2016 Annual Report

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

(Stock Code:867)

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling
Ms. SA Manlin

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung
Mr. HUANG Ming

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan
Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. HUANG Ming

Remuneration Committee Members

Mr. HUANG Ming (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)
Mr. LAM Kong
Mr. WU Chi Keung
Mr. HUANG Ming

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

China Merchants Bank, Shenzhen Branch
The Hongkong and Shanghai Banking Corporation Limited
Bank of China Macau Branch
Standard Chartered Bank (Hong Kong) Limited
Citibank (China) Co.,Ltd., Shenzhen Branch
Industrial and Commercial Bank of China, Shenzhen Branch

Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Headquarters

6/F and 8/F, Building A Tongfang Information Harbour
No.11 Langshan Road
Hi-tech Industrial Park North
Nanshan District
Shenzhen 518057
PRC

Principal Place of Business in Hong Kong

Unit 2106, 21/F
Island Place Tower
510 King's Road
North Point
Hong Kong

Branch Share Registrar in Hong Kong

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

867

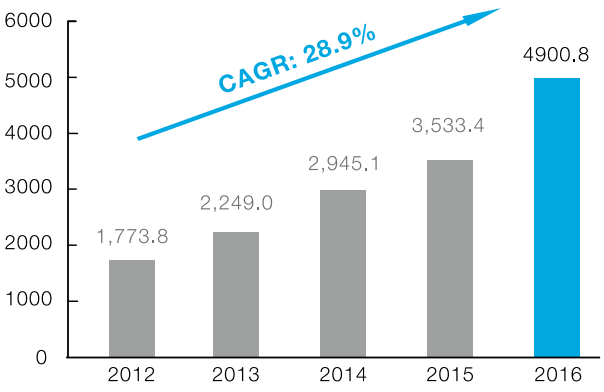
Company's Website

www.cms.net.cn

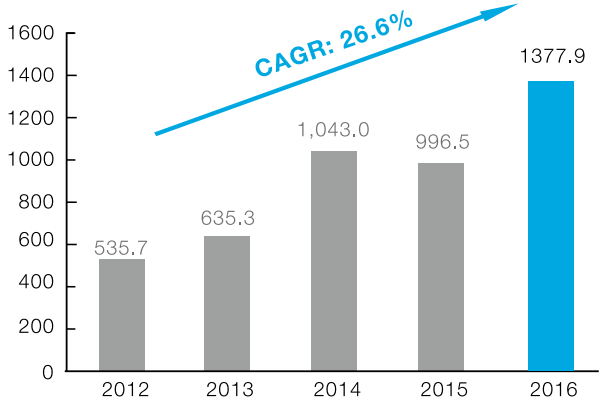
- Turnover up 37.9% to RMB4,900.8 million (2015: RMB3,553.4 million)
- Profit for the year up 38.3% to RMB1,377.9 million (2015: RMB996.5 million)
- Basic earnings per share up 37.0% to RMB0.5532 (2015: RMB0.4037)
- As at 31 December 2016, the Group's cash and bank deposits amounted to RMB482.5 million while readily realizable bank acceptance bills amounted to RMB423.6 million
- Proposed final dividend of RMB0.1164 per share, bringing the total dividend for the year ended 31 December 2016 to RMB0.2216 per share, representing an increase of 38.2% from last year (2015: final dividend of RMB0.0809 and total dividend of RMB0.1603 per share respectively)

Turnover and profit of the Group for the latest five years are set out below:

Turnover(RMB million)



Profit for the period(RMB million)



Consolidated Balance Sheet Highlights

	As at 31 December				
	2012	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	3,523,207	3,917,623	4,905,281	6,397,583	9,791,593
Total liabilities	641,170	641,036	914,442	1,045,115	3,523,769
Net assets	2,882,037	3,276,587	3,990,839	5,352,468	6,267,824

CHAIRMAN'S STATEMENT

Dear shareholders,

This is the sixth year since China Medical System Holdings Limited (the "Company" or "CMS") listed on the Main Board of the Hong Kong Exchanges and Clearing Limited ("HKEx"). On behalf of the Board of Directors of the Company, I would like to sincerely thank all of our shareholders for their unwavering support in the past years, and to present the Annual Report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 (the "Reporting Period").

Forge ahead with sustainable development

2016 was a critical year for China's economic transformation. The healthcare and pharmaceutical industry, as one of the pillar industries of China's national economy, bore the pains of momentum conversion and structural adjustment. The industry regulatory authorities issued a string of policies and regulations, strictly controlling the drug quality and reshaping the industry landscape. This may well intensify the reshuffling in the industry. In addition, the State issued a number of policies and guidances to further reduce the drug prices, which led to the prediction that the drug price decline would be the future trend. In the face of the industry's "winter period", the Group, on the one hand, pooled its strength and solidified its foundation, calmly coping with the changes brought about by reform. On the other hand, seizing the opportunity to grow steadily, the Group has continued to search and acquire quality products from the domestic and international market, for enlarging its product portfolio and solidifying the foundation of the Group's sustainable and healthy future development. In 2016, with the relentless efforts of staff of CMS and full support of partners from all fields during the year, the Group again presented outstanding annual results.

