LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 02186)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

Revenue increased by RMB354.7 million or 13.8% to RMB2,917.8 million, as compared to the year ended 31 December 2015.

Profit attributable to shareholders increased by RMB137.0 million or 18.2% to RMB891.5 million, as compared to the year ended 31 December 2015.

Earnings per share was RMB26.84 cents compared to RMB22.72 cents for the year ended 31 December 2015.

The Board declared a final dividend of RMB0.035 (equivalent to HK$0.039) per share for the year ended 31 December 2016.

RESULTS

The board (the "**Board**") of directors (the "**Director**") of Luye Pharma Group Ltd. (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	**2016** *RMB'000*	2015 *RMB'000*
REVENUE	5	**2,917,794**	2,563,129
Cost of sales		**(535,047)**	(475,717)
Gross profit		**2,382,747**	2,087,412
Other income and gains	5	**208,994**	165,132
Selling and distribution expenses		**(1,121,626)**	(964,097)
Administrative expenses		**(267,039)**	(184,821)
Other expenses		**(199,110)**	(190,164)
Finance costs	7	**(30,389)**	(15,606)
Share of profit of an associate		**1,145**	276
PROFIT BEFORE TAX	6	**974,722**	898,132
Income tax expense	8	**(80,727)**	(133,433)
PROFIT FOR THE YEAR		**893,995**	764,699
Attributable to:			
Owners of the parent		**891,539**	754,523
Non-controlling interests		**2,456**	10,176
		893,995	764,699
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
— For profit for the year	9	**26.84 cents**	22.72 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,701,739**	1,196,262
Advance payments for property, plant and equipment		**44,303**	48,762
Prepaid land lease payments		**223,505**	185,813
Goodwill		**995,921**	347,356
Other intangible assets		**855,676**	126,216
Investment in an associate		**5,840**	4,350
Available-for-sale investments	*12*	**2,646**	3,342
Deferred tax assets		**93,760**	69,377
Total non-current assets		**3,923,390**	1,981,478
CURRENT ASSETS			
Inventories		**452,670**	285,609
Trade and notes receivables	*11*	**1,415,009**	1,193,103
Prepayments, deposits and other receivables		**183,521**	118,249
Due from related parties	*16(b)(i)*	**1,393**	1,600
Pledged time deposits		**482,467**	266,500
Available-for-sale investments	*12*	**1,473,284**	1,402,118
Time deposits with original maturity of over three months		**876,338**	960,591
Cash and cash equivalents		**397,775**	843,674
Total current assets		**5,282,457**	5,071,444
CURRENT LIABILITIES			
Trade and notes payables	*13*	**116,142**	83,219
Other payables and accruals		**449,037**	366,457
Interest-bearing loans and borrowings	*14*	**1,623,741**	502,222
Government grants		**56,778**	25,155
Tax payable		**128,270**	64,946
Due to related parties	*16(b)(ii)*	**808**	3,428
Total current liabilities		**2,374,776**	1,045,427

	Note	**2016** RMB'000	2015 RMB'000
NET CURRENT ASSETS		**2,907,681**	4,026,017
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,831,071**	6,007,495
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	*14*	**372**	493
Government grants		**121,595**	115,150
Deferred revenue		**25,668**	—
Deferred tax liabilities		**121,435**	92,321
Total non-current liabilities		**269,070**	207,964
Net assets		**6,562,001**	5,799,531
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**427,269**	427,269
Share premium		**2,936,817**	2,936,817
Reserves		**3,064,457**	2,299,875
		6,428,543	5,663,961
Non-controlling interests		**133,458**	135,570
Total equity		**6,562,001**	5,799,531

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. CORPORATE INFORMATION

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

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

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

During the year, the Group acquired the entire share capital of Luye Pharma AG (formerly known as Acino AG) and Luye Supply AG (formerly known as Acino Supply AG) from independent third parties in Europe. For the details of the acquisition, please refer to the Company's announcement dated on 25 July 2016 and 30 November 2016.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

4. OPERATING SEGMENT INFORMATION

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

Year ended 31 December 2016

	Oncology drugs	**Cardio-vascular system drugs**	**Alimentary tract and metabolism drugs**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue					
Sales to external customers	**1,569,936**	**651,891**	**554,492**	**141,475**	**2,917,794**
Total revenue	**1,569,936**	**651,891**	**554,492**	**141,475**	**2,917,794**
Segment results	**747,023**	**261,769**	**235,581**	**18,748**	**1,261,121**
Other income and gains					**208,994**
Administrative expenses					**(267,039)**
Other expenses					**(199,110)**
Finance costs					**(30,389)**
Share of profit of an associate					**1,145**
Profit before tax					**974,722**

