)

Convertible note receivable and convertible loan receivables

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract. Where the Group needs to separate an embedded derivative from the host contract but is unable to measure the embedded derivative separately, the combined instruments are designated as at fair value through profit or loss. Derivative component is initially recognised at fair value and is classified separately into respective items on initial recognition. The derivative component is subsequently remeasured at fair value at the end of the reporting period with resulting gain or loss recognised in profit or loss in the period in which they arise. The Group may conclude, however, that the equity component of the combined instrument may be sufficiently significant to preclude it from obtaining a reliable estimate of the entire instrument because the embedded derivative will be settled by an unquoted equity instrument whose fair value cannot be reliably measured. In that case, the combined instrument is measured at cost less any accumulated impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any accumulated impairment losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(i) Financial instruments (Continued)

(ii) Impairment on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loan and receivables, convertible note receivable and debt component of convertible loan receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

For available-for-sale financial assets

For available-for-sale equity investment that is carried at fair value, where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in 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.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(i) Financial instruments (Continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred. All of the Group's financial liabilities are financial liabilities at amortised cost.

Financial liabilities at amortised cost including trade and other payables, and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible loan payable

Convertible loan payable issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan into equity, is included in equity (conversion component of convertible loan payable).

In subsequent periods, the liability component of the convertible loan payable is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in conversion component of convertible loan payable until the embedded option is exercised (in which case the balance stated in conversion component of convertible loan payable will be transferred to share capital and share premium. Where the option remains unexercised at the expiry dates, the balance stated in conversion component of convertible loan payable will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(i) Financial instruments (Continued)

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(j) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Revenue recognition

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Service fee income is recognised when the services are provided.

Interest income is accrued on a time-apportioned basis taking into account the principal outstanding and effective interest rate applicable.

(l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(l) Income taxes (Continued)

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

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(m) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. 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.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK\$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency translation reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as foreign currency translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(n) Employee benefits

Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(o) Impairment of other assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the other assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value-in-use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

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

Value-in-use is based on the estimated future cash flows expected to be derived from the asset or cash-generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(p) *Share-based payment*

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

(q) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies *(Continued)*

(s) Related parties

- (i) A person or a close member of that person's family is related to the Group if that person:
 - (1) has control or joint control over the Group;
 - (2) has significant influence over the Group; or
 - (3) is a member of key management personnel of the Group or the Company's parent.
- (ii) An entity is related to the Group if any of the following conditions apply:
 - (1) 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).
 - (2) 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).
 - (3) Both entities are joint ventures of the same third party.
 - (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (5) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (6) The entity is controlled or jointly controlled by a person identified in (i).
 - (7) A person identified in (i)(1) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (8) 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 Group's parent.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. Significant Accounting Policies (Continued)

(s) Related parties (Continued)

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

(t) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(u) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows:

(a) *Research and development costs*

In accordance with the accounting policy set out in note 4, costs associated with research activities are expensed in profit or loss as they are incurred, while costs that are directly attributable to development activities are recognised as other intangible assets provided they meet all the requirements. This requires the management to make judgements to distinguish the research phase and development phase of the projects being undertaken. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research, findings or other knowledge to a plan or design for the production of new or substantially improved materials devices, products, processes, systems or services before the start of commercial production or use. Determining the amounts to be expensed in profit or loss or to be capitalised required management to make judgement, and assumptions regarding the expected progress and outcome of the research and development activities the future expected cash generation of the assets, discount rates to be applied, and also the expected period of, probable future economic benefits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

(b) *Impairment of trade and other receivables and convertible loan receivables*

Provision for impairment of receivables is made based on assessment of the recoverability of receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying amount of receivables and doubtful debt expenses in the period in which the estimate has been changed.

(c) *Impairment of available-for-sale investments*

Management reviews the recoverability of the Group's available-for-sale investments with reference to current market environment whenever events or changes in circumstances indicate that the carrying amounts of the assets exceed their corresponding recoverable amounts. Appropriate impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

In determining whether impairment on available-for-sale investments is required, the Group takes into consideration the current market environment and the estimates of future cash flows which the Group expects to receive. Impairment is recognised based on the present value of estimated future cash flows. If the market environment and circumstances change significantly, resulting in a decrease in the recoverable amount of these available-for-sale investments, additional impairment loss may be required.

(d) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses the estimations at the end of each reporting period.

(e) *Impairment of non-financial assets (other than goodwill)*

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

(f) Valuation of share options granted

The fair value of share options granted was calculated using Binominal option pricing model valuation model based on the Group management's significant inputs into calculation including an estimated life of share options granted to be five years, based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted.

(g) Income taxes

The Group is subject to income taxes in Hong Kong and PRC. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(h) Fair value measurement

The derivative component of convertible loan receivables and certain available-for-sale investments included in the consolidated financial statements require measurement at, and disclosure of, fair value.

The fair value measurement utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

For more detailed information in relation to the fair value measurement, please refer to notes 21 and 22.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. Segment Reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the chief operating decision-maker for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments:

- Pharmaceutical products: Manufacturing and sales of pharmaceutical products
- Provision of marketing services

(a) Reportable segments

The chief operating decision-maker monitors the results of its business units separately for the purpose of making decision about resources allocation and performance assessment. The chief operating decision-maker has been identified as the Company's executive directors. Segment performance is evaluated based on the results from the reportable segments as explained in the table below.

For the year ended 31 December 2016

	Pharmaceutical products HK\$	Provision of marketing services HK\$	Total HK\$
Reportable segment revenue			
– Revenue from external customers	727,817,762	47,845,236	775,662,998
Reportable segment profit	159,474,528	26,296,905	185,771,433

For the year ended 31 December 2015

	Pharmaceutical products HK\$	Provision of marketing services HK\$	Total HK\$
Reportable segment revenue			
– Revenue from external customers	602,836,400	51,174,099	654,010,499
Reportable segment profit	121,940,812	30,446,682	152,387,494

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. Segment Reporting (Continued)

(a) Reportable segments (Continued)

The totals presented for the Group's operating segments reconciled to the Group's key financial figures as presented in the consolidated financial statements as follows:

	2016	2015
	HK\$	HK\$
Reportable segment profit	185,771,433	152,387,494
Unallocated corporate income and expenses, net	(12,574,808)	(15,018,401)
Equity-settled share-based payments	(1,272,561)	(4,662,052)
Finance costs	(9,686,016)	(2,056,200)
Profit before income tax	162,238,048	130,650,841

Major corporate expenses comprised mainly the staff costs including directors' emoluments, exchange loss arising from translation of the balances denominated in the currency other than functional currency and impairment loss on convertible note receivable.

Analysis of segment assets and liabilities has not been presented as the Group's provision of marketing services segment is with low utilisation of physical assets and the measure of segment assets are not regularly provided to the Company's executive directors.

(b) Geographical information

For the years ended 31 December 2016 and 2015, the Group's revenue from external customers is derived solely from its operations in the PRC (place of domicile), where all of the Group's non-current assets (other than available-for-sale financial assets and pledged bank deposits) are located in the PRC.

The geographical location of external customers is based on the location at which the goods are delivered and services rendered. Geographical location of non-current assets is based on the physical locations of the respective assets. For goodwill and other intangible assets, geographical location is based on the area of the group entities' operations.