Cultivation and Innovation

Through many years of exploration and practice, the Group has developed an experienced, nimble professional product development team. On the back of its international perspective, its high standards of selection criteria and its deep understanding of the local market, the Group has obtained the Chinese assets and market's rights of several quality products through assets purchases and equity investments, continuing to deepen the strategic transformation of product introductions. The Group has established a multi-level product introduction system to ensure the future supply of adequate and competitive products to the market at all stages. CMS not only has a unique ability to select quality products, it is also able to tap the academic advantages and potential of products and to formulate a promotion strategy according to the local market needs. In 2016, with the introduction of Plendil and Imdur, the numbers of the Group's key products were expanded to nineteen, and the indication fields of products basically covered the major departments of Class Three Grade A hospitals (三甲醫院) in China. We believe that our diversified product portfolio with clear therapeutic efficacy and significant market potential is more adaptive to withstand the risks caused by the changes of policies, ensuring the Group's thriving development in adversity.

As a local growth enterprise, having concentrated for over 20 years on the China market, the Group has a mature and professional promotional network covering all of China. The Group continues to focus on the operation of direct academic promotion network in addition to actively developing its agency network. It constantly adjusts and strengthens its promotion structure and system for innovation, expanding its market coverage in breadth and depth. We believe that the future competition will revolve around sales and marketing models. Based on the characteristics of products, the Group is also actively exploring the sales and marketing methods for multi-channel networks, such as retailing. In the mean time, the Group never stops making breakthroughs in terms of its promotion methods, developing forward-looking strategies and combining the traditional pharmaceuticals marketing with internet thinking, to construct a more convenient, efficient and intuitive new media academic promotion platform with the support of its in-house developed powerful information system. We always firmly believe that this type of professional academic-oriented promotion model with continuous pursuing innovation can best accommodate both the current reforms and future trends.

The Group has consistently emphasized internal fine management, believing that the enhancement of internal management is one of the important approaches to achieve sustainable performance growth. We continuously adjust and optimize our internal management structure according to the market situation and trend. We closely follow the pace of reform in the industry and reinforce the construction of organizational power from headquarters to the region, breaking through or reconstructing key business links processes, for walking the precise, quality and effective oriented development path. This is to ensure the Group can offset the changes of the internal and external environment with regard to operational, financial and risk management, and is in a better position to adapt and cope.

Looking forward, we will continue to adhere our two development strategies: persist to introduce and develop products, and continue to expand the marketing and promotion network, in order to drive the solid and sustainable growth of the Group, creating more value for employees, societies and shareholders.

Chairman
Lam Kong
Shenzhen, China
23 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company is pleased to announce that for the year ended 31 December 2016 (the "Reporting Period"), the Group recorded turnover of RMB4,900.8 million (2015: RMB3,553.4 million), representing an increase of 37.9% over the same period last year. Profit reached RMB1,377.9 million (2015: RMB996.5 million), up 38.3% over the same period last year. Basic earnings per share were RMB0.5532 (2015: RMB0.4037), representing an increase of 37.0% over the same period last year.

In 2016, the supervisory department of the industry continued to update and issue multiple policies related to cost control in medical insurance, tendering and price cuts, second price negotiations, consistency in evaluations of generics, two-invoice system, adjustment of National Reimbursement Drug List ("NRDL"), as well as self-examination and inspection of clinical trial data of drugs. This further advanced the Chinese healthcare and pharmaceutical industry to a competition pattern focusing on the academic value, quality and efficiency, boosting the survival of the fittest in the industry. Facing the accelerating atmosphere of the industry's reform, the Group achieved satisfactory rapid-growth during the Reporting Period. This was on account of the Group's continuous introduction of new products, quality and diverse product portfolio, well-cultivated and professional academic promotional networks, and effective operational management system.

Product Introduction and Development

1. Product Introduction

The products serve a solid foundation for the Group's development. The Group has high product selection criteria as well as a professional evaluation system, selecting and purchasing quality products from the global market with good efficacy and high academic value. The group has established a multilevel (the short-term, mid-term and long-term) new product introduction system. Short-term, directly-launched products refer to overseas products for which Import Drug Licenses ("IDL") have been obtained in China, and domestic products which have been granted production license approvals. These products can be sold immediately after introduction. The mid-term pipeline products refer to the products that have launched in overseas markets but have yet to gain IDL in China. Long-term pipeline products refer to innovative drug candidates at late stages of development. The multilevel product introduction strategy can ensure that the Group has a sufficient and constant supply of products to launch into the markets at any stage, and strongly supports its sustainable long-term growth.

The Group's preferred method of introducing products is to control the product's rights. For the rights control of domestic products, the Group introduces new products mainly through equity investment in domestic manufacturers; for the rights control of overseas products, the Group prefers to introduce new products through purchasing their assets related to the Chinese market or their long-term exclusive sales rights. This "rights control" introduction model ensures steady control over product rights while generating higher profits for the Group in the mid-term and long-term.

