中生北控生物科技股份有限公司

BIOSINO BIO-TECHNOLOGY AND SCIENCE INCORPORATION *

(Incorporated in the People's Republic of China with limited liability) (Stock Code : 8247)

2016
Annual Report

* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors (the "Directors" and each a "Director") of Biosino Bio-Technology and Science Incorporation (the "Company", together with its subsidiaries, the "Group") collectively and individually accept full responsibilities, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement herein or this report misleading.*

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CORPORATE INFORMATION

PRC OFFICE

No. 27 Chaoqian Road
Science and Technology Industrial Park
Changping District
Beijing, PRC

HONG KONG OFFICE

66th Floor
Central Plaza, 18 Harbour Road
Wanchai, Hong Kong

WEBSITES

http://www.zhongsheng.com.cn

BOARD OF DIRECTORS

Executive Directors
Mr. Wu Lebin *(Chairman)*
Mr. Chen Jintian *(Vice chairman)*
Mr. Zhang Haitao
Dr. Xu Cunmao

Non-executive Directors
Dr. Bi Lijun *(Vice chairman)*
Mr. Hou Quanmin

Independent Non-executive Directors
Dr. Zheng Yongtang
Dr. Hu Canwu Kevin
Mr. Wang Daixue

SUPERVISORS

Mr. Zhou Jie
Ms. Yan Xiyun
Ms. Huang Aiyu

AUDIT COMMITTEE

Dr. Zheng Yongtang *(Chairman)*
Dr. Hu Canwu Kevin
Mr. Wang Daixue

REMUNERATION COMMITTEE

Dr. Zheng Yongtang *(Chairman)*
Dr. Hu Canwu Kevin
Mr. Wang Daixue

NOMINATION COMMITTEE

Dr. Hu Canwu Kevin *(Chairman)*
Dr. Zheng Yongtang
Mr. Wu Lebin
Mr. Wang Daixue

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric CPA, CPA (U.S.)

QUALIFIED ACCOUNTANT

Mr. Cheung Yeung CPA

AUTHORISED REPRESENTATIVES

Mr. Wu Lebin
Mr. Tung Woon Cheung Eric

COMPLIANCE OFFICER

Mr. Wu Lebin

AUDITORS

Ernst & Young

LEGAL ADVISERS

As to Hong Kong law:
Loong & Yeung Solicitors

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Beijing
Industrial and Commercial Bank of China
Bank of China (Hong Kong) Limited

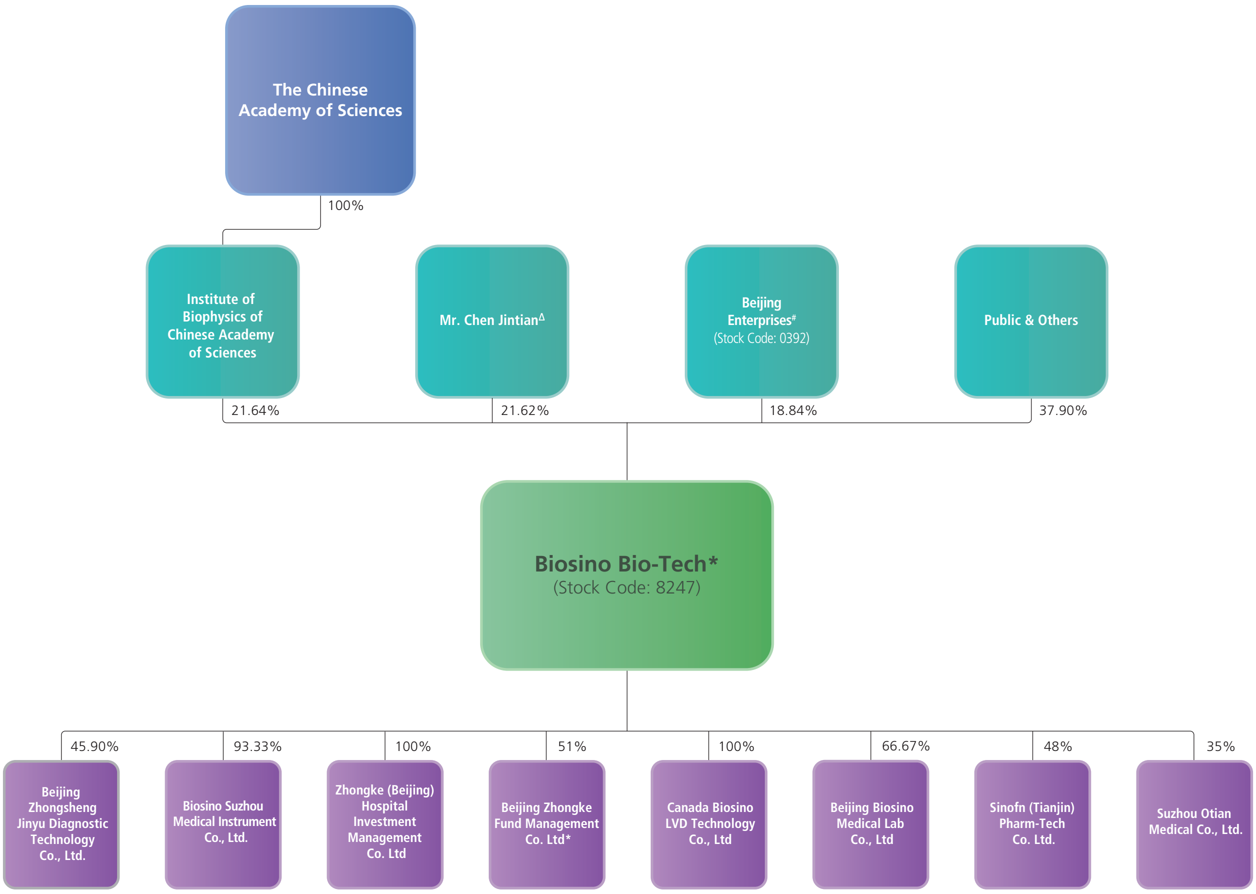
INFORMATION OF H SHARES

Place of listing:	GEM
Stock code:	8247
Number of H shares issued:	64,286,143 H shares
Nominal value:	RMB1.00 per H share
Stock short name:	Biosino Bio-Tec

GROUP PROFILE

GROUP STRUCTURE

As at 22 March 2017



* The H shares of Biosino Bio-Technology and Science Incorporation (the "Company" or "Bio-Tech") are listed on the GEM

\# The shares of Beijing Enterprises Holdings limited ("Beijing Enterprises") are listed on the Main Board of the Stock Exchange

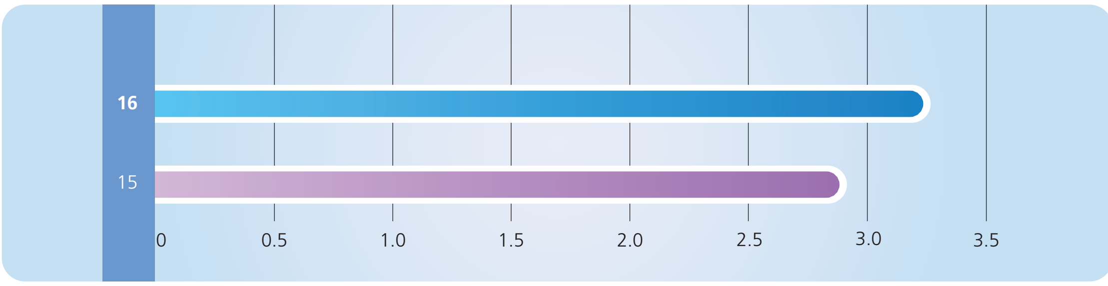
△ Mr. Chen Jintian holds 16.93% and 4.69% of Biosino Bio-Tech via Beijing Shuoze Health Industry Investment Company Limited ("Beijing Shuoze") and HK Future Investment Group Limited ("HK Future") respectively, totalling 21.62% shareholding.

FINANCIAL HIGHLIGHTS

- Revenue for the year kept growing to approximately RMB325 million, representing an increase of 12.1% from that of last year.
- Profit for the year amounted to approximately RMB16.64 million, representing an increase of 6.83 times from that of last year.
- The Board has proposed a final dividend of RMB0.1 per share for the year ended 31 December 2016.

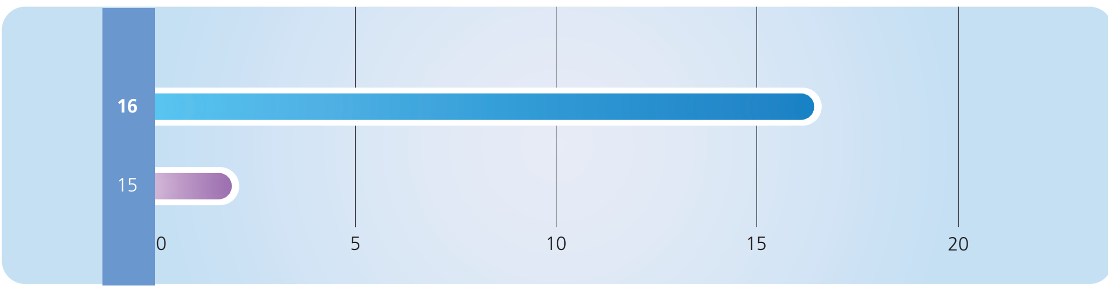
1. REVENUE FOR THE YEAR

(RMB hundred million)

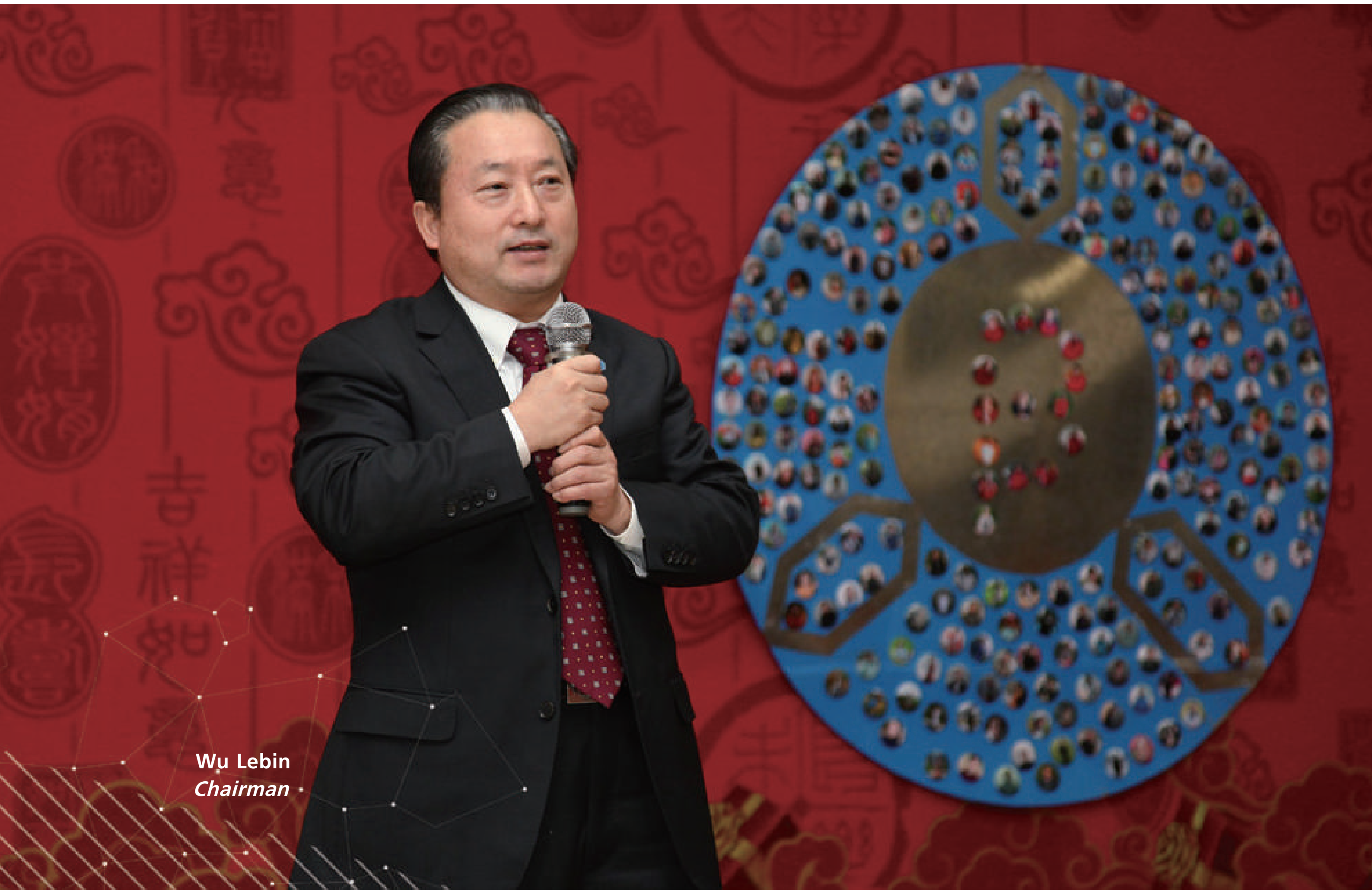


2. PROFIT FOR THE YEAR

(RMB million)



CHAIRMAN'S STATEMENT



Wu Lebin
Chairman

Dear shareholders,

It is with great pleasure that, on behalf of the board (the "Board") of directors (the "Directors") of Biosino Bio-Technology And Science Corporation (the "Company" or "Bio-Tech"), together with its subsidiaries, collectively referred to as the "Group"), I hereby present to you the annual report of the Group for the year ended 31 December 2016 (hereinafter referred to the "Year" or the "Reporting Period").

The Group, in upholding the principle of "enrichment of living standards through the use of science and technologies", earnestly implemented the resolutions of the Board and actively carried out various business activities focusing on its principal business. During 2016, the Group continued to focus on market expansion, overcame challenges due to various unfavourable factors, and managed to operate our strategic business administration activities in an orderly, effective and pragmatic manner. The operations of the Group and certain of its subsidiaries developed smoothly, and while continued to enhance the daily operation management methods and promoted the reinforced execution ability, the Group explored new commercial opportunities and actively improved the internal mechanism in an effort to increase the core competitiveness. During the year, the Group closed down some institutions and completed its organizational structure adjustment and the recruitment of competitive mid-level managerial staff smoothly, strived to optimize the structure of the operation team with a view to promote the overall execution ability and achieve a healthy development.

DIVIDENDS

As a reward for our shareholders' support, and taking into account of the Group's financial condition, cash flow, operating and capital requirements as well as maintaining a sustainable business development in the future, the Board recommended the payment of a final dividend of RMB0.1 per share for the financial year ended 31 December 2016. The Board believes that given its future financial condition and cash flow, the Group is capable of maintaining sufficient funds required for a sustainable development. During the year, there was no arrangement under which any shareholder had waived or agreed to waive any dividends.

BUSINESS REVIEW

During the Reporting Period, the Company aggressively and relentlessly expanded its sales channels and pushed forward product sales in segmented markets and regions through employing more sales talents, close cooperation with distributors and ultimate hospitals, and innovation of business model, and preliminary results were seen. The market share of biochemical reagents reached 6.28% (published on www.labmed.cn on 8 April 2016). The Company focused on increasing our investments in sales team performance orientation and realignment in terms of marketing management and introduced new employees to make the age structure younger and more efficient. The Company enhanced its budget-based performance appraisal and strived to improve the rough efforts in sales work. During 2016, the Company set up 5 offices in Eastern China, Northern China, North-eastern China, Southern China and Western China in the PRC market, which not only had strengthened the close relationship with end-users, but also facilitated operational prudence and excellence with an aim to seek for regional growth and breakthrough in sales revenue.

As at the end of 2016, the Company was awarded such honorary titles like Beijing Engineering Laboratory, Beijing Renowned Trademark in 2016, Beijing Science & Technology Research & Development Institution, A Leading Enterprise in G20 Industry, and so on. At the same time, the Company's Concomitant Diagnostic Reagents Beijing Engineering Laboratory Project obtained the supporting municipal government fund of RMB4,150,000, and the 863 Project "Vitamin And Antioxidant Capacity Testing System And Ancillary Reagents Development" also obtained a subsidy of RMB500,000 under the Changping District Innovation Support Policy.

During the Reporting Period, under the requirements of overall development strategy, the Group conducted private placement of domestic shares to key management staff and independent third parties, invested in Zhongke (Beijing) Fund Management Company Limited ("Zhongke Fund Management"), and Zhongsheng Jinyu Diagnostic Technology Co., Ltd., a subsidiary of the Company, was quoted on The New Third Board.

FUTURE PROSPECTS

IVD has become an increasingly important component of disease prevention, diagnosis and treatment for human, hence clinical medical examination and testing is the principal consumption direction for IVD reagents. In China, approximately 90% of IVD reagent products market is clustered at hospitals. They include 22,700 all-level hospitals, 37,200 town-level health centres and 450 blood stations, and also those emerging physical examination centres and independent medical laboratories. With increasing homogenization of diagnostic reagents, diversification in client selection and other changes, strong customer loyalty has become the key of enterprise differentiation and competitiveness. The traditional IVD manufacturing enterprises mainly focus on distribution. During the operating process, the agents have strong bargaining power. The "two-invoice system" which is being proactively pushed forward will certainly trigger a substantial change to operation channel, even business model, whereby leading to a significant change to business ecology in the industry. The agents with terminal resources become more important. At present, in the domestic IVD reagents market, biochemical diagnostic reagents and immune diagnostic reagents represented over 50% of total market size. Technically speaking, for the items broadly used in clinical application with vast market prospect (such as enzymes, lipids, liver function, blood glucose, urine test and immune reagent series in clinical biochemistry), technology standard of domestic major manufacturers has basically reached the current international level. The biochemical diagnostic market has the characteristics of higher demand and high stock level, relatively low in technology barrier and market concentration, so industry competition is increasingly fierce. However, the application of new technology and the development of new projects are far less active than immune diagnosis and molecular diagnosis sectors. The enhancement in concentration and industrial chain reconstruction are two main drivers for key IVD enterprises (especially those engaging in clinical biochemical diagnosis) to achieve growth in future. The Company will pay close attention and take active measures to adapt to changes to further strengthen the cooperation with downstream sectors through regional strategies tailored made to local conditions, with a view to improve its product sales volume or market share in diversified methods including consolidation.

The gradual implementation of the new medical reform, medical insurance and health sector policies substantively benefit the pharmaceutical sector. In particular, the influence of the medical reform has led to a steady increase in the number of domestic medical visits. The government encourages private capital investment in medical service industry, further improving the business sentiment and market environment of the industry. It is expected that as driven by social capital, the medical service market, in particular basic level medical market and high-end medical service, will increase substantially. The demand for diagnostic reagents and general consumables will continue to increase, which are beneficial to the continuous growth of the size of our business and will increase the sales of our products. However, with the gradual implementation of new medical reform, the charges of medical services begin to draw public attention. In terms of the criterion for medical service pricing issued for provinces and cities, reduction in the proportion of inspection fee and lowering inspection and testing pricing begins to take shape.

With increasing market participants, market competition for IVD reagent sector is becoming more and more intense. Enterprises are also facing on-going challenges in product quality enhancement and product-mix optimisation. Under the adjustment and optimisation of the sales team, the Company will take more incentive measures to explore new marketing mode actively, continue intensifying its marketing efforts, accelerate the progress in research and development, launch new products and new instruments compatible with each other or with new functionalities one after another, and strive to adapt to new market changes and new demand. In 2017, the Group will pursue the spirit of "Unity, Regulated, Courage, Efficiency, Win-win", initiate all employees to be proactive in enhancing their occupation quality, improving their own competitiveness in all directions and means, and increasing the momentum in marketing efforts to increase the revenue of the Group in all directions and means. Through solidifying its business foundation and adjusting its operation directives, the Group is striving to forge ahead under adverse conditions in order to become a respectable enterprise. With years of hard work and established foundation, the Board directs the Company to step towards the objective of being the "Legend Group" in China's health industry with independent intellectual property rights and international competitiveness, and achieve the best performance and bring satisfactory returns for our shareholders.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation towards all of our shareholders for their guidance and support, and to thank all of our employees for their invaluable long-term contribution and dedication.

By order of the Board

Wu Lebin
Chairman

Beijing, the People's Republic of China
22 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ENVIRONMENT

At present, the biochemical diagnostic reagent has become the most developed segment in the in-vitro diagnostic ("IVD") industry in the PRC, the overall technology standard had basically matched the current international standard, and product quality and independent innovation capacity have increased substantially. However, such segment industry recorded a flat growth. As the biochemical reagent technology barrier is relatively low as well as the opening up of biochemical analyzers, domestic enterprises entered the market by taking track and imitating foreign technologies and producing reagent products supporting imported biochemical analyzers, thereby forming a batch of sizable IVD enterprises which mainly manufacture biochemical reagents. Through the traceability of diagnostic products, the accuracy, consistency and comparability of examination and testing results were improved, the room of import substitution is continuously expanding, hence import substitution had basically completed. However, the high-end biochemical analyzers is still dominated by foreign brands due to higher technology barriers. The characteristics of IVD industry is the focus of primary importance in determining the research and development of analyzers. Sales of reagents and analyzers may be bundled together, and sales of analyzers can drive up high sales of reagents due to the resulted higher barrier in research and development of analyzers. The high-end instruments are mostly run in closed operation, that is, such instruments are only compatible with special reagents from specific manufacturers. As the quality of domestic biochemical diagnostic reagents are homogenized seriously, along with fierce price competition, the growth rate of the sales by domestic manufacturers declined year on year. It is urgently necessary to increase our competitiveness with new technologies and new products. The research and development is the core competition barrier for IVD instrument and reagents.

At present, under the overall background of increasing awareness in disease prevention and health consciousness of citizens, as well as drugs price reduction and removal of medicine markups policies, the examination service will become the main income source for hospitals. The PRC has turned into an aged society. In the next five years, it is expected that with intensifying aging issue and improvement in people's health consciousness, total medical visits will maintain at a growth rate of over 5%, and it is expected that medical expenditure per capita will also maintain at a growth rate of 5%-7%. With IVD as the first step of medical treatment, and IVD as a base inspection and testing measure, about 30% of outpatient medical expenditure will be attributable to the clinical application of IVD products. With the improved strength of PRC enterprises in research and development and the increase in examination and testing quantities in primary hospitals, under the combined influence of the medical issuance expense control policy and the need of "expense control" by hospitals, hospitals (especially those at the county level and below) will tend to use more domestic reagents, especially the biochemical diagnosis with relatively high price-performance, which will be beneficial to domestic reagent and instruments enterprises.

With the development of diagnostic technology, from the stages of screening, definite diagnosis to treatment, the diagnostic technology has begun to be professionally segmented. Research and development of new technologies and their applications, which include advanced diagnostic technology, treatment technology and health management platform have brought the changes. These changes will certainly generate significant impact on clinical diagnosis. In particular, attention should be focused on the effect on individualised diagnosis, represented by molecular diagnostic technology in the industry. Furthermore, attention should be paid to the cooperation model between manufacturers and distributors. The emergence of several major domestic biochemical diagnostic companies is supported by strong sales channels and distributors, and their interests have been strengthened by way of capital ties and intensified bonding, which will become an important trend in the market competition in the future.

BUSINESS REVIEW

Revenue

In 2016, the Group achieved the profit target set by the Board and recorded a net profit of RMB16.64 million, up by approximately 6.83 times as compared to last year, which was mainly the result of effective internal restructuring and cost and expenses control. Sales revenue from the principal businesses was RMB325 million, up by 12.1% as compared to last year, with a satisfactory increase.

Gross Profit and Gross Profit Margin

The gross profit in 2016 was RMB143 million, which was 2.8% higher than that of the previous year, and gross profit margin was 44% (2015: 48%).

Selling and Distribution Expensess

For the year ended 31 December 2016, selling and distribution expenses decreased by 14.3% or RMB10.22 million to approximately RMB61.08 million. The decrease in such expenses was primarily attributable to effective cost and expenses control.

Research and Development Costs

During 2016, the Company was granted the rights of 20 patents, including as follows: Allergen specific IgE detection strip for milk screening and its preparation method; Allergen specific IgE detection strip for fruit screening and its preparation method; Allergen specific IgE detection strip for mushrooms screening and its preparation method; Allergen specific IgE detection strip for cephalosporins screening and its preparation method; Allergen specific IgE detection strip for spices screening and its preparation method; Allergen specific IgE detection strip for insulin screening and its preparation method; Allergen specific IgE detection strip for meat screening and its preparation method; Allergen specific IgE detection strip for cotton screening and its preparation method; Allergen specific IgE detection strip for weeds pollen screening and its preparation method; Allergen specific IgE detection strip for dermatophagoides pteronyssinus screening and its preparation method; Allergen specific IgE detection strip for seafood screening and its preparation method; Allergen specific IgE detection strip for animal fur for scurf screening and its preparation method; Allergen specific IgE detection strip for tetanus antitoxin screening and its preparation method; Allergen specific IgE detection strip for nuts screening and its preparation method; Allergen specific IgE detection strip for silk screening and its preparation method; Allergen specific IgE detection strip for vegetable screening and its preparation method; Allergen specific IgE detection strip for albumen screening and its preparation method; Allergen specific IgE detection strip for pest screening and its preparation method; Allergen specific IgE detection strip for cereal screening and its preparation method; Allergen specific IgE detection strip for fungi screening and its preparation method. The Group completed the registration of 50 new products and renewal the registration of 125 products.

Total research and development costs for the year amounted to RMB28.05 million, up by 23.6% as compared to RMB22.69 million of last year.

Profit for the Year

Profit for the Year was RMB16.64 million, representing an increase of about 6.83 times as compared to RMB2.13 million in 2015.

Profit Attributable to Owners of the Parent

During the Reporting Period, profit attributable to owners of the parent was RMB15.98 million, representing an increase of approximately 26.2 times or RMB15.39 million from that of the previous year.

PRODUCTION FACILITIES

The Company possesses 2 self-constructed plant complexes covering a total area of 37.17 mu, in which both complexes have passed the examination and acceptance and repair and reconstruction stages, and are in normal use. Of which, Plant Complex No. 1, with a gross floor area of 11,000 square metres, is mainly used for office, research and development, production of biochemical reagents and other purposes. Plant Complex No. 2, with a gross floor area of 5,000 square metres (with five stories above ground), is mainly used as the production facilities for diagnostic reagents, comprising warehouse, workshops, laboratories and offices. The production facilities of each of its subsidiaries are either leased for use or constructed pursuant to relevant laws and regulations, and those facilities currently are all in normal operating conditions.

PROSPECTS AND FUTURE OUTLOOK

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CAPITAL STRUCTURE

During the Year, the change in capital structure of the Company is as follows:

On 11 November 2016, the Company allotted and issued 13,403,505 new domestic shares to Beijing Junfengxiang Bio-technology Company Limited ("Junfengxiang") (an independent third party), two Directors and 70 senior management and employees of the Group at RMB2.40 each under the general mandate. The total number of issued shares of the Company increased from 131,303,671 as at 31 December 2015 to 144,707,176 as at 31 December 2016.

LIQUIDITY AND FINANCIAL POSITION

	2016	2015
	RMB million	RMB million
Cash and bank balances and time deposits	**80**	70
Short-term loans	**111**	–
Long-term loans	**–**	–
Net cash/(debt)	**(31)**	70
Net debt equity ratio	**8.24%**	N/A

The Group generally financed its operations with internally generated cash flows and capital contributions from shareholders. Net cash decreased by approximately RMB101 million, which was mainly due to an increase in the balance from accounts receivables and other receivables at the end of the year.

FOREIGN CURRENCY RISK

The Group's businesses are mostly located in Mainland China and most transactions are conducted in RMB, except that the Group occasionally purchases equipment and some in-vitro diagnostic reagent products from overseas countries for resale in Mainland China and there are administrative expenses incurred by the Canadian subsidiary. A small amount of cash denominated in Hong Kong dollars ("HKD") is placed in bank accounts in Hong Kong for payments of miscellaneous expenses such as professional fees incurred in Hong Kong.

PLEDGE OF ASSETS OF THE GROUP

At 31 December 2016, all the Group's buildings with a net carrying amount of approximately RMB29,949,000 were pledged to Bank of Beijing, for bank loans granted to the Company with a principal of RMB50,000,000 as at the end of the Reporting Period. The loans will be due in March 2017.

At 31 December 2016, all of the Group's prepaid land lease payments with a net carrying amount of approximately RMB2,815,000 were pledged to Bank of Beijing, for bank loans granted to the Company with a principal of RMB50,000,000 as at the end of the Reporting Period. The loans will be due in March 2017.

CONTINGENT LIABILITIES

At the end of the Reporting Period, contingent liabilities not provided for in the financial statements were as follows:

	2016	2015
	RMB'000	RMB'000
Guarantee given to a bank in connection with the loans granted to an associate	**41,000**	50,000

EMPLOYEES

As at 31 December 2016, the Group had a total of 542 full-time employees (2015: 532 employees) based in Hong Kong and China. Total staff costs of the Group (including the Directors' and supervisors' remuneration) for the year ended 31 December 2016 amounted to approximately RMB61.47 million. The Group determines and reviews the emoluments of its staff and the Directors based on their qualifications and experience, performance of the Company and market rates, so as to maintain the remuneration of its staff and the Directors at a competitive level. The Group participates in various defined contribution retirement plans and insurance schemes in compliance with its statutory obligations under the laws and regulations of China and Hong Kong. The Directors believe that employees are one of the most valuable assets of the Group who contribute significantly to the success of the Group. The Group recognises the importance of training of its staff and hence provides regular training for the Group's staff members to enhance their technical and product knowledge.

Other than the company secretary and qualified accountant, the employees of the Group are all stationed in China.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISCLOSURE PURSUANT TO RULE 17.22 OF THE GEM LISTING RULES

During the Year, the Group, through Zhongke Fund Management, a non wholly-owned subsidiary of the Company, granted certain loans (which have remained outstanding) to independent third parties pursuant to the following loan agreements:

(1) Two loan agreements dated 19 December 2016 and 23 December 2016 entered into among Zhongke Fund Management, Shanghai Juhui Trade Company Limited ("Juhui Trade") and Ms. Lin Fengjiao whereby Zhongke Fund Management agreed to advance to Juhui Trade two loans in the principal amounts of RMB25,000,000 and RMB15,000,000, respectively, for a term of one year. The loans are (i) repayable in full at the end of the respective terms; (ii) subject to interest of 14% per annum; and (iii) secured by Ms. Lin Fengjiao's personal guarantee with unlimited liability and a Beijing property.

(2) The loan agreement dated 14 October 2016 among Zhongke Fund Management, Beijing Hongtu Jianye Trading Limited ("Hongtu Jianye") and Mr. Zhang Jianning whereby Zhongke Fund Management agreed to advance to Hongtu Jianye a loan in the principal amount of RMB10,000,000 for a term of one year. The loan is (i) repayable in full at the end of the term; (ii) subject to interest of 14% per annum; and (iii) secured by Mr. Zhang Jianning's personal guarantee with unlimited liability and a Beijing property. Before the date of this report, Hongtu Jianye has fully repaid the loan with the principal amount of RMB10,000,000 and accrued interest to Zhongke Fund Management.

(3) Two loan agreements dated 22 November 2016 and 26 November 2016 entered into among Zhongke Fund Management, Zibo Qiongying Wood Company Limited ("Qiongying Wood"), Mr. Chiang Jinye and Ms. Lin Liyu whereby Zhongke Fund Management agreed to advance to Qiongying Wood two loans in the principal amounts of RMB23,000,000 and RMB20,000,000, respectively, for a term of one year. The loans are (i) repayable in full at the end of the respective terms; (ii) subject to interest of 14% per annum; and (iii) secured by Mr. Chiang Jinye and Ms. Lin Liyu's personal guarantees with unlimited joint and several liability and properties in Shandong Province, the PRC.

(4) The loan agreement dated 30 December 2016 among Zhongke Fund Management, Zibo Qiongshan Trading Company Limited ("Qiongshan Trade"), Mr. Chen Zhiqiang and Ms. Chiang Yanxiu whereby Zhongke Fund Management agreed to advance to Qiongshan Trade a loan in the principal amount of RMB9,000,000 for a term of one year. The loan is (i) repayable in full at the end of the term; (ii) subject to interest of 14% per annum; and (iii) secured by Mr. Chen Zhiqiang and Ms. Chiang Zhiqiang's personal guarantees with unlimited liability and a property located in Shandong Province, the PRC. On 9 March 2017, Zhongke Fund Management reached an agreement with Qiongshan Trade that Qiongshan Trade shall repay the principal amount of RMB9,000,000 together with the accrued interest of RMB261,000 to Zhongke Fund Management in full on or before 1 April 2017.

(5) Seven loan agreements dated 12 September 2016, 27 September 2016, 29 September 2016, 10 October 2016, 10 October 2016, 21 October 2016 and 25 October 2016 among Zhongke Fund Management, Zibo Haiyun Trade Company Limited ("Haiyun Trade"), Ms. Zhang Lijuan and Mr. Li Yifan whereby Zhongke Fund Management agreed to advance to Haiyun Trade seven loans in the principal amounts of RMB18,000,000, RMB20,000,000, RMB10,000,000, RMB500,000, RMB4,500,000, RMB1,000,000 and RMB700,000, respectively, for a term of one year. The loans are (i) repayable in full at the end of the respective terms; (ii) subject to interest of 14% per annum; and (iii) secured by Ms. Zhang Lijuan and Mr. Li Yifan's personal guarantees with unlimited and joint and several liability and Beijing properties. On 8 March 2017, Zhongke Fund Management reached an agreement with Haiyun Trade that Haiyun Trade shall partly repay the loans with principal amount of RMB16,700,000 together with the accrued interest of RMB1,039,000 to Zhongke Fund Management in full on or before 1 April 2017.

In addition, the Company granted three entrusted loans totaling RMB40 million to two independent third parties during the Year. All such entrusted loans have been repaid in full before the date of this report. These entrusted loans include (i) an entrusted loan in the principal amount of RMB18,000,000 granted by the Company to Hongtu Jianye through Shanghai Pudong Development Bank Co., Ltd., Beijing Branch ("Pudong Development Bank") pursuant to an entrusted loan agreement dated 15 January 2016 among Pudong Development Bank, the Company and Hongtu Jianye; and (ii) two entrusted loans in the principal amounts of RMB12,000,000 and RMB10,000,000 granted by the Company to Beijing Ninghe Hengxing Trading Company Limited ("Ninghe Hengxing") through Agricultural Bank of China Limited ("Agricultural Bank") pursuant to two entrusted loan agreements dated 1 March 2016 and 10 March 2016 among Agricultural Bank, the Company and Ninghe Hengxing. Each of the said three entrusted loans was repayable in full at the expiry of the term of one year, subject to interest of 14% per annum and unsecured.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Company always puts strong emphasis on the superiority, steadiness and rationality of corporate governance.

CORPORATE GOVERNANCE PRACTICE

For the year ended 31 December 2016, the Company complied with all the code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code (Appendix 15 to the GEM Listing Rules) with the exception of Code Provision A.1.8 as addressed below:

Code Provision A.1.8

Under Code Provision A.1.8, the Company should arrange appropriate insurance to cover the potential legal actions against its Directors. As at the date of this report, the Company has not arranged such insurance coverage for the Directors.

The Company is in the process of reviewing and comparing the quotations and insurance proposals provided by a number of insurers, and currently targets to purchase the relevant liability insurance for the Directors within 2017.

THE BOARD OF DIRECTORS

During 2016, the Board comprised nine Directors, including the chairman, executive Directors, non-executive Directors and independent non-executive Directors. Each of the Directors (including the non-executive Directors and independent non-executive Directors) has entered into a service contract with the Company for a term of three years, but is subject to retirement by rotation at the Company's annual general meeting in accordance with the Articles of Association of the Company. The Board is mainly accountable to the owners of the parent. It is also in charge of the management, business, strategy, annual, interim and quarterly results, risk management, major acquisitions, disposals and capital transactions and other major operational and financial aspects of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual, interim and quarterly accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control systems and risk management procedures, and compliance with relevant statutory requirements, rules and regulations.

We corporate governance committee has been established and the Board is delegated with the corporate governance functions under Code Provision D.3.1 of the Corporate Governance Code.

The Board, in carrying out its corporate governance functions, is responsible for (a) developing and reviewing the Company's policies and practices on corporate governance; (b) reviewing and monitoring the training and continuous professional development of Directors and senior management; (c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; (d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) reviewing the Company's compliance with the code and disclosure in this corporate governance report.

Details of backgrounds and qualifications of the chairman of the Board and the other Directors are set out in the Report of the Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience, knowledge and execution ability to hold the position so as to carry out his or her duties effectively and efficiently. There is no relationship among the members of the Board.

During the year of 2016, the chairman of the Board kept a close relationship with all Directors to ensure steady exchange of information with them in the course of operation and decision-making.

The executive Directors are in charge of different areas of duty. One of them is always responsible for the management of the Group's day-to-day operations such as production, operation, and financial management. Another executive Director is in charge of the research and technique as well as international relations of the Company. The remaining executive Director is responsible for the daily operations of the Group.

All non-executive Directors are independent of the management and are in possession of solid experience in the business of the industry. These non-executive Directors provided significant advice and contribution to the development of the Company during the year 2016.

The Board fulfilled the minimum requirement of appointing at least one-third of the members of the Board as independent non-executive Directors. They have professional knowledge and extensive experience in science and technology, medical science and economics, which also conforms with the requirement of having one independent non-executive Director with appropriate qualification on professional accounting or financial management expertise. They are able to fully represent the interests of the shareholders. The Board has received an annual confirmation of independence from each of the independent non-executive Director. The Company considers all of them to be independent from the Company in accordance with the guidelines set out in Rule 5.09 of the GEM Listing Rules as at the date of this report.