Year ended 31 December 2015

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

6. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**105,803**	86,280
Amortisation of other intangible assets	**29,478**	23,657
Amortisation of prepaid land lease payments	**5,639**	5,272
(Reversal of provision)/provision for impairment of trade receivables	**(122)**	1,458
Operating lease expenses	**20,800**	15,827
Auditor's remuneration	**4,940**	4,860
Employee benefit expenses (excluding directors' remuneration):		
Wages and salaries	**316,244**	276,091
Pension scheme contributions	**67,394**	59,851
Central Provident Fund in Singapore	**756**	329
Staff welfare expenses	**25,187**	20,126
	409,581	356,397
Other expenses:		
Research and development costs	**193,656**	170,439
Foreign exchange loss, net	**—**	16,139
Donation	**3,150**	3,288
Loss on disposal of items of property, plant and equipment	**1,904**	—
Others	**400**	298
	199,110	190,164

7. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans	**30,357**	15,576
Finance charges payable under a hire purchase contract	**32**	30
	30,389	15,606

8. INCOME TAX EXPENSE

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

The Group calculate the income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expenses are:

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

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

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

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

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

10. DIVIDEND

On 29 August 2016, the Company declared an interim dividend of RMB0.032 (equivalent to HK$0.037) per share (equivalent to approximately RMB106,976,000) for the six months ended 30 June 2016 (2015: Nil). On 29 March 2017, the Company declared a final dividend of RMB0.035 (equivalent to HK$0.039) per share (equivalent to approximately RMB116,285,000) for the year ended 31 December 2016 (2015: Nil).

11. TRADE AND NOTES RECEIVABLES

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

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

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

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

12. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

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

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

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

13. TRADE AND NOTES PAYABLES

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

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

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

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

14. INTEREST-BEARING LOANS AND BORROWINGS

2016

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

2015

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

As at 31 December 2016, certain of the Group's bank loans are secured by:

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

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

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

15. BUSINESS COMBINATION

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

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

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

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

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

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

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

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

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

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

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

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

16. RELATED PARTY TRANSACTIONS

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

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

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

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

Notes:

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

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

(b) Outstanding balances with related parties:

The Group had the following significant balances with its related parties:

(i) Due from related parties

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

(ii) Due to related parties

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

Market Positioning

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

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

Key Products

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

Lipusu® (力撲素®)

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

CMNa® (希美納®)

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

Xuezhikang® (血脂康®)

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

Maitongna® (麥通納®)

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

Bei Xi® (貝希®)

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

Rivastigmine Transdermal Patches (the "Rivastigmine Patch")

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

Research and Development ("R&D")

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

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

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

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

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

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

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

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

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

Sales, Marketing and Distribution

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

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

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

Merger and Acquisition

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

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

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

Outlook

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

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

Cost of Sales

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

Gross Profit

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

Other Income and Gains

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

Selling and Distribution Expenses

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

Administrative Expenses

The Group's administrative expenses primarily consisted of staff cost, general operating expense, conference and entertainment expense, travel and transportation expense, depreciation, amortisation and impairment loss, auditor's remuneration, consulting expenses, bank charges, taxation and other administrative expenses. For the year ended 31 December 2016, the Group's administrative expenses amounted to RMB267.0 million, as compared to RMB184.8 million for the year ended 31 December

2015, representing an increase of RMB82.2 million, or 44.5%. The increase was mainly due to those one-off expenses incurred for the Acquisition and higher staff cost for the year ended 31 December 2016.

Other Expenses

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

Finance Costs

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

Income Tax Expense

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

Net Profit

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

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Net Current Assets

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

Borrowings and Pledge of Assets

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

Gearing Ratio

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

USE OF NET PROCEEDS FROM LISTING

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

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

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

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF SHAREHOLDERS

The Company's annual general meeting will be held on 13 June 2017. For determining the entitlement to attend and vote at the annual general meeting, the register of shareholders of the Company will be closed from 8 June 2017 to 13 June 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 7 June 2017.

For determining the entitlement to the proposed final dividend, the register of shareholders of the Company will be closed from 19 June 2017 to 21 June 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 16 June 2017.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

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

During the year ended 31 December 2016, the Company has complied with all the applicable code provisions set out in the CG Code, save and except for the deviation from Code provision A.2.1 of the CG Code, which requires the roles of chairman and chief executive officer should be separate and performed by different individuals.

Under the current organisation structure of the Company, Mr. Liu Dian Bo is the Executive Chairman of the Board and the Chief Executive Officer. With extensive experience in the pharmaceutical industry, the Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The audit committee of the Board has reviewed together with other members of the Board the accounting principles and policies adopted by the Group, the audited consolidated annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2016. The audit committee of the Board also approved the annual results and the consolidated financial statements for the year ended 31 December 2016 and submitted them to the Board for approval.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2016 ANNUAL REPORT

In accordance with the requirements under the Listing Rules applicable to the reporting period, the 2016 annual report containing all the information about the Company set out in this announcement including the financial results for the year ended 31 December 2016 will be posted on the Company's website (*www.luye.cn*) and the website of SEHK (*www.hkexnews.hk*) in due course.

By order of the Board
LUYE PHARMA GROUP LTD.
Liu Dian Bo
Chairman

Hong Kong, 29 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. LIU Dian Bo, Mr. YANG Rong Bing, Mr. YUAN Hui Xian and Ms. ZHU Yuan Yuan; and the independent non-executive directors are Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo.