LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(Incorporated in the Bermuda with limited liability)

(Stock Code: 02186)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

Revenue increased by RMB897.0 million or 30.7% to RMB3,814.8 million, as compared to the year ended 31 December 2016.

Gross profit increased by RMB580.6 million or 24.4% to RMB2,963.4 million, as compared to the year ended 31 December 2016, and gross profit margin reached 77.7%.

EBITDA increased by RMB270.5 million or 23.6% to RMB1,416.6 million, as compared to the year ended 31 December 2016. Normalised EBITDA* increased by RMB350.5 million or 30.6% to RMB1,496.5 million as compared to the year ended 31 December 2016.

Profit attributable to shareholders increased by RMB89.8 million or 10.1% to RMB981.4 million, as compared to the year ended 31 December 2016. Normalised profit attributable to shareholders* increased by RMB169.8 million or 19.0% to RMB1,061.3 million, as compared to the year ended 31 December 2016.

Earnings per share was RMB30.13 cents compared to RMB26.84 cents for the year ended 31 December 2016.

The Board declared a final dividend of RMB0.045 (equivalent to HK$0.054) per share for the year ended 31 December 2017, compared to RMB0.035 (equivalent to HK$0.039) per share for the year ended 31 December 2016.

* Normalised EBITDA and normalised profit attributable to shareholders is defined as the EBITDA and profit attributable to shareholders for the year excluding the equity-settled share award scheme expense, one-off inventories amortisation and acquisition incurred expenses arising from the acquisition of new business in Europe.

RESULTS

The board (the "Board") of directors 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 2017, together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	**2017** ***RMB'000***	2016 *RMB'000*
REVENUE	*5*	**3,814,842**	2,917,794
Cost of sales		**(851,484)**	(535,047)
Gross profit		**2,963,358**	2,382,747
Other income and gains	*5*	**236,732**	208,994
Selling and distribution expenses		**(1,286,545)**	(1,121,626)
Administrative expenses		**(431,635)**	(267,039)
Other expenses		**(316,032)**	(199,110)
Finance costs	*7*	**(50,467)**	(30,389)
Share of profit of an associate		**910**	1,145
PROFIT BEFORE TAX	*6*	**1,116,321**	974,722
Income tax expense	*8*	**(135,756)**	(80,727)
PROFIT FOR THE YEAR		**980,565**	893,995
Attributable to:			
Owners of the parent		**981,372**	891,539
Non-controlling interests		**(807)**	2,456
		980,565	893,995
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)			
— For profit for the year	*9*	**30.13 cents**	26.84 cents
Diluted (RMB)			
— For profit for the year	*9*	**30.11 cents**	26.84 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 *RMB'000*	2016 *RMB'000*
PROFIT FOR THE YEAR	**980,565**	893,995
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**51,711**	39,393
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**(39,529)**	(37,314)
Income tax effect	**(3,963)**	—
Exchange differences:		
Exchange differences on translation of foreign operations	**20,479**	(22,060)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**28,698**	(19,981)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement of defined benefit plan	**(5,036)**	—
Income tax effect	**632**	—
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**(4,404)**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**24,294**	(19,981)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,004,859**	874,014
Attributable to:		
Owners of the parent	**1,005,666**	871,558
Non-controlling interests	**(807)**	2,456
	1,004,859	874,014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,009,970**	1,701,739
Advance payments for property, plant and equipment and other intangible assets		**230,603**	44,303
Prepaid land lease payments		**223,330**	223,505
Goodwill		**1,036,902**	995,921
Other intangible assets		**828,702**	855,676
Investment in an associate		**6,243**	5,840
Available-for-sale investments	*12*	**34,565**	2,646
Deferred tax assets		**94,153**	93,760
Total non-current assets		**4,464,468**	3,923,390
CURRENT ASSETS			
Inventories		**420,356**	452,670
Trade and notes receivables	*11*	**1,411,220**	1,415,009
Prepayments, deposits and other receivables		**199,649**	183,521
Due from related parties	*15*	**2,841**	1,393
Pledged time deposits		**409,243**	482,467
Available-for-sale investments	*12*	**1,628,796**	1,473,284
Restricted cash		**11,252**	—
Time deposits with original maturity of over three months		**946,703**	876,338
Cash and cash equivalents		**1,265,872**	397,775
Total current assets		**6,295,932**	5,282,457
CURRENT LIABILITIES			
Trade and notes payables	*13*	**104,599**	116,142
Other payables and accruals		**502,511**	449,037
Interest-bearing loans and borrowings	*14*	**2,861,125**	1,623,741
Government grants		**57,833**	56,778
Tax payable		**128,729**	128,270
Due to related parties	*15*	**—**	808
Total current liabilities		**3,654,797**	2,374,776
NET CURRENT ASSETS		**2,641,135**	2,907,681