During the year of 2016, the Board held a total of three meetings. The average attendance rate reached 100%. The details of the attendance rate of the Board and respective Directors are as follows:

Date of meeting	**Total number of Directors**	**Number of Directors present**	**Attendance rate**
18 March 2016	9	9	100%
20 May 2016	9	9	100%
12 August 2016	9	9	100%

Name of Directors	Number of meetings attended
Mr. Wu Lebin *(Chairman and executive Director)*	3/3
Dr. Bi Lijun *(Vice chairman and non-executive Director)*	3/3
Mr. Chen Jintian *(Vice chairman and executive Director)*	3/3
Mr. Zhang Haitao *(Executive Director)*	3/3
Dr. Xu Cunmao *(Executive Director)*	3/3
Mr. Hou Quanmin *(Non-executive Director)*	3/3
Dr. Zheng Yongtang *((Independent non-executive Director)*	3/3
Dr. Hu Canwu Kevin *(Independent non-executive Director)*	3/3
Mr. Wang Daixue *(Independent non-executive Director)*	3/3

ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING HELD IN 2016

The 2016 annual general meeting and extraordinary general meeting of the Company were held on 20 May 2016 and 12 August 2016 in Beijing, PRC, respectively. Details of the Directors' attendance records of the meetings are as follows:

Name of Directors	Annual general meeting 20 May 2016	Extraordinary general meeting 12 August 2016
Mr. Wu Lebin *(Chairman and executive Director)*	1/1	1/1
Mr. Chen Jintian *(Vice chairman and executive Director)*	1/1	1/1
Dr. Bi Lijun *(Vice chairman and non-executive Director)*	1/1	1/1
Mr. Zhang Haitao *(Executive Director)*	1/1	1/1
Dr. Xu Cunmao *(Executive Director)*	1/1	1/1
Mr. Hou Quanmin *(Non-executive Director)*	1/1	1/1
Dr. Zheng Yongtang *(Independent non-executive Director)*	1/1	1/1
Dr. Hu Canwu Kevin *(Independent non-executive Director)*	1/1	1/1
Mr. Wang Daixue *(Independent non-executive Director)*	1/1	1/1

CHAIRMAN AND PRESIDENT

The chairman and the chief executive officer, whose function performed by the president of the Group, are currently two separate positions held by Mr. Wu Lebin and Mr. Chen Jintian respectively with clear distinction in responsibilities.

As the chairman of the Board, Mr. Wu Lebin is responsible for the approval and supervision of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and overseeing of the management. Other executive Directors are responsible for the day-to-day operations of the Group.

Mr. Chen Jintian, the president, is responsible for the daily operation of the Group, implementation of business strategies, targets and plans formulated and adopted by the Board, and assuming accountability to the Board for the overall operation of the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a model code of conduct for dealing in the Company's securities by Directors, which was formulated in accordance with Rules 5.48 to 5.67 of the GEM Listing Rules for the purpose of setting out the standards adopted by the Company for assessing the conduct of Directors in their dealings in the securities of the Company. Any violation of this code will be regarded as a violation of the GEM Listing Rules. The Company has confirmed, after making specific enquiries with the Directors, that all Directors have complied with the required standard of dealings as set out in the model code of conduct in relation to securities dealings by directors throughout the year ended 31 December 2016.

BOARD COMMITTEES

The Board has established three Board committees, namely remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee") and audit committee (the "Audit Committee") to oversee the particular aspect of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties.

REMUNERATION COMMITTEE

The Remuneration Committee was established in accordance with the code provisions as set out in Appendix 15 to the GEM Listing Rules with written terms of reference. The main duties of the Remuneration Committee are the determination of specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board on the remuneration of non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and feasibility of performance based remuneration.

During the year of 2016, members of the Remuneration Committee include all independent non-executive Directors, Dr. Zheng Yongtang, Dr. Hu Canwu Kevin and Mr. Wang Daixue, with Dr. Zheng Yongtang as the chairman of the Remuneration Committee.

The Remuneration Committee has held one meeting to review and approve the remuneration packages of the Directors and senior management of the Group for the year ended 31 December 2016.

The Remuneration Committee meets regularly to determine, with delegated responsibility from the Board, the policy for the remuneration packages of individual Directors and senior management and assess the performance of executive Directors and senior management of the Company. During the year of 2016, the Remuneration Committee met once and the individual attendance of each member is set out below:

Name of Directors	**Number of meetings attended**
Dr. Zheng Yongtang	1/1
Dr. Hu Canwu Kevin	1/1
Mr. Wang Daixue	1/1

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration bands (RMB)	**Number of person**
RMB1,000,000 and under	4
RMB1,000,001 to RMB1,500,000	2
RMB1,500,001 to RMB2,000,000	Nil
RMB2,000,001 to RMB2,500,000	Nil

Further particulars regarding Directors' remuneration and the five highest paid employees are set out in notes 8 and 9 to the financial statements, respectively.

NOMINATION COMMITTEE

The Nomination Committee was established on 20 March 2012. The Nomination Committee is responsible for, including but not limited to, reviewing the structure, size and composition of the Board and making recommendation to the Board on selection of candidates for directorships. In addition, the Nomination Committee is also responsible for determining (i) the policy for the nomination of Directors to be performed by the Nomination Committee during the year; (ii) the nomination procedures and the process and criteria to be adopted by the Nomination Committee to select and recommend candidates for directorship during the year; and (iii) reviewing the Board Diversity Policy (as defined below) and the implementation progress of targets set by such policy.

During 2016, the Board has adopted the board diversity policy (the "Board Diversity Policy"). All Board appointments will be based on merit, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

In 2016, the Nomination Committee comprises an executive Director, namely Mr. Wu Lebin, and three independent non-executive Directors, namely Dr. Hu Canwu Kevin, Dr. Zheng Yongtang and Mr. Wang Daixue. Dr. Hu Canwu Kevin is the chairman of the Nomination Committee.

In carrying out its functions, the Nomination Committee met once during the year ended 31 December 2016. The attendance record of the said meeting is set out as follows:

Name of Directors	**Number of meetings attended**
Dr. Hu Canwu Kevin	1/1
Dr. Zheng Yongtang	1/1
Mr. Wu Lebin	1/1
Mr. Wang Daixue	1/1

AUDIT COMMITTEE

The Company established the Audit Committee on 10 February 2006 in accordance with the requirements of the GEM Listing Rules.

The duties of the Audit Committee include (but not limited to):

1. supervising the accounting and financial reporting procedures and reviewing the financial statements of the Group;

2. studying carefully all the proceedings proposed by the qualified accountant, compliance officers and auditors of the Group;

3. examining and monitoring the risk management and internal control systems of the Group and other major financial matters; and

4. reviewing the relevant work of the Group's external auditors.

Members of the Audit Committee possess high sense of responsibilities. They have contributed their time and efforts to ensure efficient operation and objectivity of the Board.

The Audit Committee meets once every quarter to review the reporting of financial statements and other information to shareholders, the effectiveness and objectivity of the internal control process, and reviewed all the quarterly, half-yearly and annual results. The Audit Committee also provides an important link between the Board and the Company's auditors in matters that arise within the scope of its terms of reference and continues to review the independence and objectivity of the auditors.

During the year ended 31 December 2016, four Audit Committee meetings were held and the individual attendance of each member is set out below:

Name of Directors	**Number of meetings attended**
Dr. Zheng Yongtang	4/4
Dr. Hu Canwu Kevin	4/4
Mr. Wang Daixue	4/4

In 2016, the Audit Committee comprises all independent non-executive Directors, namely Dr. Zheng Yongtang, Dr. Hu Canwu Kevin and Mr. Wang Daixue, of which Dr. Zheng Yongtang is the chairman.

During the Year, the Audit Committee conducted the following activities:

(i) reviewed the Group's annual results for 2015 and the Group's interim and quarterly results for 2016;

(ii) reviewed the audit plans and findings of the external auditor;

(iii) reviewed the internal control, risk management and financial matters pursuant to its terms of reference; and

(iv) made recommendation to the Board on the re-appointment of the external auditor and its remuneration.

The Audit Committee will also meet with the auditor annually in the absence of management to discuss matters relating to any issues arising from audit and any other matters the auditor may wish to raise.

The Audit Committee has reviewed the annual results, financial position, internal control and the management issues of the Group for the year ended 31 December 2016.

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric, the company secretary supports the chairman, Board and Board Committees by ensuring good information flow and that Board policy and procedures are followed. Mr. Tung advises the Board on governance matters and facilitates the induction and professional development of the Directors. The company secretary is an employee of the Company and is appointed by the Board. Although the company secretary reports to the chairman and the president of the Company, all Directors may call upon him for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board Committees. The company secretary also plays an essential role in the relationship between the Company and its shareholders, including assisting the Board in discharging its obligations to shareholders pursuant to the GEM Listing Rules.

Mr. Tung has confirmed that he has taken not less than 15 hours of relevant professional training in the financial year.

AUDITORS' REMUNERATION

The Audit Committee is responsible for considering the appointment of the external auditors and reviewing any non-audit services performed by the external auditors, including whether such non-audit services could lead to any potential material adverse impact on the Group. For the year ended 31 December 2016, auditors' remuneration for audit services is approximately RMB720,000.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on pages 57 to 59.

The Directors have confirmed that the preparation of the Group's financial statements is in compliance with the relative regulations and applicable accounting standards. As at 31 December 2016, the Board was not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern, and accordingly prepared the accounts on the going concern basis. The Directors also promise that the Group's financial statements will be distributed in due course.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

An induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company will be provided to each newly appointed director, if any. The Group also provides briefings and other trainings to develop and refresh the directors' knowledge and skills, and updates all directors on the regulatory requirements as necessary.

During the year ended 31 December 2016, a memorandum on the Company's regulatory and disclosure obligations as a listed company of Hong Kong was distributed to all Directors as part of their reading materials and training in the continuous professional development plan.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has the responsibility to maintain appropriate and effective internal control and risk management systems in order to safeguard the interest of the Group and the shareholders of the Company, review and monitor the effectiveness of the internal control and risk management systems on a regular basis to ensure that the systems in place are adequate.

The Board convenes meetings on a regular basis to discuss financial, operational and compliance controls and risk management procedures and performs quarterly review on the Group's performance and internal control and risk management systems with the Audit Committee in order to ensure effective measures are in place to protect material assets and identify potential risks. During the Year, the Board conducted a review and assessment of the effectiveness of the Group's internal control and risk management systems and procedures by way of discussions with the management of the Group and members of the Audit Committee. The Board believes that the existing internal control and risk management systems of the Group are adequate and effective. The Board has reviewed the resources, qualifications and experience of the staff of the Group's accounting and financial reporting function and their training schemes and budget and was satisfied with their adequacy.

As at 31 December 2016, the Company has not established an internal audit department. However, the Company intends to set up the said department within 2017 and have recruited relevant personnel.

RELATIONSHIP WITH THE INVESTORS

The Group has made great efforts to establish a long-term relationship with shareholders and investors with an open-mind, an adherence to the principles of integrity, regularity, high transparency and disclose the required information in compliance with GEM Listing Rules. Since the commencement of its preparation for listing, the Group has kept enhancing its transparency to provide investors precise and real-time information through various communication channels, including investor presentation, one to one conversations, road shows, seminars, press conferences, press releases, and contacts with media, analysts, and fund managers. In every year, the Directors hold the annual general meeting to meet the shareholders and respond to their questions. During 2016, the Company has adopted the new set of the Articles of Association. An updated version in English and Chinese of the Articles of Association are available on websites of the Company and the GEM.

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Any two or more shareholders holding 10% or more of the shares carrying the right to vote may, by signing one or more counterpart requisitions stating the object of the meeting, require the Board to convene an extraordinary general meeting or a class meeting. The Board shall as soon as possible proceed to do so. The relevant shareholdings of the shareholders shall be calculated as at the date of delivery of the requisitions. If the Board fails to issue a notice for such a meeting within 30 days from the date of receipt of the requisition, the requisitionists may themselves convene an extraordinary general meeting in a manner as nearly as possible to the manner in which meetings are to be convened by the Board, provided that any meeting so convened shall not be convened after the expiration of four months from the date of receipt of the requisition by the Board.

Any reasonable expenses incurred by the requisitionists by reason of the failure of the Directors duly to convene a meeting shall be borne by the Company and shall be set off against any sums owed to the Directors in default by the Company.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

Any shareholder who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration not less than 10 business days prior to the date of a general meeting through the company secretary whose contact details are set out in the paragraph "Procedures for directing shareholder' enquiries to the Board" below.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

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

The Company Secretary
66th Floor
Central Plaza, 18 Harbour Road
Wanchai, Hong Kong
Fax No.: (852) 2108 4001

The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or the relevant Board Committees of the Company and where appropriate, respond to such enquiries.

ENVIRONMENTAL SOCIAL AND GOVERNANCE REPORT

Since 2016, the Company started to issue relevant information regarding the environmental, social and governance report in its annual report, showing the respective data, measures and cases regarding corporate development strategy, corporate governance, environmental protection, economic responsibility, goods and service quality, occupational health and safety, employee development and social benefits to stakeholders comprehensively. The Company wishes to achieve an outstanding performance in these aspects and gains high recognition from the society.

CORPORATE GOVERNANCE

Sound corporate governance is the foundation and assurance for corporate business development. During the Reporting Period, the Company further improved its corporate governance structure and optimized its internal management in accordance with the Company Law and Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on Stock Exchange of Hong Kong.

1. In relation to shareholders and general meeting

The general meeting is fully entitled to the highest decision making authority provided by laws and regulations and the Articles of Association, and exercises its decisions on major events of the Company. During the Reporting Period, apart from annual general meeting, we also held one special general meeting and one class meeting respectively. The Company places high emphasis on the communication with shareholders and liaises with investors through various means. The substantial shareholders of the Company have not acted in a way that exceeds the limit of their authority to, directly or indirectly, intervene in the decision-making processes or production and operational activities of the Company, or have performed any acts that damage the interests of the Company and other shareholders. The substantial shareholders of the Company are mutually independent from the Company in respect of employees, assets, finance, organizations and businesses. The Boards of Directors and Supervisors and other internal authorities of the Company operate independently.

2. In relation to Directors and Board of Directors

The Company selects and appoints directors in strict compliance with the procedures stipulated in the Articles of Association, and the number of members and composition of the Board of Directors are in conformity with the laws, regulations, and the Articles of Association. The Articles of Association defines corresponding provisions on the rules of procedures for Board meetings. As at the end of Reporting Period, the Board of the Company comprised 9 Directors, 3 of which were Independent Non-executive Directors who are respectively professionals in accounting, technology and industry sectors, and in compliance with the laws and regulations and the requirements of the Articles of Association as well as the development needs of the Group. The Board of Directors has currently established the Audit Committee, Nomination Committee, and Remuneration and Appraisal Committee. Each of the professional committees is in strict compliance with its terms of reference and implements rules when performs its responsibility.

3. In relation to Supervisors and Supervisory Committee

The Company selects and appoints Supervisors in strict compliance with the procedures stipulated in the Articles of Association. The Supervisory Committee comprises three members, of which two of them are representatives recommended by shareholders and one is employee representative recommended by workers' union. The Supervisors of the Company act independently and effectively exercise their supervision and examination rights over the Directors and senior management. The Supervisory Committee conducts meetings regularly and convenes extraordinary meetings in a timely manner whenever necessary.

4. In relation to performance assessment and incentive mechanisms

The Group keeps on exploring, establishing and perfecting its incentive mechanism, and has formed the performance appraisal system based on KPIs and balanced scorecard. According to the responsibilities of senior management personnel, we set up evaluation indicators, sign letters of performance appraisal and conduct performance appraisal step by step according to the Group's strategic goals and budget breakdown analysis at the beginning of each year; while we evaluate employee remuneration according to the accomplishment of every performance target at the end of year. We implemented senior management's performance appraisal standards and evaluation procedures effectively, and made appropriate amendments and improvements according to the actual situation in its implementation. Meanwhile, we set up targeted and operational-friendly assessment and incentive mechanisms for each level of the Group to further improve our corporate governance structure and incentive system for all employees and to boost up the enthusiasm of the management and important personnel. The systems integrated successfully the interests of the shareholders, the Company and operating proprietors together, and enabled every party to focus on the long-term development of the Group together. During the Reporting Period, the Company had already issued additional domestic shares targeted at key employees to further enhance the incentive scheme for senior management personnel and key employees, facilitating the stable development of the Group in the long run.

5. In relation to stakeholders

The Company pays full respect regarding the legitimate rights of stakeholders such as users, creditors, suppliers, employees and communities, and cooperates with them actively on the basis of equity, reasonableness and mutual benefits so as to push forward the Company's sustainable and healthy development together.

6. In relation to information disclosure

The Company fully fulfills its information disclosure obligation in strict compliance with applicable laws and regulations as well as the respective requirements of the Stock Exchange, the Articles of Association and the Regulation on Information Disclosure issued by the Company. We ensure the disclosure of information is timely, fair, accurate and complete and ensure that investors are able to obtain public information of the Company on an equitable and timely basis.

There is no material difference between the Company' governance and the requirements of the relevant regulations under CSRC and the Stock Exchange.

The Company will continue to shore up and further improve its corporate governance standard, and boost its competitive edge in the hope of generating better operating results for its investors.

ENVIRONMENTAL PROTECTION

The Group does not fall under the highly-polluted industry category stated by the Ministry of Environmental Protection of China. As at the end of the Reporting Period, the Company or controlling subsidiary and companies it invested were not included in the list of serious-polluting enterprises published by the government and local environmental protection department. The Group's businesses do not involve air, water and land pollutant related to production governanced by state laws and regulations.

1. Construction and Implementation of Environmental Management System

The Group pays high attention to environmental protection, and emphasizes on the significance of environmental protection to corporate social responsibility and sustainable development, and actively facilitates the construction, execution and implementation of the environmental protection management system.

During the Reporting Period, the Company and relevant authorities conducted comprehensive inspection regarding the environmental management situations of all controlling subsidiaries to facilitate the improvement and promotion of controlling subsidiaries on environmental management, and demanded the completion of its construction and implementation with stipulated deadlines, ensuring effective sustainable development of the Company.

During the Reporting Period, there was no environmental pollution incident in the Company, controlling subsidiary and associate company.

2. Environmental Protection Guideline and Policy

From the strategic perspective of environmental and social sustainable development, we strictly control contamination, promote energy conservation and emission reduction and protect the ecological environment, striving to build up an environmentally friendly business community.

3. Environmental Protection Target

When screening projects, the Group focuses specifically on their potential impact on environment, and pays conscious attention to environmental protection, ensuring that the environmental impact of the Group's operation activities meet the standards and targets. The Group widely applies advanced environmental technologies into our operations actively to reduce energy consumption, advocates every stakeholder to think highly of environmental protection.

4. Utilization or consumption of resources during the Reporting Period

(1) Water utilization: 28,433 cubic meters/year;

(2) Power consumption: 2,357,900 kilowatt-hour/year, eq. standard coal: 289,550.12kg/year;

(3) Other energy-consumption eq. standard coals: 248,500.12 kg/year;

(4) Annual overall energy consumption: electricity + others = 538,050.24 kg/year;

(5) Yearly solid waste: approximately 16.5 tons/year;

(6) Hazardaus waste: 2.07 tons/year.

5. Investments in Environmental Protection Hardware Improvement

During the Reporting Period, to enable our environmental protection works more perfect, the Group continued to invest in environmental protection, optimized its production processes, and enhanced the utilization efficiency of its production facilities to achieve energy conservation and emission reduction and protect the environment. Additional charges of approximately RMB530,000 were spent in constructing, upgrading and re-engineering of environmental hardware, and a fee of approximately RMB130,000 was spent on environmental management including the operation and monitoring of contamination control facilities.

6. Construction and operating conditions of environmental protection facilities

During the Reporting Period, all environmental protection facilities constructed in each of the controlling subsidiary were under normal operation, which could satisfy the needs of current production capacity of the enterprise. The waste water and air pollutants could meet the discharge standards after treatment and all hazardous wastes were being disposed of by law.

7. Categorizing pollutants discharge

(1) Sewage: It is comprised of industrial sewage and domestic sewage. The main pollutants categories include Five-day Biochemical Oxygen Demand (BOD_5), Chemical Oxygen Demand (COD), Ammonia Nitrogen (NH3-N), Suspended Solids (SS) and animal and vegetable oil.

(2) Atmospheric emission: It is mainly produced by industrial waste gas, exhaust emissions of transportation. The main categories of pollutants include fumes and soot.