During the Reporting Period, the Company entered into an exclusive license agreement with AstraZeneca AB, acquiring a 20-year exclusive license for the commercialization of Plendil in the People's Republic of China ("PRC"), excluding the Hong Kong Special Administrative Region ("Hong Kong SAR"), the Macau Special Administrative Region ("Macau SAR") and Taiwan. The wholly-owned subsidiary of Tibet Rhodiola Pharmaceutical Holdings Co., Ltd. ("Tibet Pharmaceutical", an associate company of the Group) entered into an asset purchase agreement with AstraZeneca AB. Pursuant to the agreement, Tibet Pharmaceutical agreed to purchase Imdur's global market assets (US market excluded). Key information is listed below:

1.1 Added product that can be directly launched to the market via acquiring the 20-year exclusive license for the commercialization of the product

On 26 February 2016 (London time), the Company entered into an exclusive license agreement with AstraZeneca AB, pursuant to which AstraZeneca AB grants an exclusive license to the Company for the commercialization of Plendil (Felodipine Sustained Release Tablet) in the PRC (excluding Hong Kong SAR, Macau SAR and Taiwan). The term of the exclusive license agreement is 20 years and it shall be automatically renewed for another 5 years subject to the terms in the agreement. The current large market size of Plendil can strengthen the Group's capability in the field of cardiovascular and cerebral vascular and help the Group obtaining continued growth of its business.

1.2 Added product that can be directly launched to the market via acquiring the global market assets by the Group's associate company Tibet Pharmaceutical

On 26 February 2016 (London time), a wholly-owned subsidiary of Tibet Pharmaceutical entered into an asset purchase agreement with AstraZeneca AB ("Asset Purchase Agreement"). Pursuant to the agreement, Tibet Pharmaceutical acquires global assets (US market excluded) of Imdur (Isosorbide Mononitrate Sustained Release Tablet), including the trade marks, the know-how used exclusively for the manufacture of the product, the goodwill, the product records and the legal rights and interests in the relevant regulatory approvals ("Imdur Assets"). At the shareholders meeting of Tibet Pharmaceutical held on 27 April 2016, a resolution was passed to approve the transactions contemplated under the asset purchase agreement. Completion of the sale and purchase of the Imdur assets between a wholly-owned subsidiary of Tibet Pharmaceutical and AstraZeneca AB took place on 1 May 2016. Tibet Pharmaceutical also approved the appointment of the Group to promote Imdur in the PRC (excluding Hong Kong SAR, and Macau SAR and Taiwan) on an exclusive basis.

Before the above mentioned two products were added to the Group's portfolio, they had gained a certain market scale and brand recognition in China, so they could be directly launched into the market to contribute to the Group's revenue. The newly added products will also enrich the portfolio of the cardiovascular and cerebral vascular product line under the direct academic promotion network (the "direct network") of the Group, while further enhancing the promotional synergies.

2. Existing Product Development

2.1 Main Products under the Direct Network

During the Reporting Period, the Group continued to focus on academic promotion, insisted on exploiting and supplementing the differentiated academic characteristics of each product, and formulated promotion strategies conforming to the Chinese local market. The Group also extended its market coverage while enhancing the output from the markets it covered, through deeply solidifying expert network of products and refining the market layout.

Plendil (Felodipine Sustained Release Tablet)

Plendil is the Company's newly introduced product under the Direct Network via granting a 20-year exclusive license for the commercialization in the PRC (excluding Hong Kong SAR, Macau SAR and Taiwan) during the Reporting Period. Plendil is an original product manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限公司), and Plendil is used to treat hypertension and stable angina pectoris, and is on the NRDL. Felodipine is a commonly used calcium channel blocker to treat hypertension, this class of medicine is recommended by the Chinese Guidelines for the Management of Hypertension. Plendil is the sustained release formulation of Felodipine, which controls the blood pressure smoothly with clear efficacy and low rates of instances of side effects. During the Reporting Period, Plendil recorded sales of RMB935.0 million, accounting for 19.1% of the Group's turnover.

In 2016, the Group completed the market handover of the product and started the promotion work. The Group inculcated the core academic promotion information of the product by cooperating with academic platforms. Meanwhile, the Group utilized the Group's resources efficiently to strengthen the construction of an expert network. As at 31 December 2016, sales of Plendil covered around 20,000 hospitals throughout China.

Deanxit (Flupentixol and Melitracen)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used in the treatment of mild to moderate depression and anxiety and is on the NRDL. Based on IMS data in 2016, Deanxit is the most prescribed antidepressant drug in China. During the Reporting Period, Deanxit recorded sales of RMB917.9 million, an increase of 1.5% compared with the same period last year, accounting for 18.7% of the Group's turnover.

The Group continued to dig into the academic advantages of the product, and further reinforced its brand image with product's efficacy and quality. The Group also expanded advanced expert networks through hosting and participating in academic conferences at various academic levels and multi-departments. The Group further enhanced its contribution from existing markets while exploiting new markets for the product. As at 31 December 2016, sales of Deanxit covered over 18,000 hospitals throughout China.

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis and is on the NRDL. Based on IMS data in 2016, Ursofalk is the best-selling ursodeoxycholic acid drug in China, and ranked first in sales among digestive products in the Chinese cholagogue market. During the Reporting Period, Ursofalk recorded sales of RMB771.9 million, an increase of 16.7% compared with the same period last year, accounting for 15.8% of the Group's turnover.

The Group continued the differentiated academic promotion strategies, and extensively developed brand education activities through leading and participating plenty of domestic and overseas advanced academic conferences. Furthermore, the Group cooperated with major medical institutions, in order to enhance the domestic treatment level for related diseases. As at 31 December 2016, sales of Ursofalk covered around 8,000 hospitals throughout China.

XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")

XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Pharmaceutical in which the Group holds a 26.61% stake, XinHuoSu is a National Class One biological agent used to treat acute heart failure, and also is the only Recombinant Human Brain Natriuretic Peptide ("rhBNP") currently on the Chinese market. It is recommended by the first "Acute Heart Failure Diagnosis and Treatment Guideline" in China, and has gradually become the standard medication for treating acute heart failure. During the Reporting Period, XinHuoSu recorded sales of RMB537.4 million, an increase of 25.2% compared with the same period last year, accounting for 11.0% of the Group's turnover.

Continuing with the academic-oriented promotion model, the Group extensively carried out related academic education conferences, and established a multi-level academic expert network. Meanwhile, the Group continued to enhance the development efforts at the core hospitals. As at 31 December 2016, sales of XinHuoSu covered around 1,800 hospitals throughout China.

Salofalk (Mesalazine)

Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany and its entrusted manufacturers, is mainly used to treat Ulcerative Colitis and Crohn's disease. It is on the NRDL, and is the Mesalazine with the widest dosage forms in China, including coated tablets, suppositories and enemas. During the Reporting Period, Salofalk recorded sales of RMB220.9 million, an increase of 20.7% compared with the same period last year, accounting for 4.5% of the Group's turnover.

During the Reporting Period, the Group strengthened the education work on doctors and patients through domestic and overseas multi-level academic conferences, and expanded the brand influence of Salofalk. As at 31 December 2016, sales of Salofalk covered around 3,600 hospitals throughout China.

Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-drops)
The Group owns Augentropfen Stulln Mono Eye-drops' related assets for the China (including Hong Kong SAR and Macau SAR) market, and has entrusted the manufacture to Pharma Stulln GmbH of Germany. Augentropfen Stulln Mono Eye-drops is used to treat age-related macular degeneration and all forms of ocular asthenopia, and is the only eye-drops product approved by the China Food and Drug Administration (CFDA) for the treatment of macular degeneration, and it is preservative-free. During the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of RMB181.1 million, an increase of 13.8% compared with the same period last year, accounting for 3.7% of the Group's turnover.

The Group improved the expert network, solidified the brand image in the treatment area of ocular fundus disease, and reinforced the status in the treatment direction of ocular asthenopia by participating a variety of conferences on ophthalmology and collaborating several projects. As at 31 December 2016, sales of Augentropfen Stulln Mono Eye-drops covered over 6,000 hospitals throughout China.

Bioflor (Saccharomyces Boulardii)
Bioflor, manufactured by Biocodex of France, is a probiotics agent used to treat diarrhea for both adults and children, as well as diarrhea symptoms caused by the disturbance of intestinal flora. Bioflor is the probiotics agent with the most adequate evidence base to treat acute gastroenteritis for children, and also is the only Saccharomyces Boulardii currently in the Chinese market. The newest publication of 2016 "The Clinical Practice Guidelines of Chinese Children with Acute Infectious Diarrhea" gave Bioflor the highest level of recommendations. During the Reporting Period, Bioflor recorded sales of RMB176.2 million, an increase of 3.6% compared with the same period last year, accounting for 3.6% of the Group's turnover.

During the Reporting Period, the Group analyzed expert recommended guidelines and carried out a variety of academic conferences to strengthen the status of Bioflor in terms of having adequate evidence on the treatment of diarrhea for children and prevention of antibiotics related diarrhea. Meanwhile, the Group enhanced the therapeutic department's layout, and strengthened the development efforts of new markets. As at 31 December 2016, sales of Bioflor covered around 2,500 hospitals throughout China.

DanShenTong Capsule
DanShenTong capsule is owned and manufactured by Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Hebei Xili") in which the Group holds more than 50% shares, and is on the NRDL. DanShenTong capsule is a plant-based and multi-functional antibiotic (broad spectrum) with explicit molecular structure; the major functions of the product are antisepsis and anti-inflammation. The drug is mainly used for the treatment of acne, tonsillitis, otitis externa, boils, carbuncles, traumatic infection, burn infection, mastitis, cellulitis, osteomyelitis, etc. During the Reporting Period, DanShenTong capsule recorded sales of RMB147.9 million, an increase of 24.3% compared with the same period last year, accounting for 3.0% of the Group's turnover.

During the Reporting Period, the Group further systemized and clarified the promotion strategies and direction of DanShenTong capsule by relying on the construction of promotion platform with large-scale activities and issuance of academic promotional guidelines. As at 31 December 2016, sales of DanShenTong capsule covered over 3,500 hospitals throughout China.

NuoDiKang Capsule

NuoDiKang capsule is manufactured by Sichuan NuoDiKangWeiGuang Pharmaceutical Co., Ltd., a subsidiary of Tibet Pharmaceutical, in which the Group holds a 26.61% share. The product is included on the National Essential Drug List ("EDL") and NRDL, and is listed as a Traditional Chinese Medicinal Protection Product. The main functions of the product are boosting vital energy, activating blood circulation, freeing blood vessels and alleviating pain. It is used for chest impediments caused by a deficiency in vital energy and blood stasis, manifested as tightness in the chest, tingling or pain, palpitations, shortness of breath, lassitude, asthenic breathing, disinclination to talk, dizziness, coronary heart disease and angina with aforementioned symptoms. During the Reporting Period, NuoDiKang capsule recorded sales of RMB122.0 million, an increase of 48.8% compared with the same period last year, accounting for 2.5% of the Group's turnover.