	Note	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,105,603**	6,831,071
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	*14*	**232**	372
Retirement benefit obligations		**5,381**	—
Government grants		**73,588**	121,595
Deferred revenue		**34,041**	25,668
Deferred tax liabilities		**96,445**	121,435
Total non-current liabilities		**209,687**	269,070
Net assets		**6,895,916**	6,562,001
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**427,269**	427,269
Treasury shares		**(459,284)**	—
Share premium		**2,936,817**	2,936,817
Reserves		**3,863,601**	3,064,457
		6,768,403	6,428,543
Non-controlling interests		**127,513**	133,458
Total equity		**6,895,916**	6,562,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. Corporate information

Luye Pharma Group Ltd. (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act on 2 July 2003. It was listed on the Singapore Exchange Securities Trading Limited (the "SGX") on 5 May 2004, and delisted since 29 November 2012. On 9 July 2014, the Company was listed 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 correspondence office address of the Company is Unit 3207, Champion Tower, 3 Garden Road, Central, Hong Kong.

2. Basis of preparation

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

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3. Changes in accounting policies and disclosures

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

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

The adoption of the above 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 2017				
	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	**1,871,802**	**644,025**	**749,275**	**549,740**	**3,814,842**
Total revenue	**1,871,802**	**644,025**	**749,275**	**549,740**	**3,814,842**
Segment results	**949,441**	**267,969**	**283,029**	**176,374**	**1,676,813**
Other income and gains					**236,732**
Administrative expenses					**(431,635)**
Other expenses					**(316,032)**
Finance costs					**(50,467)**
Share of profit of an associate					**910**
Profit before tax					**1,116,321**

	Year ended 31 December 2016				
	Oncology drugs *RMB'000*	Cardio-vascular system drugs *RMB'000*	Alimentary tract and metabolism drugs *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	1,569,936	651,891	554,492	141,475	2,917,794
Total revenue	1,569,936	651,891	554,492	141,475	2,917,794
Segment results	747,023	261,769	233,581	18,748	1,261,121
Other income and gains					208,994
Administrative expenses					(267,039)
Other expenses					(199,110)
Finance costs					(30,389)
Share of profit of an associate					1,145
Profit before tax					974,722

5. Revenue, other income and gains

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

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

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

6. Profit before tax

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

	2017	2016
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**146,892**	105,803
Amortisation of other intangible assets	**96,630**	29,478
Amortisation of prepaid land lease payments	**6,265**	5,639
Reversal of provision for impairment of trade receivables	**(692)**	(122)
Operating lease expenses	**24,029**	20,800
Auditor's remuneration	**7,020**	4,940
Employee benefit expenses		
(excluding directors' and chief executive's remuneration):		
Wages and salaries	**450,569**	316,244
Pension scheme contributions	**77,098**	67,394
Pension plan costs (defined benefit plan)	**1,097**	—
Central Provident Fund in Singapore	**1,000**	756
Staff welfare expenses	**37,779**	25,187
Equity-settled share award expense	**6,251**	—
	573,794	409,581
Other expenses:		
Research and development costs	**288,696**	193,656
Foreign exchange loss, net	**20,772**	—
Donation	**4,680**	3,150
Loss on disposal of items of property, plant and equipment	**1,348**	1,904
Others	**535**	400
	316,031	199,110

7. Finance costs

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

8. 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.

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

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

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

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

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

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

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

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

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

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

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

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 3,257,505,816 (2016: 3,321,073,843) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the share award scheme and shares repurchased.

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

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

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

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

10. Dividend

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

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

11. Trade and notes receivables

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

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

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

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

12. Available-for-sale investments

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

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

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

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

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

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

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

As at 31 December 2017, investment in financial products of RMB1,752,093,000 (2016: RMB570,000,000) was pledged to secure intra-group notes payable.