(c) Information about a major customer

Revenue from the largest customer of the Group amounted to HK\$183,421,572 (2015: HK\$138,995,561), which represents 23.6% (2015: 21.3%) of the Group's revenue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. Turnover

Turnover represents the sales value of goods supplied to customers and service income (net of sales tax, value-added tax, commercial discounts and sales returns), further details of which are set out in note 6.

8. Other Revenue, and Other Gains and Losses

	2016 HK\$	2015 HK\$
Gain on disposal of trading securities	3,772,836	–
Interest income from convertible loan receivables	3,230,461	–
Government grants (Note)	949,519	5,979,990
Interest income from bank deposits	218,327	278,491
Change in fair value of derivative component of convertible loan receivables	(854,574)	–
Sundry income	78,932	124,192
	7,395,501	6,382,673

Note:

These government grants were received from Zhuhai Finance Bureau (珠海市財政局) for purpose of supporting the development of new pharmaceutical products, and there were no conditions to be fulfilled or contingencies relating to these grants.

9. Finance Costs

	2016 HK\$	2015 HK\$
Interest expense on bank borrowings	3,676,792	2,056,200
Interest expense on convertible loan payable	6,009,224	–
	9,686,016	2,056,200

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

10. Profit Before Income Tax

This is arrived at after charging:

	2016	2015
	HK\$	HK\$
Amortisation of land use rights	157,274	167,276
Amortisation of other intangible assets	1,834,615	248,571
Auditor's remuneration	912,000	765,242
Cost of inventories	133,634,058	103,691,441
Cost of services	19,002,253	20,727,417
Depreciation of property, plant and equipment	10,934,795	9,793,104
Employees costs excluding directors' emoluments:–		
Salaries and other benefits	75,926,401	52,509,384
Pension fund contributions	4,327,933	3,114,485
Equity-settled share-based payments to the employees (Note)	572,047	2,499,725
Equity-settled share-based payments to the consultant of the Group (Note)	500,000	600,000
Exchange losses, net	1,233,468	2,028,251
Write-off of inventories	2,685,773	3,411,021
Loss on disposal of property, plant and equipment	36,487	–
Research and development costs recognised as expenses	5,652,020	10,781,763
Impairment loss on convertible note receivable	–	1,925,910
Impairment loss on other intangible assets	–	1,281,571

Note:

During the year ended 31 December 2016, equity-settled share-based payments recognised as administrative expenses in relation to share options granted by the Company to a consultant, employees and directors were HK\$500,000 (2015:HK\$600,000), HK\$572,047 (2015:HK\$2,499,725) and HK\$200,514 (2015:HK\$1,562,327) respectively. Details of transactions are set out in note 34.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

11. Directors' Emoluments

	Executive Directors			Independent Non-executive Directors			Total HK\$
	Fang Haizhou HK\$ (Note (a))	Zhong Sheng HK\$	Ngiam Mia Je Patrick HK\$	Fung Chi Ying HK\$	Mauffrey Benoit Jean Marie HK\$	Yeow Mee Mooi HK\$	
For the year ended 31 December 2016:							
Fee	-	-	-	185,000	173,750	173,750	532,500
Other emoluments:							
Salaries and other benefits	657,303	591,576	788,761	-	-	-	2,037,640
Pension fund contributions	25,010	18,000	-	-	-	-	43,010
Discretionary bonuses (Note (b))	891,013	801,912	1,069,215	-	-	-	2,762,140
Equity-settled share-based payments (Note (c))	93,573	93,573	13,368	-	-	-	200,514
Total emoluments	1,666,899	1,505,061	1,871,344	185,000	173,750	173,750	5,575,804
For the year ended 31 December 2015:							
Fee	-	-	-	180,000	165,000	165,000	510,000
Other emoluments:							
Salaries and other Benefits	621,404	559,263	745,684	-	-	-	1,926,351
Pension fund contributions	23,907	17,306	-	-	-	-	41,213
Discretionary bonuses (Note (b))	742,000	668,000	890,000	-	-	-	2,300,000
Equity-settled share-based payments (Note (c))	729,086	729,086	104,155	-	-	-	1,562,327
Total emoluments	2,116,397	1,973,655	1,739,839	180,000	165,000	165,000	6,339,891

Notes:

- (a) Mr. Fang Haizhou is designated as the Managing Director of the Group.
- (b) The performance related incentive payment is at the discretion of the directors depending on the financial performance of the Group.

For the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration for the years ended 31 December 2016 and 2015.

- (c) These amounts represent the estimated value of share options granted to the directors under the Company's share option scheme. Further details of the options granted are set out in note 34.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

12. Five Highest Paid Individuals

Of the five individuals with the highest paid in the Group, three (2015: three) were directors of the Company whose emoluments are included in note 11 above. The emoluments of the remaining two (2015: two) individuals were as follows:

	2016 HK\$	2015 HK\$
Salaries and other benefits	2,545,050	2,040,927
Pension fund contribution	39,782	33,635
Equity-settled share-based payments	114,961	895,735
	2,699,793	2,970,297

Their emoluments were within the following bands:

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

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

For the years ended 31 December 2016 and 2015, the emoluments were paid to one member of the senior management (other than the directors of the Company) which fell within the band of HK\$Nil to HK\$1,000,000.

13. Retirement Benefits

The employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC government, or in the case of the employees in Hong Kong, a defined contribution Mandatory Provident Fund retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance. The Group is required to contribute a certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the scheme.

The Group's contribution to retirement benefits schemes for the year ended 31 December 2016 amounted to HK\$4,370,943 (2015: HK\$3,155,698).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

14. Income Tax

Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2016 HK\$	2015 HK\$
Current tax – the PRC		
– Provision for the year	25,630,461	20,228,846
Deferred tax (Note 31)	323,206	5,526,805
	25,953,667	25,755,651

No provision for Hong Kong profits tax has been made as the Group has no assessable profit arising in Hong Kong.

The Group's major operating subsidiary in Zhuhai, the PRC, was established and carries on business in the Special Economic Zones of the PRC as a high technology enterprise. This subsidiary has obtained a 高新技術企業證書 (High Technology Enterprise Certificate) and is entitled to enjoy the enterprise income tax at the concessionary rate of 15% for the years ended 31 December 2016 and 2015.

Enterprise income tax rate of 25% is applied to other operating subsidiaries in the PRC.

Income tax for the year can be reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 HK\$	2015 HK\$
Profit before income tax	162,238,048	130,650,841
Tax calculated at Hong Kong profits tax rate of 16.5% (2015: 16.5%)	26,769,278	21,557,389
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,626,594)	(2,452,445)
Tax effect of expenses not deductible for tax purposes	5,768,198	3,399,924
Tax effect of revenue not taxable for tax purposes	(908,896)	(108)
Tax benefits	(1,586,465)	(1,687,356)
Withholding tax arising from undistributable profits of a subsidiary in the PRC	(3,320,221)	3,972,403
Others	1,858,367	965,844
Income tax	25,953,667	25,755,651

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

15. Dividends

	2016 HK\$	2015 HK\$
Proposed final dividend – HK\$0.032 (2015: HK\$0.025) per share	17,988,768	13,988,525

The directors propose a final dividend of HK\$0.032 (2015: HK\$0.025) per ordinary share to be paid. The amount of proposed final dividend is based on the number of issued ordinary shares as at the end of the reporting period. This proposed dividend is not reflected as dividend payable as at the end of the reporting period but will be reflected as an appropriation of retained earnings for the year ending 31 December 2017.