The Group actively participated in academic conferences hosted by medical association and association of physicians etc. and strongly promoted the core academic value of NuoDiKang capsule with the support of the Group's well established network and brand image in cardiovascular field. As at 31 December 2016, sales of NuoDiKang capsule covered over 3,600 hospitals throughout China.

Hirudoid (Mucopolysaccharido Polysulfate Cream)

The Group owns Hirudoid's related assets for the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market, and the product is manufactured by Mobilat Produktions GmbH (Germany). The active ingredient of Hirudoid is mucopolysaccharide polysulfate, the drug is used for the treatment of blunt trauma with formed or unformed hematoma, and superficial phlebitis which cannot be cured by pressing therapy. Hirudoid has broad indication with high quality, efficacy and safety. During the Reporting Period, Hirudoid recorded sales of RMB102.7 million, an increase of 80.2% compared with the same period last year, accounting for 2.1% of the Group's turnover.

The Group strengthened the construction on brand and expert network of Hirudoid, and deepened academic reengineering works by collaborating in scientific research and clinical project with association. The Group further improved the market layout with the support of the Group's fully covered academic network. As at 31 December 2016, sales of Hirudoid covered over 5,300 hospitals throughout China.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablet)

The Group owns Combizym's related assets for the China (including Hong Kong SAR, Macau SAR and Taiwan) market and other designated countries or areas. Combizym is manufactured by Nordmark Arzneimittel GmbH & Co. KG (Germany). The main ingredients of Combizym are pancreatin and aspergillus oryzae enzymes, which is used for the treatment of dyspepsia caused by decreases in digestive enzymes. Combizym is included on the NRDL. During the Reporting Period, Combizym recorded sales of RMB52.8 million, an increase of 104.1% compared with the same period last year, accounting for 1.1% of the Group's turnover.

During the Reporting Period, the Group continued to promote the concept of the clinical application of digestive enzymes, and reinforced market development efforts with the support of the Group's well-established expert network in digestive department. As at 31 December 2016, sales of Combizym covered over 1,000 hospitals throughout China.

GanFuLe Tablet

GanFuLe tablet, the Group's self-owned product, is used for the treatment of primary liver cancer, cirrhosis and liver fibrosis. GanFuLe tablet has been in clinical use for two decades, and is included on the NRDL. During the Reporting Period, due to the solid preparation workshop of Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), a wholly-owned subsidiary of Group, was reconstructing according to the China's new GMP, the Group has entrusted the manufacture to Sichuan NuoDiKangWeiGuang Pharmaceutical Co., Ltd., a subsidiary of Tibet Pharmaceutical. The manufacture of GanFuLe tablet would be transferred to Kangzhe Hunan after obtaining the certification of new GMP. During the Reporting Period, GanFuLe recorded sales of RMB47.8 million, a decrease of 24.2% compared with the same period last year, accounting for 1.0% of the Group's turnover.

During the Reporting Period, the Group continued to solidify brand image, expanded the promotion of indications of liver cancer, and reinforced the doctor's recognition of product by operating a variety of academic promotion activities. As at 31 December 2016, sales of GanFuLe tablet covered around 700 hospitals throughout China.

Parlodel® Tablet (Bromocriptine Mesilate)

The Group owns Parlodel® Tablet's related assets for the China (including Hong Kong SAR and Taiwan) market, and has entrusted the manufacture to Novartis Farma S.P.A. in Italy. The active ingredient of Parlodel® tablet is bromocriptine mesilate. It is an original product, and is included on the NRDL. One of the product indications is for the treatment of hyperprolactinemia (HPRL), and is a standard first-line treatment product for HPRL as recommended by guidelines. Parlodel® tablet has obtained authorization of co-marketing, and the transfer of its IDL in China has been accomplished in January 2016. During the Reporting Period, Parlodel® tablet recorded sales of RMB21.4 million, accounting for 0.4% of the Group's turnover. As at 31 December 2016, sales of Parlodel® covered around 900 hospitals throughout China.

Imdur (Isosorbide Mononitrate Sustained Release Tablet)

Imdur, a newly introduced product that can be directly launched into the market under the Direct Network via acquiring its global assets (US market excluded) by the Group's associate company Tibet Pharmaceutical during the Reporting Period. The Group is responsible for Imdur's promotion in the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market. Imdur is a long-acting, oral nitrate preparation for long-term treatment of coronary artery disease and prophylactic angina pectoris. It is temporarily manufactured by AstraZeneca Pharmaceutical Co., Ltd. Nitrates hold a very important position and key advantages in the treatment of cardiovascular diseases. This class of medicine is cited or recommended as a first-line anti ischemic agent by some Chinese and international guidelines for cardiovascular diseases. Isosorbide mononitrate has the largest market share among nitrates. Imdur uses the Durules sustained release technology of AstraZeneca and is suitable for long-term anti ischemic treatment. In China, Imdur has wide clinical use and high recognition among both doctors and patients. It is a NRDL product and listed in local EDL in some areas. It is one of the indispensably important drugs for anti-ischemic treatment of coronary artery disease. During the Reporting Period, Imdur recorded promotional service revenues of RMB20.4 million, accounting for 0.4% of the Group's turnover.

In May 2016, the Group started the handover of the China market and actively conducted the promotion activities. The Group rebuilt the first-brand position of oral nitrates by strengthening standardized usage concept of nitrates and establishing various expert network and platform. As at 31 December 2016, sales of Imdur covered around 5,500 hospitals throughout China.