(3) Solid wastes: It is comprised of hazardous wastes and general wastes. Hazardous wastes include chemical raw materials, acid, alkaline and alcohol used during manufacturing, and medical wastes from laboratories. General wastes include recyclable materials (such as packaging materials and domestic waste from office operation.

8. Pollutants treatment and discharge information

(1) Sewage treatment and discharge: Piped discharge to the sewage treatment plant Class II or municipal sewage network after reaching the standard upon sewage treatment or pre-treatment by enterprise.

(2) Air pollution control and discharge: after adopting or using activated carbon to absorb or using liquid to spray or de-dust treatment on air, the exhaust is discharged in high air in strict compliance, the transportation exhaust emissions used is in compliance with the national standard transportation regulations.

(3) Disposal of solid wastes: each of the controlling subsidiaries conducts final compliance disposal such as incineration, landfill or reprocessing for use through companies that hold the disposal qualifications approved by local environmental protection bureau.

9. Any existence of serious environmental problems and improvement information during the Reporting Period

During the Reporting Period, there was no serious environmental, material impact on natural resources nor pollution incident in the production activities engaged by the Group and each of its controlling subsidiaries nor there was any relevant improvement information that required to be disclosed.

10. Emergency plans for environmental pollution incident

The Group has prepared corresponding emergency plans for environmental pollution incident according to its own operation characteristics, integrating with pollution control conditions and potential environmental risk identified, so as to fully response to the possible unexpected environmental pollution accident, and minimize the impact on environment.

11. Environmental protection information disclosure

The Company has disclosed its environmental protection, social and governance information in the annual report and ESG related contents to social public simultaneously and voluntarily since 2016.

UTILIZATION OF NATURAL RESOURCE

The Company and all controlling subsidiaries advocate departments and employees to save water and electricity utilization, reduce energy usages and lower operation cost of the Company.

Water used in production and work is from municipal supply plant without any problem.

The categories of packaging material are mainly rubber products, glasswork, plastic products and paper articles. Among which rubber products are 5.21 tons/year; glass work of 29.87 tons/year; plastics products of 77.03 tons/year; paper articles of 98.72 tons/year; and other packaging material of approximately 1.37 tons/year. The aggregate of packaging material is 212.11tons/year.

SOCIAL RESPONSIBILITY

While the Group is at its continuous rapid development process, it implements its corporate social responsibility actively. In 2016, the Group continued to make progress in corporate protection, economic, environment, health and safety, product and service, employees and society, actively assuming its responsibility as a corporate citizen and repaying to the society.

During the Reporting Period, the Group continued to increase its investment in research and development, kept on improving its technology, improved its production technology process, emphasized on the construction of product quality system, extended product life cycle and lowered the costs to offer more safe, effective and affordable products and services. In order to promote member companies to improve continuously the quality management standard, in 2016, we conducted the 8th amendment to the Quality Manual that was prepared in 2009 for keeping annual improvement and enhancement according to the laws, regulations and the requirements of the quality management system. During the Reporting Period, it successfully passed the sudden inspection conducted by CFDA and the on-site inspection by Beijing Food and Drug Administration and Changping Food and Drug Administration.

For social public interests, during the Reporting Period, the Group continued to assume its social responsibility and repay the society through giving support to education, financing scientific research, health and poverty relief and disaster relief. During the Reporting Period, the Group donated medical equipment to Aohan Banner, Inner Mongolia; donated diagnostic reagents to Yancheng Jiangsu Province for those who suffered from the dual disaster of severe hail and tornado; and donated RMB0.578 million to Wu Jieping Medical Foundation. The Group also took fully leveraged on the Zhongguancun IVD industrial alliance that it led to actively provide support and services in different sectors of the society.

Employment and Labour Practice

1. *Employment*

The Group is committed in a good workplace practice for our employees. The Company's practices and policies with respect to: (i) compensation and dismissal; (ii) recruitment and promotion; (iii) working hours; (iv) rest periods; (v) equal opportunity; (vi) diversity; (vii) anti-discrimination; and (viii) welfare and other benefits have complied with the Labor Law of the People's Republic of China ("Labour Law"), Labor Contract Law of the People's Republic of China and other relevant laws and regulations. We have followed Chapter Two of the Labour Law on labour policy to ensure all of our employees are free from discrimination and received equal opportunities despite age, gender, race, colour, sexual orientation, disability or marital status.

For protecting the interest of our employees and compliance with the relevant labour policy and law, employment contract would be signed in accordance with the guidance of the human resources department governing the labour compliance. Furthermore, a staff manual has been adopted by the Company to include the benefits and rights of employees e.g. compensation, dismissal, recruitment and promotion, leave benefits and other benefits and welfare.

The Group advocates learning from operation and conducts changes, actively benchmarking with domestic and overseas advanced enterprises. During the Reporting Period, it sent delegations of over ten employees on many occasions to enterprises such as Beckman for learning on-site, explored new management models including lean management and reduced various kinds of costs effectively, striving to improve the overall management efficiency.

2. *Employee Health and Safety*

For occupational health management, as the first batch of companies meeting the foundation construction standards of occupational health in Changping District, Beijing, the Company distributes reasonable and effective labour protection gears for employees according to actual job nature of each position, ensures occupational health and implements the human-oriented operation concept. It mainly achieved the followings in terms of occupational health management: conduct an once a year inspection and testing and one assessment every three years on occupational hazards; inform employees who work in occupational hazardous position in writing the possible occupational hazards when labour contracts are signed; set up individual file for supervising occupational health for each employee who works in occupational hazardous position; arrange periodic pre-service, after-service and on-service occupational health physical examination, tracking the health conditions of employees, redeploy employee job position when occupational contraindications after physical examination are found, and firmly prevents the occurrence of occupational diseases.

3. *Prevention child and forced labour*

The Group's recruitment standard follows the employment law of PRC to ensure equality and fairness. The Group has also complied with the Labour Law against the use of child labour and forced labour. Individuals under the age of 16 and individuals without any identification documents are disqualified from employment.

Operational Practice

1. *Supply Chain Management*

During the Reporting Period, the Group adjusted its organizational structure, integrated relevant functions and duties, achieved centralized procurement and lowered procurement costs and supplier management charges and it is going to integrate the social responsibility concept into the entire process of supplier management.

2. *Product Responsibility*

For safety production, the Company is a class II enterprise in safety production standardization. During the Reporting Period, the Group implemented the hierarchical accountability system for safety production, seriously took the establishment and implementation of production safety management system in the Company and its controlling subsidiaries. The management has established a periodic reviewing and decision making system in terms of performance through implementing and strengthening the all-round compliance risk assessment, team building and the construction and improvement of its professional capability, upgrading and transformation of related facilities, aperiodic independent inspection and review, reporting and rectification of hidden danger, and improving technical support of project and response, to ensure the lawful and compliance operation and continuous improvement of the Group. It organized and implemented centralized professional trainings related to safety production management and improvement activities successively, which minimized the safety risk during our operation, regulated employee operation management, and continued to deepen the safety concept and cultural construction. For resources saving and environmentally-friendly construction, the Group achieved good economic and environment effectiveness through attaching great importance to the application and promotion of advanced energy saving technology and energy contract management projects.

Anti-corruption

The Group has not set up special institution, but to avoid occurrence of this case, the Group makes strict requirements in Rules 130 of the Articles of Association, Section 2 in employee manual and other regulations of the Group. And we implement the above requirements in relevant operating activities. The Group enables performers' behaviors lawful and compliant through market investigation, lawyers' check and finance audit, and endeavors to precaution and eradicate employees' corruption, such as supervisor and senior management in particular, which gain a good effect. In 2016, there is no violation of laws such as corruption and bribery.

RISK MANAGEMENT

As an enterprise with diagnostic products as its principal business, the major risks that the Group may expose to include:

1. Industry policy risk: In engaging in the manufacturing and selling of diagnostic products (medical devices), relevant licenses granted by China Food and Drug Administration（國家食品藥品監督管理部門）must be obtained, and product quality is subject to stringent laws and regulations. Although the enterprises under the Group that engaged in the manufacturing and operation of principal diagnostic products and medical devices have already obtained the above licenses and approved documents granted by China Food and Drug Administration（國家食品藥品監督管理部門）, however, the regulations over the production and sales of diagnostic products and medical devices may be adjusted by the government. If the Group fails to make corresponding adjustments and perfection, it will cause adverse impact on its production and operation.

2. Market competition risk: Market competition is ever intensifying due to huge domestic market potential where numerous enterprises are having a foothold in the IVD business and market concentration is low. The Group adopts the mainstream model of "distribution and direct selling integration with distribution as priority" in its product sales segment, and has developed approximately 500 distributors in China's 30 provinces and regions. With the continuous increase in the number of distributors, the Group finds it more and more difficult to provide distributors proper trainings, support, management and maintenance. To establish a mutually beneficial win-win mechanism with distributors, cultivate their loyalty to the Group and achieve the overall sales targets together, the Group will closely cooperate with distributors through providing product training, technical support, marketing activities and other services to reduce the risks caused by significant reforms and violation of laws and regulations by distributors.

3. Product research and development and technology substitution risks: The IVD industry is characterized by high technological value, high personnel quality demand and long cycle for research and development as well as product registration, so it is necessary to increase investments in research and development, cultivate and introduce professionals to improve the Group's capability in scientific research. At the same time, sufficient argumentation need to be conducted on new research and development projects through external technology exchange to reduce the risk of possible replacement of currently-available know-how by the more advanced technology in the same industry, so as to remove the adverse impact on the sustainable development of the Group.

4. Quality control risk: The quality of in-vitro diagnostic reagent and in-vitro diagnostic instrument has a direct impact on the accuracy of medical diagnosis. As a result, the government sets stringent requirements on IVD products quality. With the further increase in output, quality control has always been an issue of major concern to the Group. Once the products are improperly maintained or operated during production, transportation and other aspects, it will lead quality problem incidents and affects our reputation and brands. The Group implemented an all-round quality control in product design, raw materials procurement, product manufacturing and sales as well as after-sales services according to the requirements of ISO9001: 2008 and ISO13485: 2003 quality management systems. We prepared a comprehensive quality management system with Quality Manual (《質量手冊》) as its core, and had passed the certification of third-party authority, so as to enable the entire process of our products (from raw materials incoming inspection to manufacturing and operation and after-sales service) are effectively under control. During the Reporting Period, there was no major quality problem.

5. Risk of key technical staff loss: The Group is an enterprise with the longest history in domestic IVD industry. The key factor for maintaining its competitive edge is the Group owns a stable and high quality talent team. The Group firmly believes that staff is crucial in an enterprise's development. The Group recruits and employees staff openly in strict compliance with the requirements of laws and regulations and enters into labor contracts with all employees to assure their legitimate interests in accordance with laws. While strengthening their development internally and promoting staff's skills, the Group is also actively soliciting external excellent talents to enrich the already competitive enterprise talent team. The Group provides newly-employed staff with informative induction training and offers them flexible, diversified and pragmatic business trainings. The Group sets up position and salary levels of every employee based on his/her position by comprehensively assessing job category, work nature, responsibilities, job qualifications and other factors. The salary level is determined in accordance with the staff's knowledge and skills, work performance and overall performance. The Group makes active exploration in cultural development, and creates convenient conditions in work and life, especially in physical examination, settling down and holidays and festivals, aiming at enhancing staff's sense of belongings.

6. Investment and mergers and acquisitions risk: The Group integrates its industry resources through various means such as foreign investment as well as mergers and acquisitions to enhance its core competitiveness and achieve scalable effect. Despite many investigations and argumentations are conducted on any investment object in advance, there are still many market uncertainties after implementation, making it difficult to achieve the expected target and reach a mutually-shared complementary win-win situation and may even incur huge losses. The Group will learn from lessons whole-heartedly and will strictly comply with the Measures for the Administration of Foreign Investment (《對外投資管理辦法》) to further strengthen the due diligence and research and argumentation before investing. Post-investment stringent control will be strengthened to enable share-participating corporations to achieve synergy with the Group in terms of operation, management and other aspects, striving to enable target enterprises to meet the objectives within a relatively short period of time, so as to achieve the Group's strategic layout and reduce investment failure risk.

7. Account receivables risk: With the increasing efforts in market expansion and the continuous expansion of sales size, the amount in the Group's account receivables is also increasing accordingly. Hence, the bad debt risk arising therefrom is also the same. The Group has taken measures to improve the front-end control of account receivables and maintains it at a reasonable level, strengthens the daily management and collection of account receivables and takes remedial actions as early as possible when risks occurred. It turns out that risk prevention is very effective if methods are appropriate and measures are strong.

8. Force majeure risk: Serious natural disasters and sudden public health incidents will cause damages to our property and staff and may affect the Group's normal production and operation. The Group has set up corresponding emergency mechanisms and systems to cope with abrupt incidents, which can assure quick responses to make the Group's risk in production and operation activities controllable. The Company set up miniature fire station that equipped with part-time firemen as well as equipment and facilities. In 2016, the Group conducted 2 fire drills, which proved that quick response iss achievable and safeguarding the safety of corporate personnel and property.

In conclusion, in facing the above risks, the Group has three defense lines in place from top to bottom, namely, operating departments, senior management team and the Board, which are being set up based on corporate governance structure and according to the node of possible occurrence and development. We will fulfill the responsibilities in risk identification, response, management and supervision from different aspects and to understand in time the changes of national laws and regulation and policies, so as to earnestly control, prevent, whistle-blow and resolve all kinds of risks through measures of compliance operation, continuous monitoring and effective supervision. Although the Group has not set up an independent Internal Audit Department, however, dedicated internal auditors are in place in Quality Control Center, Finance Department and Engineering Department according to the actual needs of the Company. They perform their internal auditing responsibilities through measures such as important activities are subject to stringent review and approval procedures and important contracts are subject to legal advisor review. In 2016, the Company's internal auditors and externally engaged intermediaries conducted two economic accountability audits on subsidiaries. Operating risks were comprehensively audited through quarterly and half-year operation analysis meetings. By conducting special examination on certain high-risk segments, such as marketing, procurement, accounts receivables and instrument maintenance, we aim to promote the compliance operation of the Group's subsidiaries. We also take corresponding rectification measures in a timely manner to prevent possible risks. During the Reporting Period, no major or important omissions or defects were discovered, confirming the effectiveness of the above measures. In 2017, the Group will amend the relevant systems and establish a more reasonable internal auditing structure in accordance with the overall operation objectives and key works and based on the needs of risk management, so as to enable the internal audit and control over the risks during daily operating activities is practical and more effective.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in the manufacture, sale and distribution of IVD reagent products. Details of the principal activities of the principal subsidiaries are set out in note 33 to the financial statements.

Further discussion and analysis as required by Schedule 5 to the Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2016, and an indication of likely future development in the Group's business, are set out in the "Chairman's Statement", "Management Discussion and Analysis", "Environmental, Social and Governance Report" and "Notes to Financial Statements" sections of this report. The above sections form part of this Report of the Directors.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the financial statements on pages 60 to 63.

The Directors recommend the payment of a final dividend of RMB0.1 per share in respect of the year to shareholders whose names appear on the register of members on 1 June 2017. Upon approval by the shareholders at the forthcoming annual general meeting of the Company, the final dividend will be paid on or about 31 July 2017. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 134. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

The annual change in the Company's issued share capital was set out in note 31 to the financial statements.

ISSUANCE OF NEW DOMESTIC SHARES

On 27 May 2016, the Company entered into separate conditional subscription agreements (the "Subscription Agreements") with 73 subscribers (including two Directors, 70 senior management and employees of the Group and Junfengxiang) whereby the Company agreed to allot and issue, and the said subscribers agreed to subscribe for, an aggregate of 13,403,505 domestic shares of the Company, representing approximately 16.67% and 9.26% of the issued domestic shares and the issued share capital of the Company as enlarged by the allotment and issue of the subscription shares, at the subscription price of RMB2.40 each. Completion of the said domestic shares subscriptions took place on 11 November 2016. The net proceeds from the domestic shares subscriptions are RMB31,709,000. As stated in the circular of the Company dated 28 June 2016, the Company intended to use such net proceeds to supplement the working capital of the Group, out of which approximately RMB13 million shall be used for purchasing equipment, approximately RMB12 million shall be used for expanding sales channels and approximately RMB6 million shall be used for research and development of new products. As at 31 December 2016, the net proceeds from the domestic shares subscriptions were fully utilised, out of which approximately RMB17,480,000 was used for purchasing equipment, RMB5,000,000 was used for expanding sales channels and approximately RMB9,220,000 was used for research and development of new products.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 44 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Retained profits of the Company, as at 31 December 2016, amounted to approximately RMB80,056,000, of which RMB13,130,000 has been proposed as final dividend for the Year. Details of movements in the reserves of the Company during the year are set out in note 44 to the financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied with all material respects with the relevant laws and regulations that have a significant impact on the business and operations of the Group.

BEIJING ZHONGSHENG JINYU DIAGNOSTIC TECHNOLOGY CO., LTD.*（北京中生金域診斷技術有限公司）("ZHONGSHENG JINYU") QUOTATION

With effect from 22 September 2016, the shares of Zhongsheng Jinyu (directly held as to 45.90% by the Company) have been quoted on the National Equities Exchange and Quotations System (The New Third Board 新三板*) (the "Quotation"). The Company maintains its 45.90% shareholding in Zhongsheng Jinyu immediately following completion of the Quotation and its financial results and position will continue to be consolidated into the financial statements of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers of RMB122,954,000, accounted for 38% of the total revenue for the year, in which sales to the largest customer amounted to 14%. Purchases from the Group's five largest suppliers of RMB24,756,000, accounted for 16% of the total purchases for the year, in which purchases from the largest supplier amounted to 5%. None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the Year are as follows:

CHAIRMAN AND EXECUTIVE DIRECTOR:

Mr. Wu Lebin

VICE CHAIRMAN AND EXECUTIVE DIRECTOR:

Mr. Chen Jintian

VICE CHAIRMAN AND NON-EXECUTIVE DIRECTOR:

Dr. Bi Lijun

EXECUTIVE DIRECTORS:

Mr. Zhang Haitao
Dr. Xu Cunmao

NON-EXECUTIVE DIRECTOR:

Mr. Hou Quanmin

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. Zheng Yongtang
Dr. Hu Canwu Kevin
Mr. Wang Daixue

SUPERVISORS:

Mr. Zhou Jie
Ms. Yan Xiyun
Ms. Huang Aiyu

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from the independent non-executive Directors annual confirmations of their independence pursuant to Rule 5.09 of the GEM Listing Rules, and as at the date of this report, the Board considers each of them to be independent.

EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

Details of emoluments of Directors and the five non-director/supervisor, highest paid individuals are set out in notes 8 and 9 to the financial statements.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and supervisors of the Company and the senior management of the Group are set out on pages 50 to 54 of this report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and supervisors (including the independent non-executive Directors and the supervisors) has entered into a service contract with the Company for a term of three years commencing from various dates of their respective appointments.