16. 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:

Earnings

	2016 HK\$	2015 HK\$
Profit attributable to owners of the Company for the purposes of calculating basic and diluted earnings per share	136,284,381	104,895,190

Number of shares

	2016	2015
Weighted average number of ordinary shares for the purposes of basic earnings per share	560,113,557	559,541,000
Effect of dilutive potential ordinary shares: – share options issued by the Company	6,983,566	7,169,680
Weighted average number of ordinary shares for the purposes of diluted earnings per share	567,097,123	566,710,680

The computation of diluted earnings per share for the year ended 31 December 2016 does not assume the conversion of potential ordinary shares in relation to certain share options granted and the convertible loan payable as they are anti-dilutive.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

17. Property, Plant and Equipment

	Buildings and leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Cost:					
At 1 January 2015	127,405,443	62,581,089	4,373,666	3,853,111	198,213,309
Additions	–	10,286,521	1,098,253	–	11,384,774
Exchange adjustment	(7,056,957)	(3,872,802)	(248,990)	(213,423)	(11,392,172)
At 31 December 2015	120,348,486	68,994,808	5,222,929	3,639,688	198,205,911
Additions	1,045,580	8,208,219	2,080,687	434,793	11,769,279
Disposal	–	(84,552)	–	–	(84,552)
Exchange adjustment	(7,780,276)	(4,792,056)	(381,795)	(253,071)	(13,207,198)
At 31 December 2016	113,613,790	72,326,419	6,921,821	3,821,410	196,683,440
Accumulated depreciation:					
At 1 January 2015	2,492,541	8,196,753	1,977,740	2,611,532	15,278,566
Charge for the year	2,498,581	6,288,194	632,135	374,194	9,793,104
Exchange adjustment	(236,788)	(702,481)	(102,886)	(159,439)	(1,201,594)
At 31 December 2015	4,754,334	13,782,466	2,506,989	2,826,287	23,870,076
Charge for the year	2,361,506	7,337,349	829,060	406,880	10,934,795
Disposal	–	(48,065)	–	–	(48,065)
Exchange adjustment	(409,638)	(1,207,058)	(158,748)	(199,568)	(1,975,012)
At 31 December 2016	6,706,202	19,864,692	3,177,301	3,033,599	32,781,794
Carrying amount:					
At 31 December 2016	106,907,588	52,461,727	3,744,520	787,811	163,901,646
At 31 December 2015	115,594,152	55,212,342	2,715,940	813,401	174,335,835

For the year ended 31 December 2016, the carrying amount of buildings and leasehold improvements of HK\$106,907,588 (2015: Nil) were pledged as security for bank borrowings and banking facilities as set out in note 29.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

18. Land Use Rights

	HK\$
Cost:	
At 1 January 2015	8,492,133
Exchange adjustment	(470,377)
At 31 December 2015	8,021,756
Exchange adjustment	(515,518)
At 31 December 2016	7,506,238
Accumulated amortisation:	
At 1 January 2015	979,928
Charge for the year	167,276
Exchange adjustment	(60,888)
At 31 December 2015	1,086,316
Charge for the year	157,274
Exchange adjustment	(76,744)
At 31 December 2016	1,166,846
Carrying amount:	
At 31 December 2016	6,339,392
Portion classified as current assets (included in deposits and prepayments)	(150,301)
Non-current assets	6,189,091
At 31 December 2015	6,935,440
Portion classified as current assets (included in deposits and prepayments)	(160,624)
Non-current assets	6,774,816

The Group's interest in leasehold land is held in the PRC.

For the year ended 31 December 2016, the Group's land use rights were pledged as security for the bank borrowings and banking facilities as set out in note 29 (2015: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

19. Goodwill

	HK\$
Cost:	
As 1 January 2015	2,588,991
Exchange adjustment	(172,301)
As 31 December 2015	2,416,690
Exchange adjustment	(188,837)
As 31 December 2016	2,227,853

Impairment testing on goodwill

The recoverable amount of the goodwill is determined based on the cash-generating unit ("CGU") of the Group's sales network of biopharmaceutical products to which the goodwill belongs on the value-in-use basis. The calculation is based on the most recent five-year financial budgets approved by management. The following key assumptions have been made for the purpose of analysis:

- (a) Gross margin ratio of 78% (2015: 46%)
- (b) Pre-tax discount rate of 12.4% (2015: 10.9%) per year

Management determined the gross margin mainly based on past performance of the CGU and management's expectations for the market development. The discount rate is determined based on the PRC risk-free interest rate adjusted by the specific risk associated with the CGU. The recoverable amounts of the CGU have been determined from value-in-use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2015: 3%), which does not exceed the long-term growth rate for the pharmaceutical production industry in the PRC.

The recoverable amount of the goodwill determined in the above manner suggested that there was no impairment in the carrying amount of goodwill as at 31 December 2016 and 2015.

The directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

20. Other Intangible Assets

	Development expenditure HK\$	Distribution rights HK\$	Total HK\$
Cost:			
At 1 January 2015	40,653,194	2,526,051	43,179,245
Additions	11,644,249	–	11,644,249
Exchange adjustment	(2,711,869)	(69,999)	(2,781,868)
At 31 December 2015	49,585,574	2,456,052	52,041,626
Additions	24,289,512	22,047,944	46,337,456
Exchange adjustment	(4,257,353)	(1,193,922)	(5,451,275)
At 31 December 2016	69,617,733	23,310,074	92,927,807
Accumulated amortisation and impairment losses:			
At 1 January 2015	15,607,296	1,472,932	17,080,228
Amortisation	–	248,571	248,571
Impairment for the year	1,281,571	–	1,281,571
Exchange adjustment	(915,122)	(21,489)	(936,611)
At 31 December 2015	15,973,745	1,700,014	17,673,759
Amortisation	–	1,834,615	1,834,615
Exchange adjustment	(1,026,551)	(254,284)	(1,280,835)
At 31 December 2016	14,947,194	3,280,345	18,227,539
Carrying amount:			
At 31 December 2016	54,670,539	20,029,729	74,700,268
At 31 December 2015	33,611,829	756,038	34,367,867

During the year ended 31 December 2015, one of the development items was impaired by the Group as it was technically infeasible to develop the product further for it to be sold. The directors were of the opinion that such development item would not generate any economic benefit to the Group and the recoverable amount would be minimal. Accordingly, the impairment loss of HK\$1,281,571 on the development expenditure was recognised in the consolidated statement of profit or loss and other comprehensive income in 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

21. Convertible Loan Receivables

During the year ended 31 December 2015, the Group has entered into a convertible loan agreement with an independent third party, 武漢伢典生物科技有限公司 (Wuhan Adv. Dental Co., Ltd.*) ("Adv. Dental"), with principal amount of RMB10,000,000 (approximately HK\$11,937,448) which carries interest at 5% per annum payable quarterly in arrears with maturity on 13 December 2019 at redemption amount of 100% of the principal amount ("Convertible Loan A"). The principal amount of Convertible Loan A can be converted into such equity interest representing 30% of the entire equity interest of Adv. Dental at any time from the date of issue to the maturity date. The principal activities of Adv. Dental is manufacturing and selling of dental treatment techniques in the PRC. Convertible Loan A is secured by 100% equity interest in Adv. Dental.