Lamisil® Tablet (Terbinafine Hydrochloride)

The Group owns Lamisil® Tablet's related assets for the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market, and the product is manufactured by Beijing Novartis Pharma Ltd. The active ingredient of Lamisil® tablet is terbinafine hydrochloride. The drug is an original product, and is included on the NRDL. It is used to treat fungal infections on skin and hair caused by dermatophytes such as trichophyton, microsporumcanis and epidermophyton floccosum, as well as onychomycosis due to infection with dermatophyte (Hyphomycetes). Oral terbinafine is one of the systemic antifungal agents recommended by Chinese guidelines on tinea corporis and tinea cruris, tinea pedis, tinea capitis and onychomycosis. The Group is processing the transfer of the Drug Production License for Lamisil® tablet. The production of Lamisil® tablet will be transferred to Kangzhe Hunan after the properties transfer is done. The promotion and sales work for Lamisil® tablet has been handled by Novartis, and Novartis has settled profit to the Group based on an agreement during the license transformation period. During the Reporting Period, the Group received Lamisil® tablet's settled profits revenues of RMB8.9 million, accounting for 0.2% of the Group's turnover.

MOVICOL® (Macrogol Sodium Potassium Powder)

The Group owns MOVICOL®'s related assets for the China (including Hong Kong SAR and Macao SAR) market, and has entrusted the manufacture to British Norgine B.V. The active ingredients of MOVICOL® are macrogol 3350, sodium bicarbonate, sodium chloride and potassium chloride. The drug is used for the treatment of chronic constipation and faecal impaction. As a well-known brand for the indications, it has been sold in Europe for many years, and has a broad target market in China. The IDL for MOVICOL® is ready, but the product had yet to be sold in the China market before. During the Reporting Period, the Group started the relevant promotion work for MOVICOL® in the China market, such as tendering and market development, and the product produced a small amount of sales revenue.

2.2 Products under the Agency Promotion Network ("Agency Network")

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

XiDaKang, the Group's self-owned product, is the only protein hydrolysate enteral nutrition agent approved by CFDA, and is sold in the form of an oral solution and granules. XiDaKang is manufactured by Kangzhe Hunan. Since the Group made adjustments from the original agency model to the hospital-based commission model for XiDaKang, and achieving mutually beneficial long-term partnerships with agents since the second half of 2014, the new model has been gradually enhanced. During the Reporting Period, the Group concentrated on breaking into new markets, accelerated the speed of market development, and intensifying the academic promotion investment as well as constructed the expert resource network. During the Reporting Period, XiDaKang recorded sales of RMB217.6 million, an increase of 50.1% compared with the same period last year, accounting for 4.4% of the Group's turnover.

YiNuoShu (Ambroxol Hydrochloride for Injection)

The Group owns YiNuoShu's product controlling rights. The Group mainly entrusted the manufacture to TIPR Pharmaceutical Responsible Co., Ltd. ("TIPR Pharmaceutical") and the production is also subcontracted to Kangzhe Hunan by TIPR Pharmaceutical. YiNuoShu is the first generic version of an ambroxol hydrochloride injection in China, and it is an expectorant product used for respiratory diseases, and is included on the NRDL. During the Reporting Period, the Group continued to refine the agent recruitment, actively penetrated to the rural markets. However, due to the effects caused by the overall healthcare and pharmaceutical policy environment, during the Reporting Period, YiNuoShu recorded sales of RMB137.5 million, a decrease of 4.9% compared with the same period last year, accounting for 2.8% of the Group's turnover.

YinLianQingGanKeLi

The Group owns the 20-year exclusive sales rights of YinLianQingGanKeLi in China market. The product, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is an exclusive TCM product that has been awarded a National New Drug Certificate. It is mainly used to treat various acute and chronic forms of hepatitis, alcoholic liver, and fatty liver. It is included on the NRDL. During the Reporting Period, the Group continued to intensify market coverage and to optimize merchandise choice, to strengthen the development effort in the secondary market and specialized hospitals. However, as the market base of this product is relatively weak, and influenced by the overall healthcare and pharmaceutical policy environment, during the Reporting Period, YinLianQingGanKeLi recorded sales of RMB3.7 million, a decrease of 1.4% compared with the same period last year, accounting for 0.1% of the Group's turnover.

Methods of introduction and weight of sales for main products are as follows:

Introduction	**Products**	**As a Percentage of the Group's Revenue(%)**
Rights Control	Plendil	19.1
	XinHuoSu	11.0
	XiDaKang	4.4
	Stulln	3.7
	DanShenTong	3.0
	YiNuoShu	2.8
	NuoDiKang	2.5
	Hirudoid	2.1
	Combizym	1.1
	Ganfule	1.0
	Parlodel	0.4
	Imdur	0.4
	Lamisil	0.2
	YinLianQingGan	0.1
	MOVICOL	0.0
	Subtotal	**51.8**
Exclusive Agency Contract	Deanxit	18.7
	Ursofalk	15.8
	Salofalk	4.5
	Bioflor	3.6
	Subtotal	**42.6**

2.3 Other Products

Apart from the products mentioned above, other products sold by the Group such as Cystistat, Exacin, ShaDuoLiKa, XiangFuYiXueKouFuYe, recorded total sales amounting to approximately RMB277.8 million, accounting for approximately 5.6% of the Group's turnover during the Reporting Period.