As at 31 December 2017, investment in financial products of RMB197,200,000 (2016: Nil) was pledged to secure short-term loans of EUR21,000,000 (2016: Nil) (note 14).

13. Trade and notes payables

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

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

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

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

14. Interest-bearing loans and borrowings

2017

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

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+0.8	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

As at 31 December 2017, certain of the Group's bank loans are secured by:

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

(ii) the pledge of certain of the Group's notes receivable of RMB50,735,000 (2016: RMB20,663,000) (note 11);

(iii) the pledge of certain of the Group's intra-group notes receivable of RMB726,500,000 (2016: RMB178,074,000) (note 11); and

(iv) the pledge of certain of the Group's available-for-sale investments of RMB197,200,000 (2016: Nil) (note 12).

15. Related party transactions

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

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

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

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

Notes:

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

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

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

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

(b) Outstanding balances with related parties:

The Group had the following balances with its related parties:

(i) Due from related parties

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

(ii) Due to a related party

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

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

16. Share award scheme

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

Market Positioning

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

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

Key Products

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

Lipusu® (力撲素®)

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

CMNa® (希美納®)

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

Xuezhikang® (血脂康®)

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

Maitongna® (麥通納®)

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

Bei Xi® (貝希®)

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

Rivastigmine Transdermal Patches (the "Rivastigmine Patch")

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

Research and Development ("R&D")

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

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

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

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

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

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

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

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

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

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

Sales, Marketing and Distribution

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

In 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 26 countries including the U.S., Europe and other countries or districts.

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

Merger and Acquisition ("M&A")

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

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

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

Outlook

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

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

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

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

Cost of Sales

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

Gross Profit

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

Other Income and Gains

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses

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

Finance Costs

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

Income Tax Expense

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

Net Profit

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

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Net Current Assets

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

Borrowings and Pledge of Assets

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

Gearing Ratio

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

Contingent Liabilities

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

Foreign Exchange and Exchange Rate Risk

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

Employees and Remuneration Policy

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

Share Award Scheme

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

Details of the Scheme and the awards made up to 31 December 2017 are set out in note 16 to the consolidated financial statements.

Hedging Activities

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

SIGNIFICANT INVESTMENTS HELD

As at 31 December 2017, the Group did not have any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group does not have other plans for material investments or capital assets.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

On 20 March 2018, the Company cancelled a total of 46,108,500 ordinary shares of the Company which were repurchased in 2017.

FINAL DIVIDEND

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

On 26 March 2018, the Board proposed a final dividend of RMB0.045 (equivalent to HK$0.054) per share (totalling equivalent to approximately RMB148,999,000) for the year ended 31 December 2017 (2016: RMB0.035 (equivalent to HK$0.039) per share). The proposed final dividend if approved, will be payable on or around 29 June 2018 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 11 June 2018.

CLOSURE OF REGISTER OF SHAREHOLDERS

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

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

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.

For the year ended 31 December 2017, the Company has complied with all the applicable code provisions set out in the CG Code, save and except for the following deviation:

Code provision A.2.1 of the CG Code

The roles of chairman and chief executive officer should be separate and performed by different individuals.

Under the current organization structure of the Company, Mr. Liu Dian Bo is our Executive Chairman of the Board and the Chief Executive Officer. 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 for the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has repurchased a total of 46,108,500 Shares during the year ended 31 December 2017. Save as the aforesaid repurchase of Shares, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2017.

AUDIT COMMITTEE

The audit committee has reviewed together with the Board the accounting principles and policies adopted by the Group, the audited annual results and the audited consolidated financial statements of the Group for the year ended 31 December 2017. The audit committee also approved the annual results and the consolidated financial statements for the year ended 31 December 2017 and submitted them to the Board for approval.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2017 ANNUAL REPORT

In accordance with the requirements under the Listing Rules applicable to the reporting period, the 2017 annual report containing all the information about the Company set out in this announcement including the financial results for the year ended 31 December 2017 will be posted on the Company's website **(www.luye.cn)** and the website of SEHK **(www.hkexnews.hk)** and despatched to the shareholders of the Company in due course.

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

Hong Kong, 26 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. LIU Dian Bo, Mr. YUAN Hui Xian, Mr. YANG Rong Bing and Ms. ZHU Yuan Yuan; the non-executive director is Mr. SONG Rui Lin 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.