During the year ended 31 December 2016, the Group has entered into another convertible loan agreement with an independent third party, 廣西萬壽堂藥業有限公司 (Guangxi Medictop Pharmaceutical Company Limited*) ("Guangxi Medictop"), with principal amount of RMB15,000,000 (approximately HK\$17,528,115) which carries interest at 6% per annum payable quarterly in arrears with maturity on 8 January 2019 at redemption amount of 100% of the principal amount ("Convertible Loan B"). Guangxi Medictop is principally engaged in manufacturing, research and developing and selling of Chinese patent medicines for gynecology and cardiovascular. Convertible Loan B is secured by 20% equity interest in Guangxi Medictop.

The components of Convertible Loan B, other than the debt component, are set out below:

- (1) The Group shall have the right to convert the principal amount of the Convertible Loan B into such equity interest representing 10% of the entire equity interest of Guangxi Medictop at any time within the first 12 months from the date of issue. This option of the Group as the holder of the convertible loan is referred to the conversion option ("Conversion Option").
- (2) The Group shall have the right to demand early repayment of the entire principal amount of the Convertible Loan B together with the accrued interest in accordance with the terms and conditions of the convertible loan agreement at any time within the first 12 months from the date of issue. This option of the Group as the holder of the convertible loan is referred to the redemption option ("Redemption Option").
- (3) In the event that the Convertible Loan B is converted into equity interest of Guangxi Medictop in accordance with the Conversion Option above whilst the shares of Guangxi Medictop fail to be listed on a stock exchange as specified in the agreement of Convertible Loan B before 31 October 2018, the Group is entitled to sell its converted equity interest to the existing equity holders of Guangxi Medictop at a price determined at principal amount of Convertible Loan B plus 10% interest since the date of the request of exercise of this option by the Group up to the execution. This option of the Group as the holder of the convertible loan is referred to the put option ("Put Option"). The Put Option can only be exercised for the period between 31 October 2018 and 30 November 2018.

The above Conversion Option, Redemption Option and Put Option are collectively known as the derivative component.

* For identification purpose only

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

21. Convertible Loan Receivables (Continued)

The initial fair value of the debt component is the residual value after separating out the initial fair value of derivative component. Subsequent to initial recognition, the debt component is carried at amortised cost using the effective interest method and the derivative component is carried at fair value. The fair value of derivative component as at end of the current period is determined by the directors of the Company with reference to the valuation performed by International Valuation Limited (“IVL”), an independent firm of professionally qualified valuers.

The Group’s convertible loan receivables are recognised as follows:

	Debt component	Derivative component	Total
	HK\$	HK\$	HK\$
At 31 December 2016			
– Convertible Loan A	7,071,906	5,074,373	12,146,279
– Convertible Loan B	14,870,496	1,750,887	16,621,383
Total	21,942,402	6,825,260	28,767,662
Less: Current portion	–	(1,750,887)	(1,750,887)
Non-current portion	21,942,402	5,074,373	27,016,775
At 31 December 2015			
– Convertible Loan A	6,621,379	5,316,069	11,937,448

The movements in fair value of the derivative component of the Group’s convertible loan receivables are as follows:

	2016	2015
	HK\$	HK\$
At 1 January	5,316,069	–
Additions	2,850,947	5,316,069
Change in fair value recognised in profit or loss	(854,574)	–
Exchange differences	(487,182)	–
At 31 December	6,825,260	5,316,069
Net loss for the year included in profit or loss at the end of the reporting period	(854,574)	–

For the year ended 31 December 2015, with respect to the passage of short period of time, the directors were of the opinion that the change in the fair value of the derivative component between the issue date and year end date was minimal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

21. Convertible Loan Receivables (Continued)

As at 31 December 2016, the fair value of the derivative component of the Group's convertible loan receivables is calculated using Binomial Share Option Model with the following key assumptions:

	Convertible Loan A	Convertible Loan B
Stock price	RMB4.59	RMB8.8052
Exercise price	RMB4.667	RMB12.062
Dividend yield	Nil	Nil
Expected volatility	66%	51%
Expected life	2.92 years	2.02 years
Risk-free interest rate	3.064%	2.704%

The fair value of the derivative component is Level 3 recurring fair value measurement. There is no transfer under the fair value hierarchy classification for the year ended 31 December 2016 and 2015.

The key significant unobservable inputs to determine the fair value of the derivative component are the stock price and expected volatility. A higher in the stock price and expected volatility would result in an increase in the fair value of the derivative component, and vice versa.

During the loan period and where applicable following the conversion of the Convertible Loan A, the Group was entitled to appoint 1 out of 3 directors or 2 out of 5 directors of Adv. Dental in accordance with the agreement of the Convertible Loan A. Accordingly given the potential voting right and the right to appoint directors, the Group has significant influence on Adv. Dental, which is recognised as an associate of the Group. As the Group has not converted the Convertible Loan A into equity interest of Adv. Dental, the Group is not entitled to share any profit or loss of Adv. Dental, and accordingly the interest in associate is HK\$Nil as at 31 December 2016 and 2015 and up to the date of approval of these financial statements. The directors are of opinion that no further disclosure is considered meaningful in this regard.

22. Available-for-sale Financial Assets

	2016 HK\$	2015 HK\$
Unlisted equity investments, at cost (Note (a))	31,183,750	3,882,008
Listed equity securities, at fair value (Note (b))	52,213,684	–
	83,397,434	3,882,008

- (a) The balance represents two unlisted equity investments, namely the investment in the series B preferred stock of a private company as at 31 December 2016 and 2015; and series C preferred stock and warrants of another private company as at 31 December 2016, both of which are incorporated in the United States of America.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

22. Available-for-sale Financial Assets (Continued)

- (b) During the year ended 31 December 2016, the Group subscribed 518,758 series E preferred shares of AC Immune SA ("ACI"), a then private company, for a consideration of approximately US\$5.0 million (equivalent to HK\$39.0 million) and initially recognised it as an available-for-sale financial asset at cost as the fair value of the investment in ACI cannot be measured reliably at the subscription date. The Group's investment in ACI represented approximately 0.96% of the total outstanding shares of ACI on an as-converted basis as at the subscription date. On 23 September 2016, the shares of ACI were listed on the NASDAQ Stock Market of the United States of America. Pursuant to the subscription agreement, the 518,758 series E preferred shares held by the Group were automatically converted into the same number of common shares of ACI. Further details are set out in the Company's announcements dated 11 April and 26 September 2016.

Accordingly, the fair value of the Group's investment in ACI became measureable and the difference of HK\$13,440,257 between the then carrying amount and the fair value as at 31 December 2016 was recognised as other comprehensive income for the year.

23. Inventories

	2016	2015
	HK\$	HK\$
Raw materials	6,405,183	7,361,707
Work in progress	4,899,572	5,270,801
Finished goods	94,911,315	26,046,253
	106,216,070	38,678,761

During the year, the Group has carried out regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, expected future consumption, physical condition and management judgement. As a result, inventories of HK\$2,685,773 (2015: HK\$3,411,021) have been written off and recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

24. Trade and Other Receivables

	2016 HK\$	2015 HK\$
Trade receivables	251,914,385	201,524,191
Other receivables	4,092,695	4,903,059
Total	256,007,080	206,427,250

The Group's policy is to allow a credit period of 90 days to its trade customers.

The directors have considered the track record of customers and age of the outstanding balances and are of the view that no provision is required as at 31 December 2016 and 2015.