Apart from the foregoing, no Director or supervisor had entered into or had proposed to enter into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at the annual general meeting. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTEREST IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the interests of the Directors, supervisors or chief executive of the Company in the shares and underlying shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

LONG POSITIONS IN SHARES OF THE COMPANY

Name	Number of the Company's domestic shares held	Percentage of the Company's domestic shares	Number of the Company's H shares held	Percentage of the Company's H shares	Percentage of the Company's total registered share capital
Mr. Chen Jintian *(Note)*	24,506,143	30.47%	6,780,000	10.55%	21.62%
Mr. Wu Lebin	3,500,878	4.35%	–	–	2.42%
Mr. Zhang Haitao	650,000	0.81%	–	–	0.45%
Dr. Xu Cunmao	600,000	0.75%	–	–	0.41%
Mr. Hou Quanmin	300,000	0.37%	–	–	0.21%
Mr. Zhou Jie	150,000	0.19%	–	–	0.10%

Note: As at 31 December 2016, Beijing Shuoze Health Industry Investment Company Limited ("Beijing Shuoze") and Hong Kong Future Investment Group Limited ("HK Future") held 24,506,143 domestic shares and 6,780,000 H shares of the Company, respectively. Since both Beijing Shuoze and HK Future are held by Mr. Chen Jintian as to 100%, Mr. Chen Jintian is deemed to be interested in 31,286,143 shares of the Company held by Beijing Shuoze and HK Future pursuant to the SFO.

Save as disclosed above, as at 31 December 2016, none of the Directors, supervisors or chief executive of the Company had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or supervisors of the Company or their respective associates (as defined under the GEM Listing Rules) was granted by the Company or its subsidiaries any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights as at 31 December 2016.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, as far as is known to any Directors and supervisors of the Company, other than the interest of the Directors, supervisors and chief executive of the Company as disclosed under the section headed "Directors', Supervisors' and Chief Executive's Interests in Shares and Underlying Shares" above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise nonified to the Company and the Stock Exchange:

LONG POSITIONS IN SHARES OF THE COMPANY

Name	Capacity and nature of interest	Number of the Company's shares held		Percentage of the Company's respective type of shares		Percentage of the Company's total registered capital
		Domestic shares	H shares	Domestic shares	H shares	
Institute of Biophysics of Chinese Academy of Sciences	Directly beneficially owned	31,308,576	–	38.93%	0.00%	21.64%
Beijing Shuoze Health Industry Investment Company Limited ("Beijing Shuoze")#	Directly beneficially owned	24,506,143	–	30.47%	0.00%	16.93%
Beijing Junfengxiang Bio-technology Company Limited	Directly beneficially owned	7,763,505	–	9.65%	0.00%	5.36%
Hong Kong Future Investment Group Limited ("HK Future")#	Directly beneficially owned	–	6,780,000	0.00%	10.55%	4.69%
Mr. Chen Jintian#	Through controlled corporations	24,506,143	6,780,000	30.47%	10.55%	21.62%
Beijing Enterprises Holdings Limited^	Directly beneficially owned	–	27,256,143	0.00%	42.40%	18.84%
Beijing Enterprises Group Company Limited^	Through controlled corporations	–	27,256,143	0.00%	42.40%	18.84%
Chung Shek Enterprises Company Limited	Directly beneficially owned	–	3,800,000	0.00%	5.91%	2.63%
K.C. Wong Education Foundation	Through controlled corporations	–	3,800,000	0.00%	5.91%	2.63%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Each of Beijing Shuoze and HK Future is wholly owned by Mr. Chen Jintian who is therefore deemed to be interested in the domestic shares and H shares held by Beijing Shuoze and HK Future respectively pursuant to the SFO.

^ Beijing Enterprises Group Company Limited is the ultimate holding company of Beijing Enterprises Holdings Limited. Accordingly, it is deemed to be interested in the H shares owned by Beijing Enterprises Holdings Limited pursuant to the SFO.

Save as disclosed above, as far as is known to any Directors or supervisors of the Company, as at 31 December 2016, no person, other than the Directors, supervisors and chief executive of the Company, whose interests are set out in the section "Directors', Supervisors' and Chief Executive's Interests in Shares and Underlying Shares" above, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CORPORATE GOVERNANCE

The Company has always valued the superiority, steadiness and rationality of having a sound system of corporate governance.

For the year ended 31 December 2016, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices set out in the Corporate Governance Code, with the exception of code provisions A.1.8 as addressed below.

Code Provision A.1.8

Under Code Provision A.1.8, the Company should arrange appropriate insurance to cover potential legal actions against its Directors. As at the date of this report, the Company has not arranged such insurance coverage for the Directors.

The Company is in the process of reviewing and comparing the quotations and insurance proposals from different insurers, and currently targets to purchase the relevant liability insurance for the Directors within 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

COMPETING INTERESTS

During the Year and up to the date of this report, none of the Directors, supervisors, the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) has an interest in any business that competes or may compete, either directly or indirectly, with the business of the Group, nor any conflicts of interest which has or may have with the Group.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2016 is set out in note 39 to the consolidated financial statements.

The following transactions between certain connected persons (as defined in the GEM Listing Rules) and the Company (or its subsidiary) have been entered into for which relevant announcement, if necessary, had been made by the Company in accordance with Chapter 20 of the GEM Listing Rules.

On 27 May 2016, the Company entered into the Subscription Agreements with the Subscribers with 73 subscribers (comprising Junfengxiang, two Directors and 70 senior managers and employees of the Group) pursuant to which the Company agreed to allot and issue an aggregate of 13,403,505 domestic shares to the subscribers at the subscription price of RMB2.40 each. As the subscribers include, among others, two Directors who are connected persons of the Company pursuant to Chapter 20 of the GEM Listing Rules, the allotment and issue of new domestic shares to them constitutes connected transactions of the Company and are subject to the reporting, announcement and Independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The two Directors are Mr. Zhang Haitao and Dr. Xu Cunmao, respectively, and the Company allotted and issued an aggregate of 1,050,000 domestic shares to these two Directors.

On 29 July 2016, Chinese Academy of Sciences Holdings Co, Ltd. ("CASH"), Zhongke (Beijing) Hospital Investment Management Co., Ltd. ("Zhongke Beijing") (a wholly-owned subsidiary of the Company), Beijing Kangquan Investment Co., Ltd. ("Beijing Kangquan") and Zhongcai Lekang (Beijing) Investment Management Co., Ltd. ("Zhongcai Lekang") entered into the capital contribution Agreement, pursuant to which CASH, Zhongke Beijing, Beijing Kangquan and Zhongcai Lekang agreed to establish Guoke Health Management Joint Stock Limited Company (the "JV Compnay"). Upon establishment, the JV Company shall have a total registered capital of RMB50,000,000, out of which CASH, Zhongke Beijing, Beijing Kangquan and Zhongcai Lekang shall contribute RMB16,500,000, RMB3,500,000, RMB15,000,000 and RMB15,000,000, respectively. Zhongke Beijing is a wholly-owned subsidiary of the Company. CASH is wholly-owned by the Chinese Academy of Sciences ("CAS"), which in turn controls the Institute of Biophysics of the CAS, a substantial shareholder of the Company. Accordingly, CASH is a connected person of the Company and the transaction constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. Since one of the applicable percentage ratios as defined in Rule 19.07 of the GEM Listing Rules calculated with reference to the transaction is more than 0.1% but less than 5%, the transaction is subject to the reporting and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders' approval requirement pursuant to Rule 20.74 of the GEM Listing Rules.

MANAGEMENT CONTRACTS

During the Year, there was no contract entered into by the Company relating to the management and administration of the entire or any substantial part of the business of the Group.

PERMITTED INDEMNITY PROVISION

At no time during the Year and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors (whether made by the Company or otherwise) or an associated company (if made by the Company).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix 20 to the GEM Listing Rules is set out on pages 29 to 39 of this report.

EVENT AFTER THE REPORTING PERIOD

There is no material event undertaken by the Company or by the Group subsequent to 31 December 2016 and up to the date of this report.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Wu Lebin
Chairman

Beijing, the People's Republic of China
22 March 2017

REPORT OF THE SUPERVISORY COMMITTEE

To all shareholders,

Since the establishment of the Company, the supervisory committee of the Company (the "Supervisory Committee") has carried out its duties in accordance with the Company's articles of association and relevant requirements. It has performed effective supervision, through the inspection of relevant documents and attending meetings of the Board, on resolutions made by the Board to ensure that they are in compliance with the relevant laws and regulations, the Company's articles of association and in the best interests of the shareholders. Such resolutions are made in a manner to ensure the shareholders' interests and long-term development of the Company.

The Supervisory Committee is in the opinion that the decision-making process of the Board is in compliance with the Company's articles of association and operating norms.

The Supervisory Committee considers that the Company's 2016 financial statements reflected a true and fair view of the financial position and operating results of the Company. The unqualified opinion expressed in the auditors' report issued by Ernst & Young is objective and fair.

The Supervisory Committee is of the opinion that the connected transactions between the Company and its connected persons were conducted at fair market prices without prejudice to the interests of the Company and its minority shareholders.

The Supervisory Committee will strictly observe the articles of association of the Company and the relevant requirements in 2017 to better discharge its duty, including securing shareholders' interests.

The Fifth Supervisory Committee of Biosino Bio-Technology and Science Incorporation
Zhou Jie
Chairman of the Supervisory Committee

Beijing, the People's Republic of China
22 March 2017

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

CHAIRMAN OF THE BOARD

Mr. Wu Lebin（吳樂斌先生）, aged 55, is the chairman and an executive Director of the Company. Mr. Wu graduated from the Jiangxi Medical College with a bachelor's degree in medicine in 1983 and from the Graduate University of CAS with a master's degree in science in 1988. He also completed an EMBA study program jointly offered by the University of Wisconsin of the United States and the Graduate University of CAS in 2002. Prior to joining the Group, Mr. Wu served as the deputy director and the director in the CAS and the deputy director in IBP of CAS successively. He possesses over 20 years of experience in research management, technology development, administration and corporate management. Mr. Wu joined the Company in 2001. He is the president of the Company since 2003, and is chairman of the Board since 2006 and resigned the concurrent post of president on 10 July 2014.Since June 2014, he served as the secretary of the Party committee in the Corporate of CAS and as the chairman of the Board in the Chinese Academy of Sciences Holdings Co., Ltd.

VICE CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Dr. Bi Lijun（畢利軍博士）, female, aged 43, is the vice chairman and a non-executive Director of the Company. Dr. Bi obtained a bachelor degree in food science from the School of Food Science of Henan University of Science and Technology*（河南科技大學）, a master degree in food science from the School of Food Science of Shenyang Agricultural University*（瀋陽農業大學）, a doctoral degree in microbiology from Institute of Applied Ecology of CAS（中科院瀋陽應用生態研究所）and a post doctor fellow from Kinki University (Japan). Thereafter, Ms. Bi worked successively as a deputy research associate and research associate and is currently the assistant to the director in IBP of CAS. Dr. Bi joined the Company in October 2014.

VICE CHAIRMAN AND EXECUTIVE DIRECTOR

Mr. Chen Jintian（陳錦添先生）, aged 39, is the vice chairman and an executive Director of the Company, president and legal representative. Mr. Chen Jintian completed a financial computerization program of The Open University of Fujian*（福建廣播電視大學）in 1999, and completed an EMBA program of University of Management and Technology in United States in 2012. He holds a master degree and is a senior economist. He was the chairman of the board of directors of Beijing Shuoze Commercial Group*（北京碩澤商業集團）, HK Future Investment Group*（香港未來投資集團）and is currently the chairman of the board of Beijing Shuoze Health Industry Investment Management Company Limited*（北京碩澤健康產業投資管理有限公司）. Mr. Chen joined the Company in March 2015, became the president in December and served as the legal representative of the Company in June 2016.

EXECUTIVE DIRECTORS

Mr. Zhang Haitao (張海濤先生), aged 44, is an executive Director and vice president of the Company, with a Master's degree, graduated from Xi'an Medical University in clinical medicine in July 1996 and obtained an EMBA from University of International Business and Economics in January 2010. Between July 1996 and May 2000, Mr. Zhang worked in the Hanting auto repair factory of China Railway Si Ju Fifth Construction Company Limited as staff; then worked in Beijing Leadman Biochemistry Co., Ltd.* (北京利德曼生化股份有限公司) consecutively as the manager of Jinan branch office, corporate marketing director, deputy general manager and vice president from June 2000 to January 2014. Mr. Zhang joined in the Company in October 2015.

Dr. Xu Cunmao (許存茂博士), aged 54, is an executive Director, vice president and secretary of the Board of the Company, responsible for the overseas investment functions and the relevant matters of general meetings, board meeting and information disclosure of the Company. Dr. Xu obtained a Bachelor's Degree in Science and a Master's Degree in Science in economic geography from Northwest Normal University (西北師範大學), and a Ph.D Degree in Science in regional economic geography from Northeast Normal University (東北師範大學). He was an associate professor of the School of Economics in Hainan University (海南大學), executive deputy general manager of Hainan Nanxi Industrial Co., Ltd.* (海南南希實業股份有限公司), executive deputy general manager of Beijing Beida Nanxi Bio-Engineering Co., Ltd.* (北京北大南希生物工程有限公司), general manager of Shanghai Guangkong Industrial Investment Co., Ltd.* (上海廣控實業投資有限公司) and general manager of PKU Weiming Diagnostics Co., Ltd. (北大未名診斷試劑有限公司). Dr. Xu joined the Company in 2003 and was appointed as an executive Director in March 2015.

NON-EXECUTIVE DIRECTOR

Mr. Hou Quanmin (侯全民先生), aged 51, is a non-executive Director. Mr. Hou possesses over 15 years of experience in technological development and corporate management. Mr. Hou graduated from China Agricultural University with a bachelor's degree in biophysics. Mr. Hou worked in the Beijing Detector Instrument Factory (北京檢測儀器廠) and was engaged in technical work. He was responsible for the management of offices, enterprises and technology development in the IBP. Mr. Hou was the vice head in charge of technology (科技副縣長) of Chicheng County, Zhangjiakou City, Hebei Province, assistant to general manager of Baiao Pharmaceuticals and deputy director of science and technology development department of IBP. Mr. Hou has been the general manager of Baiao Pharmaceuticals from 1999 to 2012, and re-designated as the Chairman of the Board in 2013. Mr. Hou severed as the executive Director of the Company in January 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Zheng Yongtang (鄭永唐博士), aged 55, is an independent non-executive Director. He is a research associate and a doctoral student advisor of Kunming Institute of Zoology of the CAS* (中國科學院昆明動物研究所) ("KIZ"). Dr. Zheng obtained a bachelor degree in medicine from Jiangxi Medical College* (江西醫學院) in 1983, a master degree in cellular immunology and a doctoral degree in viral immunology from KIZ in 1989 and 1997, respectively. Dr. Zheng has been engaging in immunology and virology research for a long period of time. Dr. Zheng undertakes over 30 projects of various scientific research projects, such as National Science and Technology Major Project, National 973 and 863 projects and National Natural Science Foundation etc. Dr. Zheng Yongtang joined the Company in May 2015.

Dr. Hu Canwu Kevin (胡燦武博士), male, aged 41, is an independent non-executive Director. He graduated from Fudan University in Shanghai with a bachelor's degree in finance in 1996. He obtained a double master's degree from the University of Lausanne and Ivey Business School in 2003, and obtained a Ph.D. degree in finance from the University of Massachusetts Amherst in 2006. From 1996 to 2003, Dr. Hu worked for Golden Lion Management SA in Geneva. Since 2004, Dr. Hu works for UBS and teaches in the University of Massachusetts Amherst as a part-time lecturer. Dr. Hu joined the Company in February 2009.

Mr. Wang Daixue (王代雪先生), aged 61, is an independent non-executive Director. He is currently the chairman of Beijing Beilu Pharmaceutical Co., Ltd.* (北京北陸藥業股份有限公司), a company listed on the ChiNext board of the Shenzhen Stock Exchange (stock code: 300016) ("Beijing Beilu"). In October 1992, Mr. Wang founded Beijing Beilu Pharmaceutical and Chemical Co., Ltd.* (北京北陸醫藥化工公司) and was its general manager. After the restructuring of Beijing Beilu Pharmaceutical and Chemical Co., Ltd. in 1999, it became Beijing Beilu in which Mr. Wang acted as the chairman and general manager. Beijing Beilu was converted into a joint stock company in February 2001 and was one of the first batch of companies listed on the ChiNext board of the Shenzhen Stock Exchange in 2009. Mr. Wang is also the controlling shareholder of Beijing Beilu. Mr. Wang joined the Company in March 2013.

SUPERVISORS

Mr. Zhou Jie（周潔先生）, aged 55, is the chairman of the Supervisory Committee of the Company. Mr. Zhou completed a professional course in politics in Beijing Open University in 1988 and graduated from Renmin University of China with a master's degree in business administration in 2004. Mr. Zhou joined Zhong Sheng Biochemical Reagent Technology Development Corporation*（中生生化試劑技術開發公司）("Biosino Biochemical", the predecessor of the Company) in 1990 and worked in Chengdu Office, responsible for the sales of the southwestern region of the PRC. He then worked in the marketing department of the Company as a department manager, fully responsible for the sales function. In April 2001, Biosino Biochemical was transformed to become the existing Company and Mr. Zhou was recruited as vice president. Mr. Zhou was recruited as the president of the Company on 10 July 2014 and appointed as executive Director in March 2015. He was elected as Supervisor by employee representative in December 2015.

Dr. Yan Xiyun（閻錫蘊博士）, female, aged 59, is a supervisor of the Company. Dr. Yan obtained a bachelor degree from Henan Medical University*（河南醫科大學）and a doctoral degree in medicine from University of Heidelberg (Germany). Dr. Yan has been engaging in the research on protein functions and antibodies engineering since 1993. She has undertaken a number of large-scale scientific research projects, responsible for the State 863 and 973 projects and certain research projects funded by the National Natural Science Foundation of China. She also hosted the major knowledge-innovative "antibodies engineering" program at CAS during the 9th Five-Plan and the 10th Five-Plan. She worked as a research trainee, an assistant research associate in IBP. She also worked as a deputy research associate, research associate and supervisor of doctoral students in Institute of Microbiology of CAS and. Ms. Yan is currently the secretary general of the Biophysical Society of China*（中國生物物理學會）. Dr. Yan was appointed as Supervisor of the Company between 2003 and 2006 and rejoined the Company in October 2014.

Ms. Huang Aiyu（黃愛玉女士）, aged 30, a supervisor of the Company and holds a bachelor degree in Management. She completed the financial management professional course from Beijing Technology and Business University（北京工商大學）in 2008. She was the finance manager of Beijing Shuoze Commercial Group*（北京碩澤商業集團）. Ms. Huang joined the Company in March 2015.

SENIOR MANAGEMENT

Ms. Wang Jianqing (王建清女士), aged 54, is the vice president of the Company, responsible for the quality control, quality check and production of diagnostic reagents. Ms. Wang graduated from the department of chemistry of Lanzhou University with a bachelor's degree in science. Ms. Wang has worked for Northwest Normal University, Yantai Plastic Industrial Research Institute (煙台塑料工業研究所), Yantai Valiant Fine Chemicals Co., Ltd. (煙台萬潤精細化工公司), Shandong Luye Pharmaceutical Co., Ltd. (山東綠葉製藥股份有限公司). Her career segments include, among other matters, education, scientific research, logistics control and quality management. Ms. Wang has also worked as a tutor, an engineer, and a senior engineer, respectively. Ms. Wang joined the Company in August 2004.

Ms. Yao Ping (姚萍女士), aged 55, is the vice president of the Company. Ms. Yao graduated from Shanxi College of Finance & Economics in 1983 with a bachelor's degree in economics and also completed a teacher education course in planning and statistics at Renmin University of China in 1984. Ms.Yao obtained an associate-professor qualification and has published many articles and monographs in 1998. During 1983 to 1999, Ms. Yao taught economics at Northwest Normal University. During 1999 to 2002, Ms. Yao was seconded to IBP and was responsible for corporate development affairs. Ms. Yao joined the Company in April 2001.