3. Pipeline Products

3.1 Products undergoing application process for Import Drug Registration

The Group had seven products undergoing the application process for Import Drug Registration during the Reporting Period, which will contribute to the Group's revenue after they are officially issued IDL by the CFDA. Key information of these products is listed below:

Products	**Indications**	**Manufacturers**	**CFDA Pending Number**	**Registration Process**
Budenofalk	Mainly used to treat inflammatory bowel disease("IBD") and crohn's disease	Dr. Falk Pharma GmbH (Germany)	JXHL1100207 國 (Capsule)	Clinical Trial Approved
			JXHL1100106 國 (Foam Aerosol)	Clinical Trial Approved
Maltofer® (Iron Maltose)	Mainly used to treat iron deficiency without anemia("ID") and iron deficiency with anemia ("IDA")	Vifor Pharma (Switzerland)	JXHL1400152 國 (Syrup)	Clinical Trial Approved
			JXHL1400153 國 (Chewable Tablets)	Clinical Trial Approved
Ze 339	For the treatment of allergic rhinitis	Max Zeller Söhne AG (Switzerland)	JXZL1500004	CDE Review
Ze 440	For the treatment of pre-menstrual syndrome and menstrual cycle disorder		JXZL1500003	CDE Review
Ze 450	For the treatment of menopausal discomfort		JXZL1500002	CDE Review
Succinylated Gelatin Injection (Two)	For initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited (UK)	Material Preparation	Material Preparation

For more information on imported drug registration of the Group's products, please refer to the CFDA website (http://www.sfda.gov.cn).

During the Reporting Period, due to the commercial and technical consideration of Uro-Vaxom® and Stimol® (citrulline malate effervescence powder), the Group agreed to terminate their IDL registration.

3.2 Products with Independent Intellectual Property Rights

3.2.1 Tyroserleutide (CMS024)

Tyroserleutide (CMS024), used to treat primary liver cancer, is a National Class One New Drug researched and developed by the Group and features independent intellectual property rights. The phase III clinical trial, entitled "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma", was unblinded on 28 February 2014, and the clinical trial failed to achieve the expected results. Because the subgroup with no tumor thrombosis in the hepatic portal vein branches demonstrated a favorable trend during the clinical trial, the Group conducted a six-month follow-up study on subjects in the treatment group with continuous administration of the drug to observe survival time. The follow-up study achieved significant results. According to statistical data from the study, a statistical significance in survival time between treatment group and placebo group has been observed, indicating that Tyroserleutide could prolong the survival time of liver cancer patients with no tumor thrombosis in the hepatic portal vein branches.

Based on the positive results from the follow-up study and analysis of earlier clinical trials, the Group has decided to carry out a new extended phase III clinical trial for Tyroserleutide. During the Reporting Period, the phase III extended clinical trial of Tyroserleutide is progressing smoothly in about ten research centers nationwide. The costs of the clinical trial will still be borne by Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D"), and the Group will pay 13% of sales revenue to Kangzhe R&D as royalty fees after the successful commercialization of the product. If Tyroserleutide is successfully launched to the market, it will not only have great market potential in China, but will also have a major overall impact on human health.

3.2.2 Traumakine®

In May 2015, A&B (HK) Company Limited ("A&B"), wholly-owned by Dr. Lam Kong, a controlling shareholder of the Group acquired the assets related to Traumakine® for the China market and other designated regions as well as certain intellectual properties related to the product through equity investment, and transferred the assets to CMS Pharma Co., Ltd., the Group's wholly-owned subsidiary. A&B will continue to invest in the development of the product in China, and the Group will only be required to pay A&B a royalty fees in respect of a percentage of the sales revenue of the product in China after the successful commercialization of the product.

Traumakine® is a Recombinant Human Interferon beta-1a intravenous lyophilized preparation for the treatment of acute respiratory distress syndrome ("ARDS"). ARDS is an acute respiratory failure caused by a number of different factors, with progressive respiratory distress, refractory hypoxemia and non-cardiogenic pulmonary edema as clinical symptoms, and it is one of common acute and critical clinical syndromes. ARDS involves several clinical sections, and common causes of ARDS include systemic infection, trauma, shock, burns, acute severe pancreatitis, etc. Four use patents for and related to Traumakine® have been filed around the world. Among them, two have been directly filed in China via Patent Cooperation Treaty ("PCT"), with one having been granted, while the remaining two patents were granted in the EU, US, Japan, etc. A formulation patent protecting the intravenous use of interferon-beta has been accepted by the Finnish patent office in October 2016. In addition, the product was designated as an orphan drug for acute lung injury by the EU on 29 November, 2007.

The Phase I/II clinical studies of Traumakine® was conducted in the UK with 28-day mortality as the endpoint for primary effectiveness. The results show that the product improved mortality significantly (mortality in treatment group was 8%, compared to 32% in the control group, demonstrating an 81% reduction in the odds of 28-day mortality, p=0.01). Related research result has been published on the famous Lancet Respir Med Journal (Lancet RespirMed.2014Feb; 2(2): 98-107). Based on the positive results from the phase I/II clinical trials, the Committee for Medicinal Products for Human Use ("CHMP") of the European Medicines Agency ("EMA") held a scientific advice working party ("SAWP") meeting for the project in November 2013 at which the SAWP agreed on the advice to be given to the applicant, and CHMP adopted the advice to be given to the applicant. Based on the advice, protocols for the phase III clinical trial have been finalized. The phase III clinical trial is divided into two separate studies conducted sequentially in time. Since December 2015, the first study has been ongoing. It is a randomized, double-blind, parallel-group comparison of efficacy and safety of interferon-beta and placebo in the treatment of moderate to severe ARDS patients to be recruited from multi-centers in Europe.