The ageing analysis of trade receivables as at the end of the reporting period:

	2016 HK\$	2015 HK\$
0–60 days	141,085,757	122,055,778
61–90 days	38,987,186	26,039,273
Over 90 days	71,841,442	53,429,140
	251,914,385	201,524,191

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2016 HK\$	2015 HK\$
Neither past due nor impaired	180,072,943	148,095,051
Less than 3 months past due	63,200,025	53,429,140
Over 3 months past due	8,641,417	–
	251,914,385	201,524,191

Trade receivables that are not past due are not considered impaired. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Balances that are past due but not impaired relate to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

25. Deposits and Prepayments

	2016 HK\$	2015 HK\$
Deposits paid for acquisition of property, plant and equipment	382,385	2,934,463
Prepayment for licence fee	–	23,874,896
Prepayment for purchase of finished goods	31,307,263	38,592,872
Other deposits	420,910	430,310
Other prepayments	3,599,627	7,312,525
Total	35,710,185	73,145,066
Less: Current portion	(35,327,800)	(49,746,406)
Non-current portion	382,385	23,398,660

Deposits and prepayments do not contain impaired assets and their carrying amounts approximate their fair values.

26. Convertible Note Receivable

	2016 HK\$	2015 HK\$
Unlisted debt security, at cost	4,500,220	4,500,220
Accrued interest income	305,690	1,079,910
	4,805,910	5,580,130
Less: Repayment from Borrower	–	(774,220)
Less: Impairment on convertible note	(4,805,910)	(4,805,910)
	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

26. Convertible Note Receivable (Continued)

In 2009, the Group entered into an agreement to subscribe for a convertible note with a principal amount of US\$580,000, equivalent to HK\$4,500,220 (the "Note"), from a private company in Indonesia (the "Borrower").

Pursuant to the agreement, the Borrower would repay the Group the principal amount plus a lump sum interest payment computed at 20% of the principal amount at maturity which was 30 July 2011.

The Note also confers a right to the Group to convert the principal amount into shares of the Borrower subject to a qualifying Initial Public Offering ("IPO") being achieved. The conversion price of the Note would be at 50% discount from the offer price per share should the IPO take place before 30 July 2011. Otherwise, the Group shall have an option to extend the conversion period by a further six months. In the event that the Group agrees to the extension for additional six months, the conversion ratio shall be at 65% discount from the offer price per share under IPO.

Pursuant to the extension letter dated on 21 July 2011, due to a delay in the IPO, an extension of maturity date to 15 April 2012 was agreed. A further extension to 15 April 2014 with all other terms and conditions on the agreement remain unchanged was agreed.

On 26 February 2014, the Borrower agreed to repay the principal amount of the Note to the Group before 15 December 2015.

On 8 January 2015, the Borrower had repaid US\$100,000, equivalent to HK\$774,220 to the Group.

In the opinion of the directors, the fair value of the embedded derivative or the combined unlisted debt security cannot be reliably measured because the variability in the range of reasonable fair value estimates is significant, and the Note is therefore stated at cost less any impairment losses. For the year ended 31 December 2015, the impairment loss of HK\$1,925,910 had been recognised in profit or loss.

As at 31 December 2016, the directors have assessed the recoverable amount of the Note and concluded that the remaining balances would not be recoverable.

27. Cash and Cash Equivalents and Pledged Bank Deposit

As at 31 December 2016, cash and bank balances denominated in RMB amounted to approximately HK\$95,700,000 (2015: approximately HK\$54,000,000). RMB is not freely convertible into foreign currencies in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

Pledged bank deposit of the Group represents deposit pledged to a bank to secure short-term banking facilities granted to the Group. The deposit carries fixed interest rate of 0.01% per annum. The pledged bank deposit will be released upon the release of the relevant banking facilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

28. Trade and Other Payables

	2016 HK\$	2015 HK\$
Trade payables	496,139	2,332,915
Other payables and accruals (Note)	194,631,926	151,955,565
	195,128,065	154,288,480

Note:

Other payables and accruals included the accruals for sales and marketing costs of HK\$180,555,883 (2015: HK\$135,805,205).

The ageing analysis of trade payables as at the end of the reporting period:

	2016 HK\$	2015 HK\$
0–60 days	496,139	2,232,485
61–90 days	–	–
Over 90 days	–	100,430
	496,139	2,332,915

29. Bank Borrowings – Secured

	2016 HK\$	2015 HK\$
Secured bank loans		
Due for repayment within one year	9,695,000	31,000,000
Due for more than one year and within five years	29,085,000	20,000,000
Total bank borrowings	38,780,000	51,000,000
Carrying amount of bank loans due for repayment within one year and more than one year but contain a repayment on demand clause	38,780,000	51,000,000

As at 31 December 2016, the bank borrowings and banking facilities were secured by (i) buildings and leasehold improvements of the Group (Note 17); (ii) land use rights of the Group (Note 18); (iii) corporate guarantees provided by the Company and a subsidiary within the Group; and (iv) a pledged bank deposit of HK\$20,000,000. The bank borrowings bear interest at floating rate. The interest rate of the Group's bank borrowings was 1.7% (2015: ranged from 3.05% to 3.31%) as at 31 December 2016.

The Group obtained banking facilities of HK\$154,931,444 (2015: HK\$111,937,448), of which HK\$38,780,000 (2015: HK\$51,000,000) was utilised at the end of reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

30. Convertible Loan Payable

On 6 July 2016, the Group entered into a convertible loan agreement with International Finance Corporation (“IFC”), pursuant to which IFC agreed to lend, and the Group agreed to borrow, a convertible loan in an aggregate principal amount of HK\$150,000,000 at an interest rate of 1.9% per annum (the “Convertible Loan Payable”).

Subject to the terms of the convertible loan agreement, IFC has the right to convert all or any part of the outstanding principal amount of the Convertible Loan Payable into shares of the Company at a conversion price of HK\$5.90 per share (subject to anti-dilutive adjustments as set out in the convertible loan agreement) at any time after the date of disbursement and prior to the maturity date. The maturity date is the date falling on the fifth anniversary of the date of the disbursement.

The Company shall repay the outstanding principal amount of the Convertible Loan Payable on the maturity date, together with a make whole premium (if any). Make whole premium is an amount calculated by IFC which would yield a return for IFC on the principal amount of the Convertible Loan Payable of (i) 6% per annum; or (ii) 8% per annum if there exists a change of control which occurs when, among others, (a) there is a decrease in the shareholdings of the Company’s certain shareholders as a group under specified conditions as stipulated in the convertible loan agreement; (b) certain shareholders of the Company as a group cease to be the single largest direct and indirect shareholder of the Company; or (c) any person (other than certain shareholders as a group) by itself or through its affiliates have obtained the power to appoint a majority of the board of directors of the Company.

Pursuant to the convertible loan agreement, unless otherwise agreed in writing by IFC, the Company shall, within 10 days following the occurrence of a change of control defined in the convertible loan agreement, prepay the outstanding principal amount of the Convertible Loan Payable, together with accrued interest, the make whole premium (if any), increased costs (if any) thereon and all other amounts payable under the convertible loan agreement, including the amount of unwinding costs payable if the prepayment is not made on an interest payment date.

The fair value of the debt component and the equity conversion component were determined at the issuance of the Convertible Loan Payable. The fair value of the debt component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in equity. The make whole premium, being an embedded derivative, was measured at fair value separately. At the date of issue of the Convertible Loan Payable and at 31 December 2016, the fair value of the make whole premium was determined by directors of the Company, with reference to the valuation prepared by IVL, to be minimal.