Dr. Zheng Xiaowan (鄭曉婉博士), 34, is the vice president of the Company. She graduated from Virginia Polytechnic Institute and State University in U.S.A. in 2005 with an honorable bachelor's degree, major in Biochemical and minor in management and obtained a doctoral degree in medicine from the College of Pharmacy in University of Maryland-Baltimore County in U.S.A in 2010. She published six academic papers at various national renowned academic journals during her PhD study. She conducted postdoctoral research in Roche Pharmaceutical in the New Jersey branch in the U.S.A. after graduation. She joined the Company in 2011, and served as Assistant to President and Director of International Business, responsible for the various businesses such as oversea business cooperation, import and export and products business. She was recruited as vice president in December 2015.

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric (董渙樟先生), aged 46, is the company secretary of the Company. Mr. Tung graduated from York University, Toronto, Canada with a honor bachelor's degree in administrative studies in 1993. Mr. Tung is a certified public accountant of Hong Kong Institute of Certified Public Accountants. He is also an U.S. certified public accountant of the American Institute of Certified Public Accountants. Mr. Tung previously worked in Ernst & Young and possesses extensive experience. Mr. Tung is currently the assistant president and general manager of the capital finance department of Beijing Enterprises Holdings Limited (stock code: 392), the executive director, chief financial officer and company secretary of Beijing Enterprises Water Group Limited (stock code: 371), an independent non-executive director of South China Financial Holdings Limited (stock code: 619) and GR Properties Limited (stock code: 108), all are companies listed on the Main Board of the Stock Exchange.

QUALIFIED ACCOUNTANT

Mr. Cheung Yeung (張洋先生), aged 37, is the qualified accountant of the Company. Mr. Cheung obtained a bachelor's degree in business administration (accounting) from the Hong Kong University of Science and Technology. Mr. Cheung is a certified public accountant of Hong Kong Institute of Certified Public Accountants. He has over 10 years of accounting and auditing experience. Prior to joining the Company in December 2007, Mr. Cheung worked in Beijing Enterprises Holdings Limited as an accounting manager. Mr. Cheung joined the Company in December 2007.

INDEPENDENT AUDITORS' REPORT

安永

To the shareholders of Biosino Bio-Technology and Science Incorporation
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Biosino Bio-Technology and Science Incorporation (the "Company") and its subsidiaries (the"Group") set out on pages 60 to 133, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment testing of investments in a joint venture and associates	
Investments in a joint venture and associates amounting to nil and RMB22.2 million at 31 December 2016, which represents 17% of the non-current assets in total. The impairment test was significant to our audit because the assessment process was complex and involved significant management judgements and estimations. In performing the impairment testing, management used various assumptions in respect of cash flow forecasts, associated growth rates and the discount rate. The accounting policies and disclosures for the impairment provision of investments in a joint venture and associates are included in notes 2.4, 3, 17 and 18 to the consolidated financial statements.	Our audit procedures, among others, included the evaluation of the Company's policies and procedures to identify impairment indicators for potential impairment of investments in a joint venture and associates. We evaluated the assumptions and methodologies adopted by management in conducting the impairment test. We focused on the sensitivity in the available headroom for the cash-generating units, and evaluated whether a reasonably possible change in assumptions could cause the carrying amounts to exceed their recoverable amounts. We also assessed the historical accuracy of management's estimates, and the disclosures in the consolidated financial statements regarding the impairment testing.
Impairment testing of know-how	
The Group acquires know-how for the production and sale of certain products, which is amortised on a straight-line basis over an estimated useful life of 10 years. The underperformance of these products would expose the Group to the risk of impairment of the know-how, the net book value of know-how is RMB2.0 million at 31 December 2016. The impairment testing of know-how was performed by allocating it to cash-generating unit (the "CGU") of the relevant products sold by the company. The accounting policies and disclosures for the impairment provision of know-how are included in notes 2.4, 3 and 16 to the consolidated financial statements.	We focused on this area due to the significance of the know-how and the estimates used in the assessment of impairment of the know-how, particularly regarding future sales and cash flow forecasts generated from the CGU. We tested management's assessment of operation forecast by comparing actual results and market conditions to forecasts, including assessing key business drivers, the growth of sales volume and prices, and the discount rate.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
22 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	*5*	**325,388**	290,380
Cost of sales	*6*	**(182,106)**	(151,018)
Gross profit		**143,282**	139,362
Other income and gains	*5*	**21,252**	13,970
Selling and distribution expenses		**(61,076)**	(71,292)
Administrative expenses		**(35,967)**	(44,867)
Research and development expenses		**(28,053)**	(22,689)
Other expenses		**(15,564)**	(5,255)
Finance costs	*7*	**(3,279)**	(159)
Share of (losses)/profits of:			
A Joint venture		**(2,055)**	(3,106)
Associates		**3,075**	(2,562)
PROFIT BEFORE TAX	*6*	**21,615**	3,402
Income tax expense	*10*	**(4,979)**	(1,277)
PROFIT FOR THE YEAR		**16,636**	2,125
Attributable to:			
Owners of the parent		**15,980**	588
Non-controlling interests		**656**	1,537
		16,636	2,125
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*12*		
Basic and diluted			
– For profit for the year		**RMB0.120**	RMB0.004

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**16,636**	2,125
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(334)**	(7)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(334)**	(7)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(334)**	(7)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**16,302**	2,118
Attributable to:		
Owners of the parent	**15,646**	581
Non-controlling interests	**656**	1,537
	16,302	2,118

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**98,933**	82,881
Prepaid land lease payments	*14*	**2,734**	3,230
Goodwill	*15*	**309**	309
Other intangible assets	*16*	**4,010**	1,478
Investment in a joint venture	*17*	**–**	14,273
Investments in associates	*18*	**22,248**	16,627
Available-for-sale investment	*19*	**1,579**	529
Long-term receivables	*20*	**1,907**	4,152
Deferred tax assets	*29*	**1,353**	1,159
Total non-current assets		**133,073**	124,638
CURRENT ASSETS			
Available-for-sale investments	*21*	**–**	3,000
Inventories	*22*	**53,648**	41,845
Trade and bills receivables	*23*	**94,955**	87,851
Prepayments, deposits and other receivables	*24*	**236,425**	55,635
Time deposits	*25*	**–**	25,000
Cash and cash equivalents	*25*	**79,567**	45,068
Total current assets		**464,595**	258,399
CURRENT LIABILITIES			
Trade payables	*26*	**40,507**	31,941
Other payables and accruals	*27*	**50,752**	42,689
Interest-bearing bank borrowings	*28*	**111,017**	–
Tax payable		**798**	335
Total current liabilities		**203,074**	74,965
NET CURRENT ASSETS		**261,521**	183,434
TOTAL ASSETS LESS CURRENT LIABILITIES		**394,594**	308,072

	Notes	**2016 RMB'000**	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**394,594**	308,072
NON-CURRENT LIABILITIES			
Deferred income	*30*	**11,511**	11,442
Deferred tax liabilities	*29*	**1,540**	505
Total non-current liabilities		**13,051**	11,947
Net assets		**381,543**	296,125
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*31*	**144,707**	131,304
Reserves	*32*	**164,271**	143,449
		308,978	274,753
Non-controlling interests		**72,565**	21,372
Total equity		**381,543**	296,125

Wu Lebin
Director

Chen Jintian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent							
	Issued capital RMB'000 *(note 31)*	Capital reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	131,304	85,697	42,648	27,465	188	287,302	26,463	313,765
Profit for the year	–	–	–	588	–	588	1,537	2,125
Other comprehensive income for the year	–	–	–	–	(7)	(7)	–	(7)
Total comprehensive income for the year	–	–	–	588	(7)	581	1,537	2,118
Increase in issued capital of a subsidiary	–	1,087	(621)	(466)	–	–	594	594
Transfer from retained profits	–	–	790	(790)	–	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–	(2,511)	(2,511)
Final 2014 dividend declared	–	–	–	(13,130)	–	(13,130)	–	(13,130)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	(4,711)	(4,711)
At 31 December 2015	131,304	86,784	42,817	13,667	181	274,753	21,372	296,125

		Attributable to owners of the parent							
	Notes	**Issued capital RMB'000** *(note 31)*	**Capital reserve RMB'000**	**Statutory reserve RMB'000**	**Retained profits RMB'000**	**Exchange fluctuation reserve RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
At 1 January 2016		**131,304**	**86,784**	**42,817**	**13,667**	**181**	**274,753**	**21,372**	**296,125**
Profit for the year		**–**	**–**	**–**	**15,980**	**–**	**15,980**	**656**	**16,636**
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**(334)**	**(334)**	**–**	**(334)**
Total comprehensive income for the year		**–**	**–**	**–**	**15,980**	**(334)**	**15,646**	**656**	**16,302**
Issue of shares		**13,403**	**18,765**	**–**	**–**	**–**	**32,168**	**–**	**32,168**
Share issue expenses		**–**	**(459)**	**–**	**–**	**–**	**(459)**	**–**	**(459)**
Transfer from retained profits		**–**	**–**	**1,619**	**(1,619)**	**–**	**–**	**–**	**–**
Acquisition of subsidiaries	*34*	**–**	**–**	**–**	**–**	**–**	**–**	**53,955**	**53,955**
Disposal of a subsidiary	*35*	**–**	**–**	**–**	**–**	**–**	**–**	**(3,418)**	**(3,418)**
Final 2015 dividend declared	*11*	**–**	**–**	**–**	**(13,130)**	**–**	**(13,130)**	**–**	**(13,130)**
At 31 December 2016		**144,707**	**105,090***	**44,436***	**14,898***	**(153)***	**308,978**	**72,565**	**381,543**

* These reserve accounts comprise the consolidated reserves of RMB164,271,000 (2015: RMB143,449,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**21,615**	3,402
Adjustments for:			
Finance costs	*7*	**3,279**	159
Share of loss of a joint venture		**2,055**	3,106
Share of (profits)/losses of associates		**(3,075)**	2,562
(Gain)/Loss on disposal of items of property, plant and equipment, net	*6*	**(57)**	48
Bank interest income	*5*	**(972)**	(1,936)
Depreciation	*6*	**18,670**	19,373
Amortisation of prepaid land lease payments	*14*	**96**	101
Amortisation of other intangible assets	*16*	**312**	412
Impairment of other intangible assets	*16*	**–**	533
Impairment of an investment in a joint venture	*17*	**12,218**	3,245
Impairment of trade and bills receivables	*23(a)*	**329**	56
Impairment of prepayments, deposits and other receivables	*6*	**729**	600
Impairment of inventories	*6*	**–**	446
Interest income from available-for-sale investments	*5*	**(35)**	(523)
Loss/(gain) on disposal of subsidiaries	*6*	**788**	(2,988)
Gain on acquisition of subsidiaries	*5*	**(43)**	–
Gain on disposal of a joint venture	*5*	**–**	(1,156)
Exchange gain, net	*6*	**(98)**	(25)
		55,811	27,415
(Increase)/decrease in inventories		**(13,665)**	5,361
Increase in trade and bills receivables		**(6,307)**	(40,460)
(Increase)/decrease in prepayments, deposits and other receivables		**(11,070)**	5,523
Increase in trade payables		**8,622**	10,027
Increase in other payables		**11,216**	21,375
Increase in accruals and deferred income		**444**	4,581
Cash generated from operations		**45,051**	33,822
Income tax paid		**(3,675)**	(2,264)
Interest received		**972**	1,936
Net cash flows from operating activities		**42,348**	33,494

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash flows from operating activities		**42,348**	33,494
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(38,195)**	(14,950)
Purchases of other Intangible assets		**(2,844)**	–
Proceeds from disposal of items of property, plant and equipment		**219**	266
Decrease in time deposits		**25,000**	2,000
Received from available-for-sale investments		**3,035**	23,524
Advances of entrusted loans	24	**(48,000)**	(30,000)
Advances of loans from financing services	24	**(156,700)**	–
Receipt from the entrusted loans		**38,000**	–
Interest received		**5,174**	–
Purchases of available-for-sale investments		**(1,050)**	(16,000)
Proceeds from disposal of a joint venture		**–**	2,116
Proceeds from acquisition of a subsidiary	34	**60**	–
Disposal of a subsidiary	35	**(1,240)**	3,532
Net cash flows used in investing activities		**(176,541)**	(29,512)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**32,168**	–
Share issue expense		**(459)**	–
New bank loans		**111,017**	2,000
Capital contributions from non-controlling shareholders		**43,900**	594
Dividends paid to non-controlling shareholders of subsidiaries		**(1,623)**	(3,088)
Dividends paid		**(13,130)**	(13,130)
Interest paid		**(3,279)**	(159)
Net cash flows from/(used in) financing activities		**168,594**	(13,783)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**34,401**	(9,801)
Cash and cash equivalents at beginning of year		**45,068**	54,844
Effect of foreign exchange rate changes, net		**98**	25
CASH AND CASH EQUIVALENTS AT END OF YEAR		**79,567**	45,068
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as at the end of year	25	**79,567**	45,068

1. CORPORATE AND GROUP INFORMATION

Biosino Bio-Technology and Science Incorporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC"). The registered office of the Company is located at No. 27, Chaoqian Road, Science and Technology Industrial Park, Changping District, Beijing, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") principally engaged in the manufacture, sale and distribution of in-vitro diagnostic reagent.

Information about subsidiaries

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

Company name	Place of incorporation and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Zhongsheng Jinyu Diagnostic Technology Co., Ltd. ("Zhongsheng Jinyu") (北京中生金域診斷技術股份有限公司)*	PRC/Mainland China	RMB30 million	45.9%	–	Manufacture, sale and distribution of in-vitro diagnostic reagent products
Beijing Zhongsheng Medical Laboratory Co., Ltd. ("Biosino Lab") (北京中生醫學檢驗所有限公司)	PRC/Mainland China	RMB9 million	66.67%	–	Medical service, and medical inspection service
Biosino Suzhou Medical Instrument Co., Ltd. ("Biosino Suzhou") (中生(蘇州)醫療儀器有限公司)	PRC/Mainland China	RMB30 million	93.33%	–	Production of medical instruments
Canada Biosino LVD Technology Co., Ltd. ("Biosino Canada") (加拿大中生體外診斷技術有限公司)	Canada	USD3,488 thousand	100%	–	Research, development, sale and distribution of biological reagents and instruments
Zhongke (Beijing) Hospital Investment Management Co., Ltd. ("Zhongke Investment") (中科(北京)醫院投資管理有限公司)	PRC/Mainland China	RMB13 million	100%	–	Distribution of immunodiagnostic products
Zhongke (Beijing) Fund Management Co., Ltd. ("Zhongke Fund") (中科(北京)基金管理有限公司)	PRC/Mainland China	RMB110 million	51%	–	Investment management, consultation in respect of non-securities business and equity investment management

* These entities are accounted for as subsidiaries by virtue of the Company's control over them.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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.

Basis of consolidation

The consolidated financial statements include the financial statements of 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

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

4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and a joint venture

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

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

The Group's investments in associates and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and a joint venture *(Continued)*

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

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

Business combinations and goodwill

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

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

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

Buildings	3.17%-4.75%
Leasehold improvements	Over the shorter end of lease terms and 10%
Machinery	8.6%-19.4%
Furniture and fixtures	19.0%-32.33%
Motor vehicles	19.0%-24.25%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

Know-how

Purchased know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over an estimated useful life of 10 years.

Computer software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over an estimated useful life of 10 years.

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and receivables

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

Available-for-sale financial investments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

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

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

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

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

Revenue recognition

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

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

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

(c) rental income, on a time proportion basis over the lease terms; and

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Pension scheme

In accordance with the rules and regulations in the PRC, the employees of the Group participate in a defined contribution pension scheme operated by the relevant municipal government in the PRC, the assets of which are held separately from those of the Group. The Group and the employees are required to make monthly contributions to this scheme calculated as a percentage of the employees' salaries which are charged to the statement of profit or loss as they become payable, in accordance with the rules of the central pension scheme. The employer contributions vest fully with the employees once made.

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currency of an overseas subsidiary is a currency other than RMB. As at the end of the reporting period, the assets and liabilities of the subsidiary are translated into RMB at the exchange rates prevailing at the end of the reporting period and its statement of profit or loss is translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15.

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Current tax

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2016 was RMB36,120,000 (2015: RMB33,743,000).

Research and development costs

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

Useful lives and residual values of property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Provision for impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of the customers and the current market condition and the provision is applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. Management reassesses the adequacy of provision on a regular basis. The identification of impairment of receivables requires the use of judgements and estimates. Where expectations are different from the original estimates, such differences will impact on the carrying values of receivables and the impairment of receivables recognised in the periods in which such estimates have been made.

Provision against obsolete and slow-moving inventories

Management reviews the condition of inventories of the Group and makes provision for obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period. The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the period in which such estimate has been made.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment: the in-vitro diagnostic reagent products segment, which manufactures, sells and distributes a variety of mono/double diagnostic reagent products.

Management monitors the operating results of the Group's business units as a whole for the purpose of making decisions about resources allocation and performance assessment. All of the Group's revenue from external customers and profits are generated from this single segment.

Geographical information

During the years ended 31 December 2016 and 2015, almost all of the Group's revenue was generated from customers located in Mainland China and all of the non-current assets of the Group were located in Mainland China.