The movement of Convertible Loan Payable issued during the year is as follows:

	Debt component	Conversion component	Total
	HK\$	HK\$	HK\$
Nominal value of convertible loan			
issued during the year	116,676,782	33,323,218	150,000,000
Imputed interest expense	6,009,224	–	6,009,224
Interest paid	(1,251,666)	–	(1,251,666)
As at 31 December 2016	<u>121,434,340</u>	<u>33,323,218</u>	<u>154,757,558</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

31. Deferred Tax Liabilities

Details of the deferred tax liabilities recognised and movements are as follows:

	Development expenditure HK\$	Undistributed earnings of PRC subsidiaries HK\$	Total HK\$
At 1 January 2015	3,756,885	7,760,493	11,517,378
Settled during the year	–	(1,371,913)	(1,371,913)
Charge to profit or loss for the year	1,554,402	3,972,403	5,526,805
Exchange differences	(269,512)	–	(269,512)
At 31 December 2015	5,041,775	10,360,983	15,402,758
Settled during the year	–	(4,199,168)	(4,199,168)
Charge/(credit) to profit or loss for the year	3,643,427	(3,320,221)	323,206
Exchange differences	(484,621)	–	(484,621)
At 31 December 2016	8,200,581	2,841,594	11,042,175

Withholding tax on undistributed earnings calculated at 5% on the undistributable earnings of the subsidiaries in the PRC expected to be distributed to the holding company with its principal place of business located in Hong Kong. At the end of the reporting period, undistributable earnings of the subsidiaries in the PRC on which deferred tax has not been provided for amounted to approximately HK\$57,000,000 (equivalent to RMB51,000,000) (2015: HK\$90,700,000; equivalent to RMB73,000,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

32. Share Capital

Authorised

	2016		2015	
	Number	HK\$	Number	HK\$
Ordinary shares of HK\$0.1 each	1,000,000,000	100,000,000	1,000,000,000	100,000,000

Issued and fully paid

	2016		2015	
	Number	HK\$	Number	HK\$
At the beginning of the year	559,541,000	55,954,100	556,750,000	55,675,000
Employee share options exercised	108,000	10,800	2,791,000	279,100
Non-employee share options exercised	2,500,000	250,000	–	–
At the end of the year	562,149,000	56,214,900	559,541,000	55,954,100

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

33. Reserves

The Company	Share premium	Share option reserve	Conversion component of convertible loan payable	(Accumulated losses)/ retained earnings	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Balance at 1 January 2015	969,871	15,666,606	-	(8,891,387)	7,745,090
Profit for the year	-	-	-	11,277,555	11,277,555
Equity-settled share-based payment transactions	-	4,662,052	-	-	4,662,052
Proceeds from shares issued under share option scheme	6,140,200	-	-	-	6,140,200
Exercise of share options	2,798,156	(2,798,156)	-	-	-
2014 final dividend paid	-	-	-	(12,248,500)	(12,248,500)
Balance at 31 December 2015	9,908,227	17,530,502	-	(9,862,332)	17,576,397
Profit for the year	-	-	-	29,037,677	29,037,677
Equity-settled share-based payment transactions	-	1,272,561	-	-	1,272,561
Exercise of share options	7,645,877	(1,908,277)	-	-	5,737,600
2015 final dividend paid	-	-	-	(13,988,525)	(13,988,525)
Issue of convertible loan	-	-	33,323,218	-	33,323,218
Balance at 31 December 2016	17,554,104	16,894,786	33,323,218	5,186,820	72,958,928

The nature and purpose of each reserve of the Group are set out below:

(i) *Capital reserve*

The capital reserve represents discount on acquisition of a subsidiary in prior years.

(ii) *Statutory surplus reserve*

In accordance with the PRC Companies Law, the Company's PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to statutory surplus reserve. Such reserve may be used to reduce any loss incurred by the subsidiary or be capitalised as paid-up capital of the subsidiary. The statutory surplus reserve is non-distributable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

33. Reserves (Continued)

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(m).

34. Share-Based Payments

(a) Equity-settled share option scheme

The Share Option Scheme (the "Scheme") was approved on 3 May 2013. The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include (i) any director, officer, employee or officer employed by any company within the Group or by any member of the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate") (whether full time or part time) ("Employee"), consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to an Affiliate; or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate; or (iii) a company beneficially owned by any director, officer, Employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or an Affiliate ("Eligible Participants").

The maximum number of shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other schemes involving the issue or grant of options or similar rights over shares or other securities by the Company must not, in aggregate, exceed 30% of the shares in issue from time to time. A nominal consideration of HK\$1 is payable by the grantee upon acceptance of an option.

The subscription price of shares under the Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of; (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (iii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

Any grant of share options to any director, chief executive or substantial shareholder or any of their respective associates must be approved by the independent non-executive directors of the Company (but excluding, for all purposes, any independent non-executive director of the Company who is a proposed grantee). Where any grant of share options to a substantial shareholder or an independent non-executive director of the Company or their respective associates would result in the total number of the shares issued and to be issued upon exercise of the share options granted and to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant:

- (i) representing in aggregate over 0.1% of the shares in issue; and
- (ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5 million,

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. Share-Based Payments (Continued)

(a) Equity-settled share option scheme (Continued)

Such further grant of share options must be approved by the shareholders of the Company. The Company must send a circular to its shareholders. All connected persons must abstain from voting in favour at such general meeting. Any vote taken at the meeting to approve the grant of such share options must be taken on a poll in accordance with the Listing Rules.

Pursuant to a board resolution on 30 October 2013, the Company granted 19,500,000 share options to certain employees of the Group under the Scheme. Set out below were details of the outstanding options granted under the Scheme:

- (1) All options granted were at an exercise price of HK\$2.30 per share;
- (2) All holders of options might only exercise their options in the following manner:

The share options will be vested in 5 tranches, i.e. the first 20% from six months after the date of grant, the second 20% from one year after the date of grant, the third 20% from one and half years after the date of grant, the fourth 20% from two years after date of grant and the remaining 20% from two and half years after the date of grant;

- (3) All outstanding or unexercised share options granted to the grantees shall lapse on 29 October 2018.

Pursuant to a board resolution on 11 November 2016, the Company granted 2,300,000 share options to three employees of the Group under the Scheme. Set out below were details of the outstanding options granted under the Scheme:

- (1) All options granted were at an exercise price of HK\$5.90 per share;
- (2) All holders of options might only exercise their options in the following manner:

The share options will be vested in 5 tranches, i.e. the first 20% from six months after the date of grant, the second 20% from one year after the date of grant, the third 20% from one and half years after the date of grant, the fourth 20% from two years after date of grant and the remaining 20% from two and half years after the date of grant;

- (3) All outstanding or unexercised share options granted to the grantees shall lapse on 10 November 2021.

The estimated fair values of share options granted during the year were estimated at the date of grant using the Binomial model. The inputs into the model are as follows:

	11 November 2016
Share price	HK\$3.55
Exercise price	HK\$5.90
Expected volatility	53%
Expected life	5 years
Risk-free interest rate	0.965%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. Share-Based Payments (Continued)

(a) Equity-settled share option scheme (Continued)

(3) (Continued)

The risk-free rate was based on market yield rate of Hong Kong Monetary Authority Exchange Fund Note with maturity on 11 November 2016 as of the date of valuation. Expected volatility was based on the historical volatility of the share prices of comparable companies over the periods that are equal to the expected life before the grant date.

Set out below are details of movements of the outstanding options granted under the Scheme during the years ended 31 December 2016 and 2015:

For the year ended 31 December 2016

	Exercise price HK\$	Number of share options			Outstanding as at 31 December 2016
		Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	
Executive directors					
– Fang Haizhou	HK\$2.30	3,500,000	–	–	3,500,000
– Ngiam Mia Je Patrick	HK\$2.30	500,000	–	–	500,000
– Zhong Sheng	HK\$2.30	1,168,000	–	(108,000)	1,060,000
Other eligible employees	HK\$2.30	11,541,000	–	–	11,541,000
Other eligible employees	HK\$5.90	–	2,300,000	–	2,300,000
Total		16,709,000	2,300,000	(108,000)	18,901,000

For the year ended 31 December 2015

	Exercise price HK\$	Number of share options		
		Outstanding as at 1 January 2015	Exercised during the year	Outstanding as at 31 December 2015
Executive directors				
– Fang Haizhou	HK\$2.30	3,500,000	–	3,500,000
– Ngiam Mia Je Patrick	HK\$2.30	500,000	–	500,000
– Zhong Sheng	HK\$2.30	3,500,000	(2,332,000)	1,168,000
Other eligible employees	HK\$2.30	12,000,000	(459,000)	11,541,000
Total		19,500,000	(2,791,000)	16,709,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. Share-Based Payments (Continued)

(a) Equity-settled share option scheme (Continued)

Share options and weighted average exercise price are as follows for the years ended 31 December 2016 and 2015 presented:

For the year ended 31 December

	2016		2015	
	Number	Weighted average exercise price HK\$	Number	Weighted average exercise price HK\$
Outstanding at 1 January	16,709,000	2.30	19,500,000	2.30
Exercised during the year	(108,000)	2.30	(2,791,000)	2.30
Granted during the year	2,300,000	5.90	–	–
Outstanding at 31 December	18,901,000	2.74	16,709,000	2.30
Exercisable at the end of the year	16,601,000	2.30	12,809,000	2.30

The weighted average share price for share options exercised during the year at the date of exercise was HK\$3.6 (2015: HK\$4.3) per share.

The weighted average remaining contractual life for share options were as follows:

Date of grant	31 December 2016	31 December 2015
30 October 2013	1.8 years	2.8 years
11 November 2016	4.9 years	NA

Of the total number of share options outstanding as at 31 December 2016, 2,300,000 share options had not vested and were not exercisable as at 31 December 2016 (2015: 3,900,000 shares).

The Company recognised the total expense of approximately HK\$772,561 for the year ended 31 December 2016 (2015: HK\$4,062,052) in relation to share options granted by the Company under the Scheme.

(b) Equity-settled service contract

On 30 October 2013, the Company entered into a service contract with Hong Kong Zhixin Financial News Agency Limited ("HK Zhixin") to appoint HK Zhixin as the Group's investor relations consultant for a term of three years. In consideration of the services provided by HK Zhixin, the Company granted 2,500,000 share options to HK Zhixin.

Set out below were details of the share options granted to HK Zhixin:

- (1) All options granted were at an exercise price of HK\$2.30 per share;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

34. Share-Based Payments (Continued)

(b) Equity-settled service contract (Continued)

- (2) All holders of options might only exercise their options in the following manner:
- (i) Up to 50% of the total number of HK Zhixin share options is exercisable during the period from 30 April 2014 to 29 October 2016; and
 - (ii) Up to 50% of the total number of HK Zhixin share options is exercisable during the period from 30 October 2014 to 29 October 2016;
- (3) All outstanding or unexercised HK Zhixin share options shall lapse on 29 October 2016.

The fair values of the services on 30 October 2013 were HK\$1,800,000. These fair values were based on terms and conditions stated in the services contract.

The weighted average share price for share options exercised during the year at the date of exercise was HK\$3.53 (2015: N/A) per share and the service contract was completed during the year. (2015: weighted average remaining contractual life: 0.8 years).

All the share options have been exercised during the year ended 31 December 2016 (2015: Nil).

The Company recognised the total expense of approximately HK\$500,000 for the year ended 31 December 2016 (2015: HK\$600,000) in relation to share options granted by the Company to HK Zhixin.

35. Operating Lease Arrangements

Operating lease payments represent rentals payable by the Group on properties. Lease is negotiated for a term of 2 years at fixed rent.

Minimum lease payment paid during the year under operating lease was as follows:

	2016 HK\$	2015 HK\$
Minimum leases payment:		
– Properties	951,670	871,020

The total future minimum lease payment is due as follows:

	2016 HK\$	2015 HK\$
Not later than one year	967,800	951,670
Later than one year and not later than five years	161,300	1,129,100
	1,129,100	2,080,770

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

36. Company-Level Statement of Financial Position

Notes	2016 HK\$	2015 HK\$
Non-current assets		
Interests in subsidiaries	223,258,800	70,695,408
Current assets		
Other receivables	–	575,000
Deposits and prepayments	233,796	235,051
Cash and cash equivalents	30,152,790	5,983,578
Total current assets	30,386,586	6,793,629
Total assets	253,645,386	77,489,037
Current liabilities		
Other payables and accruals	3,037,218	3,958,540
Total current liabilities	3,037,218	3,958,540
Net current assets	27,349,368	2,835,089
Total assets less current liabilities	250,608,168	73,530,497
Non-current liabilities		
Convertible loan payable	30 121,434,340	–
Total liabilities	124,471,558	3,958,540
NET ASSETS	129,173,828	73,530,497
Capital and reserves attributable to owners of the Company		
Share capital	32 56,214,900	55,954,100
Reserves	33 72,958,928	17,576,397
TOTAL EQUITY	129,173,828	73,530,497

On behalf of the Board

Fang Haizhou

Zhong Sheng

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

37. Interests in Subsidiaries

Details of the subsidiaries as at the end of the reporting period were as follows:

Name of subsidiary	Form of business structure	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Percentage of ownership interest		Principal activity
				directly	indirectly	
Essex Bio-Investment Limited	Limited liability company	British Virgin Islands/ Hong Kong	US\$5	100%	–	Investment holding
Essex Bio-Pharmacy Limited	Limited liability company	Hong Kong	HK\$8,000,000	–	100%	Investment holding
珠海億勝生物製藥有限公司 Zhuhai Essex Bio-Pharmaceutical Company Limited ^{(1),*}	Limited liability company	PRC	RMB50,000,000	–	100%	Manufacture and selling of biopharmaceutical products
珠海億勝醫藥有限公司 Essex Medipharma (Zhuhai) Company Limited ^{(1),*}	Limited liability company	PRC	RMB3,000,000	–	100%	Marketing and distribution of biopharmaceutical products
珠海億勝科技發展有限公司 Zhuhai Essex Technology Development Company Limited ^{(1),*}	Limited liability company	PRC	RMB25,000,000	–	100%	Investment holding

⁽¹⁾ These subsidiaries are registered as wholly foreign-owned enterprises under the law of the PRC.

38. Capital commitments

	2016 HK\$	2015 HK\$
Contracted but not provided for:		
– property, plant and equipment	378,740	2,569,615
– development expenditure (Note)	13,015,534	25,068,640
	13,394,274	27,638,255

Note:

Development expenditure represented the contract fee to independent third parties for carrying out the research and development on the Group's projects.

* For identification purpose only

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

39. Financial Risk Management

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, convertible loan receivables and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 28% (2015: 24%) and 48% (2015: 37%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 24.