Information about major customers

Revenue of approximately RMB46,710,000 (2015: RMB35,129,000) was derived from sales by the in-vitro diagnostic reagent products segment to a single customer, which amounted to more than 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2016 RMB'000	2015 RMB'000
Revenue			
Sale of in-vitro diagnostic reagent products		**325,388**	290,380
Other income			
Interest income from entrusted loans		**9,641**	217
Interest income from financing services		**3,214**	–
Government grants		**6,523**	5,805
Bank interest income		**972**	1,936
Service income		**59**	349
Interest income from available-for-sale investments		**35**	523
Others		**708**	996
		21,152	9,826
Gains			
Gain on disposal of items of property, plant and equipment, net		**57**	–
Gain on acquisition of subsidiaries	*34*	**43**	–
Gain on disposal of subsidiaries	*35*	**–**	2,988
Gain on disposal of a joint venture		**–**	1,156
		100	4,144
		21,252	13,970

6. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**182,106**	151,018
Employee benefit expense (including directors' and supervisors' remuneration (note 8)):			
Wages, salaries and bonuses		**42,709**	40,743
Pension scheme contributions*		**9,767**	4,458
Social welfare and other costs		**8,997**	8,407
		61,473	53,608
Research and development costs		**28,053**	22,689
Government grants released	*5*	**(6,523)**	(5,805)
(Gain)/Loss on disposal of items of property, plant and equipment, net		**(57)**	48
Minimum lease payments under operating leases in respect of land and buildings		**927**	3,140
Auditor's remuneration		**720**	700
Depreciation	*13*	**18,670**	19,373
Amortisation of prepaid land lease payments	*14*	**96**	101
Amortisation of other intangible assets	*16*	**312**	412
Impairment of other intangible assets	*16*	**–**	533
Impairment of trade and bills receivables	*23(a)*	**329**	56
Impairment of prepayments, deposits and other receivables		**729**	600
Impairment of inventories		**–**	446
Impairment of an investment in a joint venture	*17*	**12,218**	3,245
Loss/(Gain) on disposal of subsidiaries	*35*	**788**	(2,988)
Gain on disposal of a joint venture		**–**	(1,156)
Gain on acquisition of subsidiaries	*34*	**(43)**	–
Foreign exchange differences, net		**(98)**	(25)

* At 31 December 2016 and 2015, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank loans	**3,279**	159

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2016 RMB'000	2015 RMB'000
Fees	**238**	319
Other emoluments:		
Salaries, allowances and benefits in kind	**4,264**	4,832
Pension scheme contributions	**–**	–
	4,264	4,832
	4,502	5,151

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
Dr. Rao Yi[1]	**–**	25
Dr. Zheng Yongtang[2]	**60**	35
Dr. Hu Canwu Kevin	**60**	60
Mr. Wang Daixue	**60**	60
Mr. John Wong Yik Chung[3]	**–**	60
	180	240

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors *(Continued)*

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

1 Dr. Rao Yi resigned as an independent non-executive director on 23 March 2015.

2 Dr. Zheng Yongtang was appointed as an independent non-executive director on 23 March 2015.

3 Mr. John Wong Yik Chung resigned as an independent non-executive director on 2 December 2015.

(b) Executive directors, non-executive directors and supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Total remuneration RMB'000
2016			
Executive directors:			
Mr. Wu Lebin	–	1,077	1,077
Mr. Chen Jintian[1]	–	641	641
Mr. Zhang Haitao[2]	–	735	735
Dr. Xu Cunmao	–	661	661
	–	3,114	3,114
Non-executive directors:			
Dr. Bi Lijun	18	–	18
Mr. Hou Quanmin[3]	18	–	18
	36	–	36
Supervisors:			
Mr. Zhou Jie[4]	–	1,150	1,150
Ms. Yan Xiyun	11	–	11
Ms. Huang Aiyu	11	–	11
	22	1,150	1,172
	58	4,264	4,322

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(Continued)*

(b) Executive directors, non-executive directors and supervisors *(Continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Total remuneration RMB'000
2015			
Executive directors:			
Mr. Wu Lebin	–	2,176	2,176
Mr. Chen Jintian[1]	–	–	–
Mr. Zhang Haitao[2]	–	66	66
Dr. Xu Cunmao	–	572	572
Mr. Zhou Jie[4]	–	2,018	2,018
Dr. Wang Lin[5]	4	–	4
Mr. Hou Quanmin[3]	11	–	11
	15	4,832	4,847
Non-executive directors:			
Mr. Chen Jintian[1]	14	–	14
Dr. Bi Lijun	14	–	14
Mr. Hou Quanmin[3]	–	–	–
Mr. Wang Fugen[6]	14	–	14
	42	–	42
Supervisors:			
Mr. Zhou Jie[4]	–	–	–
Ms. Yan Xiyun	11	–	11
Ms. Huang Aiyu	11	–	11
	22	–	22
	79	4,832	4,911

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(Continued)*

(b) Executive directors, non-executive directors and supervisors *(Continued)*

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

[1] Mr. Chen Jintian was appointed as a non-executive director on 3 March 2015 and appointed as an executive director and the chief executive officer on 2 December 2015.

[2] Mr. Zhang Haitao was appointed as an executive director on 2 December 2015.

[3] Mr. Hou Quanmin resigned as an executive director and was appointed as a non-executive director on 2 December 2015.

[4] Mr. Zhou Jie was appointed as an executive director on 3 March 2015, resigned as an executive director and the chief executive officer on 2 December 2015 and appointed as a supervisor on 2 December 2015.

[5] Dr. Wang Lin resigned as an executive director on 28 May 2015.

[6] Mr. Wang Fugen resigned as a non-executive director on 2 December 2015.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors and one supervisor (2015: two directors and one supervisor), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2015: two) highest paid employee who is neither a director nor supervisor of the Company are as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries, allowances and benefits in kind	**710**	1,057
Pension scheme contributions	**46**	88
	756	1,145

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

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

10. INCOME TAX EXPENSE

Taxes on profits assessable in the PRC, where the Group operates, have been calculated at the rate of tax prevailing in the PRC. Under the PRC income tax laws, enterprises are subject to corporate income tax ("CIT") at a rate of 25%.

The Company and Zhongsheng Jinyu, a subsidiary of the Company, are subject to a preferential rate of 15% under the PRC income tax law for a period of three years commencing from 1 January 2015 as they are assessed by the relevant government authorities as High and New Technology Enterprises.

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits in Hong Kong during the year.

	2016	2015
	RMB'000	RMB'000
Current – the PRC	**4,138**	1,578
Deferred (note 29)	**841**	(301)
Total tax charge for the year	**4,979**	1,277

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Profit before tax	**21,615**		3,402	
Tax at the statutory tax rate	**5,403**	**25**	851	25
Preferential tax rate or concessions	**(2,073)**	**(10)**	(1,383)	(41)
Losses/(profits) attributable to a joint venture and associates	**(153)**	**(1)**	850	25
Tax incentives on eligible expenditures	**(2,101)**	**(10)**	(1,819)	(53)
Income not subject to tax	**(7)**	**–**	(621)	(18)
Expenses not deductible for tax	**2,436**	**11**	973	29
Tax losses utilised from previous periods	**(243)**	**(1)**	(35)	(1)
Tax losses not recognised	**1,717**	**8**	2,461	72
Tax charge at the Group's effective rate	**4,979**	**23**	1,277	38

There was no share of tax attributable to associates and a joint venture (2015: Nil).

11. DIVIDEND

	2016 RMB'000	2015 RMB'000
Proposed final dividend – RMB0.1 (2015: RMB0.1) per share	**14,471**	13,130

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 133,176,489 (2015: 131,303,671) in issue during the year.

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 both the years ended 31 December 2016 and 2015.

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

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations:	**15,980**	588

	Numbers of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**133,176,489**	131,303,671

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	45,140	16,322	112,976	6,539	7,171	397	188,545
Accumulated depreciation	(10,894)	(13,176)	(71,613)	(4,598)	(5,383)	–	(105,664)
Net carrying amount	34,246	3,146	41,363	1,941	1,788	397	82,881
At 1 January 2016, net of accumulated depreciation	34,246	3,146	41,363	1,941	1,788	397	82,881
Additions	–	12,675	22,753	882	1,803	82	38,195
Acquisition of subsidiaries *(note 34)*	–	–	28	34	–	–	62
Transfer	–	–	442	–	–	(442)	–
Disposals	–	–	(29)	(40)	(93)	–	(162)
Disposal of a subsidiary *(note 35)*	(3,020)	–	(347)	(6)	–	–	(3,373)
Depreciation provided during the year	(1,277)	(1,452)	(14,331)	(919)	(691)	–	(18,670)
At 31 December 2016, net of accumulated depreciation	29,949	14,369	49,879	1,892	2,807	37	98,933
At 31 December 2016:							
Cost	39,933	28,997	132,573	6,575	7,117	479	215,674
Accumulated depreciation	(9,984)	(14,628)	(82,694)	(4,683)	(4,310)	(442)	(116,741)
Net carrying amount	29,949	14,369	49,879	1,892	2,807	37	98,933

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

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 31 December 2014 and at 1 January 2015:							
Cost	45,140	16,322	98,590	6,429	7,851	–	174,332
Accumulated depreciation	(9,554)	(10,981)	(54,964)	(4,685)	(6,105)	–	(86,289)
Net carrying amount	35,586	5,341	43,626	1,744	1,746	–	88,043
At 1 January 2015, net of accumulated depreciation	35,586	5,341	43,626	1,744	1,746	–	88,043
Additions	–	–	12,680	975	898	397	14,950
Disposals	–	–	(216)	(42)	(56)	–	(314)
Disposal of a subsidiary *(note 35)*	–	–	(271)	(111)	(43)	–	(425)
Depreciation provided during the year	(1,340)	(2,195)	(14,456)	(625)	(757)	–	(19,373)
At 31 December 2015, net of accumulated depreciation	34,246	3,146	41,363	1,941	1,788	397	82,881
At 31 December 2015:							
Cost	45,140	16,322	112,976	6,539	7,171	397	188,545
Accumulated depreciation	(10,894)	(13,176)	(71,613)	(4,598)	(5,383)	–	(105,664)
Net carrying amount	34,246	3,146	41,363	1,941	1,788	397	82,881

At 31 December 2016, all the Group's buildings with a net carrying amount of approximately RMB29,949,000 were pledged to Bank of Beijing, for bank loans granted to the Company with a principal of RMB50,000,000 as at the end of the reporting period. The loans will be due in March 2017.

14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**3,335**	3,436
Amortisation during the year	**(96)**	(101)
Disposal of a subsidiary *(note 35)*	**(424)**	–
Carrying amount at 31 December	**2,815**	3,335
Current portion included in prepayments, deposits and other receivables	**(81)**	(105)
Non-current portion	**2,734**	3,230

At 31 December 2016, all of the Group's prepaid land lease payments with a net carrying amount of approximately RMB2,815,000 were pledged to Bank of Beijing, for bank loans granted to the Company with a principal of RMB50,000,000 as at the end of the reporting period. The loans will be due in March 2017.

15. GOODWILL

	RMB'000
At 1 January 2015, 31 December 2015 and 31 December 2016:	
Cost	309
Accumulated impairment	–
Net carrying amount	309

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating unit for impairment testing:

– Zhongsheng Jinyu;

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. No growth has been projected beyond the five-year period. The discount rate applied to the cash flow projections is 10% (2015: 11%).

Assumptions were used in the value in use calculation of the cash-generating unit for 31 December 2016 and 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

15. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant unit.

Expenses – The value assigned to the key assumptions reflects past experience and management's commitment to maintain its operating expenses to an acceptable level.

The values assigned to the key assumptions on market development of industrial products and infrastructure industries, discount rates and raw materials price inflation are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2016			
At 31 December 2015 and 1 January 2016:			
Cost	8,690	1,020	9,710
Impairment	(2,487)	–	(2,487)
Accumulated amortisation	(4,797)	(948)	(5,745)
Net carrying amount	1,406	72	1,478
Net carrying amount:			
At 1 January 2016	1,406	72	1,478
Purchases of other intangible assets	770	2,074	2,844
Amortisation provided during the year	(200)	(112)	(312)
At 31 December 2016	1,976	2,034	4,010
At 31 December 2016:			
Cost	8,268	2,182	10,450
Impairment	(5,082)	(148)	(5,230)
Accumulated amortisation	(1,210)	–	(1,210)
Net carrying amount	1,976	2,034	4,010

16. OTHER INTANGIBLE ASSETS *(Continued)*

	Know-how RMB'000	Computer software RMB'000	Total RMB'000
31 December 2015			
At 31 December 2014 and 1 January 2015:			
Cost	9,823	1,020	10,843
Impairment	(2,638)	–	(2,638)
Accumulated amortisation	(4,845)	(937)	(5,782)
Net carrying amount	2,340	83	2,423
Net carrying amount:			
At 1 January 2015	2,340	83	2,423
Impairment during the year	(533)	–	(533)
Amortisation provided during the year	(401)	(11)	(412)
At 31 December 2015	1,406	72	1,478
At 31 December 2015:			
Cost	8,690	1,020	9,710
Impairment	(2,487)	–	(2,487)
Accumulated amortisation	(4,797)	(948)	(5,745)
Net carrying amount	1,406	72	1,478

17. INVESTMENT IN A JOINT VENTURE

	2016 RMB'000	2015 RMB'000
Share of net assets	**11,181**	13,236
Goodwill on acquisition	**4,282**	4,282
	15,463	17,518
Provision for impairment	**(15,463)**	(3,245)
	–	14,273

Particulars of the Group's joint venture are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Suzhou Otian Medical Co., Ltd. (蘇州奧潤醫療科技有限公司)	Registered capital of RMB1 each	PRC/ Mainland China	35%	35%	35%	Production of scientific instruments

The above investment is directly held by the Company.

During the year of 2016, the joint venture has been dormant according to management's decision. Based on the status and forecast of the joint venture, the investment has been fully impaired by management.

17. INVESTMENT IN A JOINT VENTURE *(Continued)*

The following table illustrates the summarised financial information adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2016 RMB'000	2015 RMB'000
Share of the joint venture's assets and liabilities:		
Current assets	402	403
Non-current assets	12,409	13,930
Current liabilities	(1,630)	(1,097)
Non-current liabilities	–	–
Net assets	11,181	13,236
Share of the joint venture's results:		
Revenue	–	501
Other income	4	62
	4	563
Total expenses	(2,059)	(3,669)
Loss after tax	(2,055)	(3,106)

18. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	22,248	16,627

18. INVESTMENTS IN ASSOCIATES *(Continued)*

Particulars of the associates are as follows:

Name	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Zhongsheng Ke Wei Technology Co., Ltd. ("Ke Wei", formerly known as "Beijing Zhongsheng Ke Wei Medical Technology Co., Ltd.") (北京中生科維技術有限公司，原名為"北京中生科維醫療科技有限公司")	PRC/Mainland China	19.30%	Development, manufacture and distribution of clinical instruments
Mian Yang Hi-tech Industrial Park Zhongke Bioengineering Co., Ltd. ("Mian Yang Zhongke") (綿陽高新區中科生物工程有限公司)	PRC/Mainland China	29%	Manufacture and sales of enzyme and biological products
Beijing Zhonghe Baike Scientific Instrument and Technology Co., Ltd. ("Baike") (北京眾合百克科學儀器技術有限公司)	PRC/Mainland China	20%	Production of scientific instruments
Sinofn (Tianjin) Pharm-Tech Co., Ltd. ("Sinofn Tianjin") (中恩（天津）醫藥科技有限公司)	PRC/Mainland China	48.00%	Wholesale of prepackaged food

The Group has discontinued the recognition of its share of losses of Ke Wei and Baike because the share of losses of the associates exceeded the Group's investments in the associates. The total amounts of the Group's unrecognised share of losses of these associates for the current year and cumulatively were RMB135,000(2015: RMB135,000) and RMB2,141,000 (2015: RMB2,029,000), respectively.

The carrying amount of investments in associates as at 31 December 2016 are share of net assets in Mian Yang Zhongke and Sinofn Tianjin, which are the 2 cash-generating units for impairment testing. The recoverable amount of the respective cash-generating unit has been determined based on value in use calculation using cash flow projections from financial budgets covering a five-year period approved by senior management. No growth has been projected beyond the five-year period. The discount rate applied to the cash flow projections is 10%.

Key assumptions were used in the value in use calculation of respective cash-generating unit, including budgeted gross margins, expenses and discount rates. These key assumptions reflect past experience of the respective unit, benchmark analysis and the management's commitment to the operation.

18. INVESTMENTS IN ASSOCIATES *(Continued)*

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2016 **RMB'000**	2015 RMB'000
Share of the associates' profit/(loss) for the year	**3,075**	(2,562)
Share of the associates' total comprehensive profit/(loss)	**3,075**	(2,562)
Aggregate carrying amount of the Group's investments in the associates	**22,248**	16,627

19. AVAILABLE-FOR-SALE INVESTMENT

	2016 **RMB'000**	2015 RMB'000
Unlisted equity investment, at cost	**1,579**	529

20. LONG-TERM RECEIVABLES

	2016 **RMB'000**	2015 RMB'000
Receivables from instrument sales *(note 23)*	**1,907**	4,152

21. AVAILABLE-FOR-SALE INVESTMENTS

	2016 **RMB'000**	2015 RMB'000
Debt securities, at fair value	**–**	3,000

The debt securities of the year of 2015 were issued by a bank with fixed maturity dates and expected interest rates ranging from 1.5% to 4%, which has been due and received by the Company in July 2016.

22. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**25,666**	20,756
Work in progress	**3,387**	2,741
Semi-finished goods	**3,924**	4,459
Finished goods	**20,671**	13,889
	53,648	41,845

23. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**89,902**	91,083
Bills receivables	**8,601**	1,932
Impairment *(note (a))*	**(1,641)**	(1,012)
	96,862	92,003
Less: amount shown as non-current *(note 20)*	**(1,907)**	(4,152)
	94,955	87,851

Except for certain established customers of the Group which have been granted with payment terms ranging from two to four years in respect of certain sales of instruments, the credit periods of the Group granted to its customers generally range from 60 to 180 days. The Group closely monitors overdue balances, and impairment is made when it is considered that the amounts due may not be recovered. 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The trade receivables are non-interest bearing.

23. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2016	2015
	RMB'000	RMB'000
Within 3 months	**57,799**	60,972
4 to 6 months	**26,072**	19,309
7 to 12 months	**7,710**	7,247
1 to 2 years	**3,458**	2,248
Over 2 years	**1,823**	2,227
	96,862	92,003

Notes:

(a) The movements in the provision for impairment of trade and bills receivables are as follows:

	2016	2015
	RMB'000	RMB'000
At beginning of year	**1,012**	1,005
Impairment losses recognised	**329**	56
Impairment losses recognised from acquisition of subsidiaries	**305**	–
Amount written off as uncollectible	**(5)**	(49)
	1,641	1,012

Included in the above provisions for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,518,000(2015: RMB884,000) with a carrying amount before provision of RMB1,518,000 (2015: RMB884,000).

The individually impaired trade receivable as at 31 December 2016 relates to a customer that was in financial difficulty. The Group does not hold any collateral or other credit enhancements over this balance.

23. TRADE AND BILLS RECEIVABLES *(Continued)*

(b) The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 **RMB'000**	2015 RMB'000
Neither past due nor impaired	**89,580**	83,376
Less than 1 month past due	**3,734**	3,463
1 to 3 months past due	**1,641**	1,012
	94,955	87,851

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

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

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 **RMB'000**	2015 RMB'000
Prepayments	**19,793**	14,105
Deposits and other receivables	**19,408**	9,407
Loans receivable from financing services *(note (a))*	**156,700**	–
Entrusted loans *(note (b))*	**40,000**	30,000
Tax recoverable	**149**	1,950
Due from related companies *(note (c))*	**375**	173
	236,425	55,635

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

(a) The balance as at 31 December 2016 represented loans granted to independent third parties. The amounts are secured by properties of the guarantors, bear interest at 14.0% per annum and are repayable in 2017.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

(b) The balance RMB40,000,000 as at 31 December 2016 represented loans granted to independent third parties, through Shanghai Pudong Development Bank and Agricultural Bank of China (2015: RMB:30,000,000). The amounts are unsecured, bearing interest at 14.0% per annum and are repayable in 2017.

(c) The balance as at 31 December 2016 represented receivables due from Ke Wei, an associate of the Group, of RMB150,000 (2015: RMB150,000), Mian Yang Zhongke, an associate of the Group, of RMB187,000 (2015: Nil) and Suzhou Otian Medical Co., Ltd., a joint venture of the Group, of RMB38,000 (2015: RMB23,000).The amounts are unsecured, interest-free and have no fixed terms of repayment.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 **RMB'000**	2015 RMB'000
Cash and bank balances	**79,567**	45,068
Time deposits	**–**	25,000
	79,567	70,068
Less: Time deposits with maturity over three months	**–**	25,000
Cash and cash equivalents	**79,567**	45,068

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB72,514,000 (2015: RMB43,338,000), and the time deposits of the Group denominated in RMB amounted to nil (2015: RMB25,000,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between six and twelve months and earn interest at the applicable short– term time deposit rate. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE PAYABLES

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

	2016 **RMB'000**	2015 RMB'000
Within 3 months	**20,994**	25,933
4 to 6 months	**14,562**	4,043
7 to 12 months	**4,607**	90
1 to 2 years	**74**	1,678
Over 2 years	**270**	197
	40,507	31,941

The trade payables are non-interest bearing and are normally settled on credit terms ranging from 30 to 90 days.

27. OTHER PAYABLES AND ACCRUALS

	Notes	**2016** **RMB'000**	2015 RMB'000
Advances from customers		**2,661**	4,282
Salaries and welfare payables		**16,693**	9,638
Accrued expenses		**18,429**	19,189
Dividends payable to non-controlling shareholders		**–**	1,623
Other liabilities		**9,362**	4,318
Accrual interest payable		**154**	–
Other tax payable		**1,953**	2,639
Due to a shareholder	*(a)*	**1,500**	1,000
		50,752	42,689

Notes:

(a) The balance as at 31 December 2016 represented the amount due to the Institute of Biophysics ("IBP"), included in which was an accrued technical service fee of RMB1,500,000 (2015: RMB1,000,000) for the right to use technical know-how held by IBP. The Group did not have any payable (2015: Nil) to IBP for the expense paid on behalf of the Group. Further details of the technical service fee arrangements are set out in note 38 to the financial statements. The amount due to IBP is unsecured, interest-free and has no fixed terms of repayment.

28. INTEREST-BEARING BANK BORROWINGS

	2016		
	Effective interest rate (%)	**Maturity**	**RMB'000**
Current			
Bank loans, secured	**4.350**	**2017**	**50,000**
Bank loans, unsecured	**4.785**	**2017**	**61,017**
			111,017

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**111,017**	–

At 31 December 2016, all the Group's buildings and prepaid land lease payments with a net carrying amount of approximately RMB29,949,000 and RMB2,815,000 respectively were pledged to Bank of Beijing, for bank loans granted to the Company with a principal of RMB50,000,000 as at the end of the reporting period.

29. DEFERRED TAX

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

Deferred tax assets

	2016					
	Provision for bonus RMB'000	**Provision for sales rebate RMB'000**	**Provision for impairment of assets RMB'000**	**Tax Losses RMB'000**	**Others RMB'000**	**Total RMB'000**
At 1 January 2016	**142**	**402**	**460**	**–**	**155**	**1,159**
Deferred tax credited/(charged) to the statement of profit or loss during the year *(note 10)*	**(142)**	**(402)**	**151**	**480**	**107**	**194**
At 31 December 2016	**–**	**–**	**611**	**480**	**262**	**1,353**

	2015				
	Provision for bonus RMB'000	Provision for sales rebate RMB'000	Provision for impairment of assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	130	402	295	–	827
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	12	–	165	155	332
At 31 December 2015	142	402	460	155	1,159

29. DEFERRED TAX *(Continued)*

Deferred tax liabilities *(Continued)*

	2016		
	Depreciation of assets RMB'000	**Others RMB'000**	**Total RMB'000**
At 1 January 2016	**470**	**35**	**505**
Deferred tax charged to the statement of profit or loss during the year *(note 10)*	**1,035**	**–**	**1,035**
At 31 December 2016	**1,505**	**35**	**1,540**

	2015		
	Depreciation of assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	474	–	474
Deferred tax (credited)/charged to the statement of profit or loss during the year *(note 10)*	(4)	35	31
At 31 December 2015	470	35	505

The group has tax losses arising in Mainland China of RMB36,120,000 (2015: RMB33,743,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

30. DEFERRED INCOME

Various government grants have been received for setting up research and development activities and acquisition of required assets. Government grants received which related to assets or for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position and will be released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or when the related expenses have been incurred. There are no unfulfilled conditions or contingencies relating to these grants, except that they must be used for research and development activities or acquisition of the required assets.

31. SHARE CAPITAL

	2016 **RMB'000**	2015 RMB'000
Registered, issued and fully paid:		
80,421,033 (2015: 67,017,528) domestic shares of RMB1 each	**80,421**	67,018
64,286,143 (2015: 64,286,143) H shares of RMB1 each	**64,286**	64,286
	144,707	131,304

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK$'000
At 1 January 2015	**131,303,671**	131,304
At 31 December 2015 and 1 January 2016	**131,303,671**	131,304
Issue of shares *(Note (a))*	**13,403,505**	13,403
At 31 December 2016	**144,707,176**	144,707

Notes:

(a) In November 2016, the Company allotted and issued an aggregate of 13,403,505 Subscription Shares to the Subscribers at the Subscription Price of RMB2.40 per Subscription Share, resulting in the issue of 13,403,505 shares for a total cash consideration of RMB32,168,412.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 64 of the financial statements.

33. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2016	2015
Percentage of equity interest held by non-controlling interests:		
Zhongsheng Jinyu	**54.1%**	54.1%
Zhongke Fund	**49%**	–

	2016 **RMB'000**	2015 RMB'000
Profit for the year allocated to non-controlling interests:		
Zhongsheng Jinyu	**155**	2,473
Zhongke Fund	**958**	–
Increase of issued capital:		
Zhongsheng Jinyu	**–**	594
Dividends paid to non-controlling interests:		
Zhongsheng Jinyu	**–**	4,711
Accumulated balances of non-controlling interests at the reporting dates:		
Zhongsheng Jinyu	**18,390**	18,235
Zhongke Fund	**54,855**	–

33. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

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

2016	**Zhongsheng Jinyu RMB'000**	**Zhongke Fund RMB'000**
Revenue	**33,673**	**3,214**
Total expenses	**(33,386)**	**(1,258)**
Profit for the year	**287**	**1,956**
Total comprehensive income for the year	**287**	**1,956**
Current assets	**26,469**	**162,609**
Non-current assets	**14,949**	**–**
Current liabilities	**(7,424)**	**(50,660)**
Net cash flows used in operating activities	**(2,889)**	**6,774**
Net cash flows used in investing activities	**(15,689)**	**(156,700)**
Net cash flows (used in)/from financing activities	**(3,000)**	**93,900**
Net decrease in cash and cash equivalents	**(21,578)**	**(56,026)**

2015	Zhongsheng Jinyu RMB'000
Revenue	36,329
Total expenses	(31,757)
Profit for the year	4,572
Total comprehensive income for the year	4,572
Current assets	45,900
Non-current assets	2,573
Current liabilities	(14,766)
Net cash flows (used in)/from operating activities	6,057
Net cash flows used in investing activities	(2,064)
Net cash flows used in financing activities	(5,206)
Net decrease in cash and cash equivalents	(1,213)

34. BUSINESS COMBINATION

Biosino Lab used to be an associate of the Group with an equity interest of 42.22%. Pursuant to the mutual agreements with two other shareholders on 27 June 2016, the Company acquired an additional equity interest of 24.45% in total at zero consideration. After the completion of the transfer of the equity interest, the Company owned a 66.67% equity interest of Biosino Lab. Biosino Lab is engaged in the Medical science research.

On 6 September 2016, the Company acquired a 51% interest in Zhongke Fund by the injection of RMB56,100,000 in cash as paid-in capital of Zhongke Fund. Zhongke Fund is engaged in investment management, consultation in respect of non-securities business and equity investment management.

The aggregated fair values of the identifiable assets and liabilities of Biosino Lab and Zhongke Fund at the date of acquisition, which have no significant differences from their respective carrying amounts, are as follows:

	Notes	**2016** **RMB'000**
Property, plant and equipment	*13*	**62**
Trade receivables		**89**
Deposits and other receivables		**53,900**
Cash and cash equivalents		**56,160**
Trade payables		**(34)**
Other liabilities		**(8)**
		110,169
Non-controlling interests		**53,955**
Investment in an associate before step acquisition		**71**
Gain on acquisition of subsidiaries	*6*	**43**
Total consideration		**56,100**

An analysis of the cash and cash equivalents flows in respect of the acquisition of subsidiaries is as follows:

	2016 **RMB'000**
Cash consideration	**(56,100)**
Cash and bank balances acquired	**56,160**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**60**

Since the acquisition, the above-mentioned entities contributed RMB3,214,000 to the Group's revenue and RMB2,584,000 to the consolidated profit for the year ended 31 December 2016.

Had the combinations taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB328,602,000 and RMB8,510,000, respectively.

35. DISPOSAL OF A SUBSIDIARY

Pursuant to approval of board meeting resolution on 22 May 2016, an independent third party, Mianyang Meiyuan Biotechnology Co., Ltd., ("Mianyang Meiyuan"), injected cash of RMB1,000,000 as capital to Mianyang Zhongke to acquire an equity interest of 6.67%. At the same time, the Company transferred its shares of 17.67% to Mianyang Meiyuan for a cash consideration of RMB10,000. After the completion of the capital injection and transfer of shares, the Group's interest in Mian Yang Zhongke decreased from 50% to 29%. Mianyang Zhongke became an associate of the Group.

In 2015, the Company signed an agreement of equity transfer with two shareholders of Biosino-AgiAccu Bio-Technology Co., Ltd., pursuant to which the Company agreed to sell a 56.25% equity interest in Biosino-AgiAccu Bio-Technology Co., Ltd. to these two shareholders, which was satisfied by a cash consideration of RMB3,000,000. The disposal of Biosino-AgiAccu Bio-Technology Co., Ltd was completed in April 2015. The Company signed the agreement of equity transfer with a shareholder of Beijing Huamei Scientific Co., Ltd., pursuant to which the Company agreed to sell a 56.52% equity interest in Beijing Huamei Scientific Co., Ltd. to this shareholder, which was satisfied by a cash consideration of RMB3,200,000. The disposal of Beijing Huamei Scientific Co., Ltd. was completed in July 2015. In July 2015, the liquidation of Biosino DNA (Beijing) Technology Development Co., Ltd. was completed.

The carrying amounts of the assets and liabilities of a subsidiary disposed of as at the dates of disposal were as follows:

	Note	**2016** **RMB'000**	2015 RMB'000
Net assets disposed of:			
Property, plant and equipment		**3,373**	425
Prepaid land lease payment		**424**	–
Inventories		**1,865**	9,643
Trade receivables		**1,208**	7,642
Cash and cash equivalents		**1,250**	2,668
Prepayments, deposits and other receivables		**636**	5,242
Trade payables		**(23)**	(2,265)
Interest-bearing bank borrowing		**–**	(3,000)
Other payables and accruals		**(1,522)**	(14,632)
Deferred income		**(375)**	–
Non-controlling interests		**(3,418)**	(2,511)
		3,418	3,212
Fair value of the residual investment		**2,620**	–
(Loss)/gain on disposal of subsidiaries	*5*	**(788)**	2,988
Satisfied by:			
Cash		**10**	6,200

35. DISPOSAL OF A SUBSIDIARY *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary was as follows:

	2016	2015
	RMB'000	RMB'000
Cash consideration	**10**	6,200
Cash and cash equivalents disposed of	**(1,250)**	(2,668)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of a subsidiary	**(1,240)**	3,532

36. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2016	2015
	RMB'000	RMB'000
Guarantees given to a bank in connection with loans granted to an associate	**41,000**	50,000

As at 31 December 2016, the banking facilities guaranteed by the Group to Sinofn (Tianjin) Pharm-Tech Co., Ltd. were utilised to the extent of approximately RMB41,000,000 (2015: RMB50,000,000).

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

In the year of 2015, the Group leased its properties under operating lease arrangements. The terms of the leases generally also required the tenants to pay security deposits and provided for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year, inclusive	**–**	57

37. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases certain of its office properties, factory premises and warehouses under operating lease arrangements. Leases of the properties are negotiated for terms ranging from one to five years.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**3,592**	3,857
In the second to fifth years, inclusive	**21,897**	11,375
	25,489	15,232

38. COMMITMENTS

On 9 December 2004, the Company and its substantial shareholder, IBP, entered into an exclusive technology licensing agreement (the "Licensing Agreement") with regard to the production of diagnostic reagents by employing the technologies owned by IBP (the "Reagent Technologies"). Pursuant to the Licensing Agreement, the Company is required to pay a fee of RMB500,000 per annum to IBP for 20 years, commencing on the effective date of the Licensing Agreement. As at 31 December 2016, the technical service fees payable by the Group of RMB1,500,000 (31 December 2015: RMB1,000,000) were included in the amount due to a shareholder (note 27(a)).

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2016 **RMB'000**	2015 RMB'000
Rental paid to IBP*	**–**	300
Products sold to IBP*	**–**	1,151
Technical service fee paid to IBP* *(note 38)*	**500**	500

* The related party transactions also constitute connected transactions as defined in Chapter 20 of the Growth Enterprise Market Listing Rules.

In the opinion of the directors, these transactions were conducted on terms and conditions agreed between the Group and its related parties in the ordinary course of business of the Group.

(b) Outstanding balances with related parties are set out in notes 24 and 27 to the financial statements.

(c) Compensation of key management personnel of the Group

	2016 **RMB'000**	2015 RMB'000
Short-term employee benefits	**4,994**	6,175
Post-employment benefits	**196**	204
Total compensation paid to key management personnel	**5,190**	6,379

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016

Financial assets

	Loans and receivables RMB'000
Long-term receivables	1,907
Trade and bills receivables	94,955
Financial assets included in prepayments, deposits and other receivables	216,483
Cash and cash equivalents	79,567
	392,912

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Interest-bearing bank borrowings	111,017
Trade payables	40,507
Financial liabilities included in other payables and accruals	12,815
	164,339

40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2015

Financial assets

	Loans and receivable RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Long-term receivables	4,152	–	4,152
Available-for-sale investments	–	3,000	3,000
Trade and bills receivables	87,851	–	87,851
Financial assets included in prepayments, deposits and other receivables	39,580	–	39,580
Time deposits	25,000	–	25,000
Cash and cash equivalents	45,068	–	45,068
	201,651	3,000	204,651

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	31,941
Financial liabilities included in other payables and accruals	6,941
	38,882

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		**Fair values**	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Long-term receivables	**1,907**	4,152	**1,907**	4,152
Available-for-sale investments	**–**	3,000	**–**	3,000
	1,907	7,152	**1,907**	7,152

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries and an amount due to the ultimate holding company approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The policies and procedures for the fair value measurement of financial instruments are determined by the Group's finance department and are regularly reviewed by senior management.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of the long-term receivables has been calculated by discounting the expected future cash flows using rates currently available for an instrument on similar terms, credit risk and remaining maturity.

The fair value of the Group's available-for-sale investments as at 31 December 2016 was measured based on the discounted cash flow valuation model.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

There is no fair value measurement hierarchy of the Group's financial instruments in the year of 2016.

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	–	3,000	–	3,000

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, and liquidity risk. The board of directors reviews and agrees policies for managing each of these risk and they are summarised below:

Interest rate risk

In the opinion of the directors, the Group has no significant concentration of interest rate risk.

Foreign currency risk

The Group's businesses are mostly located in Mainland China and most transactions are conducted in RMB, except that the Group occasionally purchases equipment and some in-vitro diagnostic reagent products from overseas countries for resale in Mainland China and there are administrative expenses incurred by the Canadian subsidiary. A small amount of cash denominated in Hong Kong dollars ("HKD") is placed in bank accounts in Hong Kong for payments of miscellaneous expenses such as professional fees incurred in Hong Kong.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, time deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector. At the end of the reporting period, 49% (2015: 49%) of the Group's trade receivables were due from the Group's five largest customers. As the Group's major customers are public hospitals, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. As the Group's exposure is spread over a diversified portfolio of customers, there is no significant concentration of credit risk.

The Group performs ongoing credit evaluations of its customers' financial conditions. The allowance for doubtful debts is based upon a review of the expected collectability of all trade receivables.

The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Liquidity risk

The liquidity risk of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations and on its ability to obtain external financing to finance the working capital of the Group.

Financial liabilities of the Group included in current liabilities as at the end of the reporting period either had no fixed terms of repayment or were due for repayment within one year.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2016			
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**–**	**50,000**	**61,017**	**111,017**
Trade payables	**40,507**	**–**	**–**	**40,507**
Financial liabilities included in other payables and accruals	**–**	**12,815**	**–**	**12,815**
	40,507	**62,815**	**61,017**	**164,339**

	2015			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade payables	31,941	–	–	31,941
Financial liabilities included in other payables and accruals	–	6,941	–	6,941
	31,941	6,941	–	38,882

Capital management

The Group's objective for managing capital is to maintain a strong capital base to support the development of its business and maximise shareholders' value. The Group is not subject to any externally imposed capital requirements.

The Group has an annual capital plan which is prepared and approved by the board of directors with the objective of maintaining the optimal amount of capital and debt structure. The Group manages its own capital within the context of the approved annual capital plan, which determines the level of asset growth and the optimal amount and ratio of capital and debt required to support its planned business growth.

43. EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events taking place subsequent to 31 December 2016.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**80,807**	75,820
Prepaid land lease payments	**2,734**	2,820
Other intangible assets	**3,944**	1,400
Investments in subsidiaries	**134,731**	62,064
Investment in a joint venture	**2,055**	14,273
Investments in associates	**17,606**	16,627
Long-term receivables	**1,907**	4,152
Available-for-sale investments	**529**	529
Deferred tax assets	**791**	996
Total non-current assets	**245,104**	178,681
CURRENT ASSETS		
Inventories	**37,898**	27,978
Due from subsidiaries	**66,192**	11,638
Trade and bills receivables	**89,448**	81,307
Prepayments, deposits and other receivables	**67,339**	51,853
Cash and cash equivalents	**47,894**	25,621
Total current assets	**308,771**	198,397

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2016 RMB'000	2015 RMB'000
CURRENT LIABILITIES		
Due to subsidiaries	**10,774**	680
Trade payables	**32,552**	25,408
Other payables and accruals	**46,305**	33,042
Total current liabilities	**89,631**	59,130
NET CURRENT ASSETS	**219,140**	139,267
TOTAL ASSETS LESS CURRENT LIABILITIES	**464,244**	317,948
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**111,017**	–
Deferred income	**7,800**	6,501
Deferred tax liabilities	**1,465**	505
Total non-current liabilities	**120,282**	7,006
Net assets	**343,962**	310,942
EQUITY		
Issued capital	**144,707**	131,304
Reserves *(Note)*	**199,255**	179,638
Total equity	**343,962**	310,942

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Capital reserve	**Statutory reserve**	**Retained profits**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	62,180	36,304	106,133	204,617
Total comprehensive income for the year	–	–	(11,849)	(11,849)
Transfer to statutory reserve	–	790	(790)	–
Final 2014 dividend declared	–	–	(13,130)	(13,130)
At 31 December 2015	62,180	37,094	80,364	179,638
At 1 January 2016	62,180	37,094	80,364	179,638
Total comprehensive income for the year	–	–	14,441	14,441
Increase in issued capital	18,306	–	–	18,306
Transfer to statutory reserve	–	1,619	(1,619)	–
Final 2015 dividend declared	–	–	(13,130)	(13,130)
At 31 December 2016	80,486	38,713	80,056	199,255

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the current year's published audited financial statements and annual report for the year ended 31 December 2016, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Restated)
REVENUE	**325,388**	290,380	265,331	234,464	210,075
PROFIT BEFORE TAX	**21,615**	3,402	13,842	15,417	27,063
TAX	**(4,979)**	(1,277)	(3,703)	(4,404)	(6,355)
PROFIT FOR THE YEAR	**16,636**	2,125	10,139	11,013	20,708
ATTRIBUTABLE TO:					
Owners of the parent	**15,980**	588	8,485	9,132	17,242
Non-controlling interests	**656**	1,537	1,654	1,881	3,466
	16,636	2,125	10,139	11,013	20,708

ASSETS, LIABILITIES AND EQUITY

	31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**597,668**	383,037	381,623	377,472	374,108
TOTAL LIABILITIES	**(216,125)**	(86,912)	(67,858)	(60,360)	(53,063)
NET ASSETS	**381,543**	296,125	313,765	317,112	321,045
REPRESENTED BY:					
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE PARENT	**308,978**	274,753	287,302	291,938	295,757
NON-CONTROLLING INTERESTS	**72,565**	21,372	26,463	25,174	25,288
TOTAL EQUITY	**381,543**	296,125	313,765	317,112	321,045