The credit risk on bank balances is limited because the counterparties are banks with high credit-rating or with good reputation.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating based on rates current at the reporting date) and the earliest date the Company can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

39. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

	Carrying amount HK\$	Total contractual undiscounted cash flow HK\$	Within 1 year or on demand HK\$	More than 1 year but less than 5 years HK\$	More than 5 years HK\$
31 December 2016					
Non-derivatives:					
Trade and other payables	195,128,065	195,128,065	195,128,065	-	-
Bank borrowings – secured	38,780,000	38,780,000	38,780,000	-	-
Convertible loan payable	121,434,340	182,604,046	-	182,604,046	-
	355,342,405	416,512,111	233,908,065	182,604,046	-

	Carrying amount HK\$	Total contractual undiscounted cash flow HK\$	Within 1 year or on demand HK\$	More than 1 year but less than 5 years HK\$	More than 5 years HK\$
31 December 2015					
Non-derivatives:					
Trade and other payables	154,288,480	154,288,480	154,288,480	-	-
Bank borrowings – secured	51,000,000	51,000,000	51,000,000	-	-
	205,288,480	205,288,480	205,288,480	-	-

Maturity analysis – bank loans subjects to repayment on demand clause based on scheduled repayments

	Carrying amount HK\$	Within 1 year HK\$	More than 1 year but less than 5 years HK\$	Total contractual undiscounted cash flow HK\$
At 31 December 2016	38,780,000	10,329,940	29,293,626	39,623,566
At 31 December 2015	51,000,000	32,013,985	21,223,315	53,237,300

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

39. Financial Risk Management (Continued)

(c) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from pledged bank deposits and bank borrowings. Borrowings bearing variable rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate. The Group has not implemented any procedures to hedge its interest rate risk.

At 31 December 2016, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after income tax and retained earnings by approximately HK\$163,000.

At 31 December 2015, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after income tax and retained earnings by approximately HK\$213,000.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of each of the relevant periods and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis was performed on the same basis for 2015.

(d) Currency risk

The Group's main operations are currently in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

40. Capital Risk Management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of debts, which includes the bank borrowings, convertible loan payable, cash and cash equivalents and total equity. The Group's management regularly reviews the capital structure. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

40. Capital Risk Management (Continued)

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

	2016 HK\$	2015 HK\$
Bank borrowings – secured	38,780,000	51,000,000
Convertible loan payable	121,434,340	–
Less: Cash and cash equivalents	(156,180,115)	(64,613,176)
Less: Pledged bank deposit	(20,000,000)	(20,000,000)
Net cash and pledged bank deposit	(15,965,775)	(33,613,176)
Total equity	556,864,066	412,946,836
Net debt to equity ratio	N/A	N/A

The Group monitors capital using a gearing ratio, which is net debts divided by total equity. Net debts are calculated as the sum of borrowings less the sum of cash and cash equivalents and pledged bank deposit as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level and the directors are of the opinion that the Group's gearing ratio was maintained at reasonable level at the reporting dates.

41. Summary of Financial Assets and Financial Liabilities by Category

The following table shows the carrying amount and fair value of financial assets and liabilities:

	2016 HK\$	2015 HK\$
Financial assets		
Available-for-sale financial assets measured at cost	31,183,750	3,882,008
Available-for-sale financial assets measured at fair value	52,213,684	–
Financial assets at fair value through profit or loss	6,825,260	5,316,069
Loans and receivables at amortised cost (including bank balances and cash)	454,129,597	297,661,805
	544,352,291	306,859,882
Financial liabilities		
Financial liabilities measured at amortised cost	355,342,405	205,288,480

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

42. Related Party Transactions

During the year, the Group entered in to the following transactions with related parties:

(a) *Purchase of finished goods*

Related party relationship	2016 HK\$	2015 HK\$
Associate	263,635	664,380

(b) *Year-end balance arising from prepayment for purchase of finished goods*

Related party relationship	2016 HK\$	2015 HK\$
Associate	1,384,926	1,749,361

(c) Members of key management during the year comprised the executive directors only whose remuneration is set out in notes 11 and 34.

43. Events After the End of the Reporting Period

The Company announced that it is exploring for a Korean Depositary Receipt Programme (the "KDR Programme") on the Korea Exchange. The Company, through its legal adviser in Korea and the lead manager, is in discussion with the Korea Exchange regarding the proposed KDR Programme. As of the date of approval of these financial statements, no application relating to the KDR Programme has been made to the Korea Exchange. Further details are set out in the Company's announcement dated 8 March 2017.

44. Approval of Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 21 March 2017.

Five Year Financial Summary

The following is a summary of the consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 to 2 below:

	Year ended 31 December				
	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$	2012 HK\$
RESULTS					
TURNOVER	775,662,998	654,010,499	518,299,695	347,046,987	267,255,167
Cost of sales	(152,636,311)	(124,418,858)	(107,042,880)	(36,114,212)	(23,563,134)
Gross profit	623,026,687	529,591,641	411,256,815	310,932,775	243,692,033
Other revenue, other gains and losses	7,395,501	6,382,673	2,039,556	1,751,491	2,427,379
Distribution and selling expenses	(410,539,424)	(352,109,409)	(271,365,907)	(212,001,745)	(168,012,021)
Administrative expenses	(47,958,700)	(51,157,864)	(42,368,241)	(25,573,935)	(26,754,610)
Finance costs	(9,686,016)	(2,056,200)	(3,807,592)	(2,046,527)	(1,701,743)
PROFIT BEFORE INCOME TAX	162,238,048	130,650,841	95,754,631	73,062,059	49,651,038
Income tax	(25,953,667)	(25,755,651)	(20,481,540)	(18,165,363)	(10,655,902)
PROFIT FOR THE YEAR	136,284,381	104,895,190	75,273,091	54,896,696	38,995,136
Other comprehensive income	(18,972,805)	(21,827,038)	(790,435)	5,315,972	697,797
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	117,311,576	83,068,152	74,482,656	60,212,668	39,692,933
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY	117,311,576	83,068,152	74,482,656	60,212,668	39,692,933

Five Year Financial Summary

ASSETS AND LIABILITIES

	Year ended 31 December				
	2016 HK\$	2015 HK\$	2014 HK\$	2013 HK\$	2012 HK\$
Non-current assets	377,815,452	277,113,324	218,964,914	211,731,637	173,061,753
Current assets	555,481,952	359,465,593	284,076,953	175,279,968	158,681,386
Current liabilities	(243,956,823)	(208,229,323)	(160,478,657)	(128,256,757)	(131,348,682)
Net current assets	311,525,129	151,236,270	123,598,296	47,023,211	27,332,704
Non-current liabilities	(132,476,515)	(15,402,758)	(11,517,378)	(4,760,834)	(4,121,555)
Net assets	556,864,066	412,946,836	331,045,832	253,994,014	196,272,902

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period. The consolidated results of the Group for the years ended 31 December 2014, 2013 and 2012 are extracted from the published audited financial statements for these years. The consolidated results of the Group for the years ended 31 December 2016 and 2015 are as set out on page 52 of the audited financial statements.
2. The consolidated statement of financial position as at 31 December 2014, 2013 and 2012 are extracted from the published audited financial statements for the years ended 31 December 2014, 2013 and 2012, prepared on the basis as if the Group had been in existence for these years. The consolidated statement of financial position of the Group as at 31 December 2016 and 2015 are as set out on page 53 of the audited financial statements.