As there are currently no targeted drug treatments for ARDS, once the product is approved subject to the positive clinical trial results, it will become the first life-saving drug in the world for the treatment of ARDS. Morbidity of ARDS is 59/100,000 per year in China, and the mortality rate is high (around 50% in China, and around 35-45% in Europe and America). The product has great market potential once it is approved and launched into the market.

Network development

1. Direct Network

The Direct Network enhanced during the Reporting Period, as management mechanisms kept improving and upgrading. The headquarters of the Group formulates the macro-policy, while the regional management levels manage and supervise the provincial levels. The provincial and district levels implement the strategy accordingly and provide feedback to top line management. During the entire process, the headquarters delegate power to the regional levels and return the managing power to the markets, which ensures that the Group can respond to the market changes more quickly. Under the regional management framework, the Direct Network extends further into the rural markets, increases the hospital coverage and hosts more products. With more quality products added to the portfolio, in an effort to optimize the energy and resources for sales staff, during the Reporting Period, the Group divided promotional teams from the provincial and district levels into different promotional lines, mainly into cardiovascular and cerebral vascular products line, digestive and dermatology products line, etc. Through the effective implementation of product promotional lines, the work force allocation became more rational, and frontline sales staff became more focused and professional. This not only enhanced the synergy of the products and efficiency of the sales staff, but also helped tap further market potential.

The Group has begun to recruit fresh graduates from medical and pharmaceutical schools nationwide since 1998 and developed a well-established campus recruiting and training system. The Twenty-first Campus Recruitment and Product-line Divided Training Programs ended successfully. New employees completed market internships in the regions and passed examination, have started their work officially. The Group started the Twenty-second Campus Recruitment in September 2016, and continued to expand the professional sales team through "Internship Program" and recruit medical and pharmaceutical graduates at a master level or above through "Professional Growth Plans", to supplement more professionals for the Group's rapid growth.

Based on the successful operation of the new operational framework and consistently expanding network and sales team, during the Reporting Period, the Group enhanced the training for professional promotional staff on knowledge of medical science, pharmaceutical academics and compliance. Meanwhile, the Group is actively exploring a better compensation system. This system is based on an individual's comprehensive capacity and oriented towards value creation. The Group believes that this adequate professional knowledge training and reasonable incentive system will make sales representatives focus on performance growth, and stimulate representatives' potential in depth, which can improve the efficiency of the Direct Network.

As at 31 December 2016, the Group's Direct Network had covered over 38,000 hospitals in China with around 2,800 promoting and sales representatives.

2. Agency Network

During the Reporting Period, facing the severe industry policies the Group made the overall deployment and positive adjustment, further enhanced the efficiency of its agency management mechanism. With regard to the agency trainings, other than explanation of product information, the Group actively organized seminars which focus on the subjects of industry environment and policy response, making the agencies more cooperative with the Group's management model from the perspective of the policy movement. With regard to the agency management, through the communication mechanism enhancement, the Group strengthened the sales management of key markets and key agents and implemented the academic oriented business development. With regard to the internal management, the Group made timely upgrade to the information management system according to the business transformation, to achieve more effective management of personnel, cost and business.

Since the second half of 2014, the Group began to explore a hospital-based commission model to achieve a closer partnership with agencies. The Group successfully completed the transition from the traditional district agency model to the commission model by using XiDaKang as a pilot product. Learning from the successful experience of XiDaKang and responding to the national "two-invoice system" policy, during the Reporting Period, other products in agency network have been successively adjusted to the commission model.

As at 31 December of 2016, the Group has signed agreements with around 600 agencies or third-party sales representatives, and covered nearly 5,500 hospitals across the country.

Production Development

During the Reporting Period, Kangzhe Hunan of the Group has been completed the restructuring of the solid preparation workshop according to the requirement of the China's new GMP, and submitted the GMP certification application. KangZheLengShuiJiang Pharmaceutical Co., Ltd. of the Group was merged by Kangzhe Hunan.

Outlook and Future Development

In recent years, with influence and drive of policies related to cost control and industry regulation, the development of Chinese healthcare and pharmaceutical industry has moved to a regulated fast lane. With the medical needs of Chinese residents, the change in population characteristics, the increase of income, the promotion of government on the "Healthy China 2030" plan and the further improvement of healthcare system, the healthcare and pharmaceutical industry is one of the pillar industries which will drive the growth of the Chinese economy in the future. The Group delivers sustainable and stable growth by adhering to its two core development strategies: continuous product introduction and development and promotional network expansion, and by continuously adjusting and upgrading its internal management based on the industry policies and market status.

As for product introduction and development, the Group will base on the strict product selection criteria, and will continue to search and acquire quality products that meet the needs of the China market. On the other hand, the Group will further develop growth potential of existing products, further strengthen the academic platforms of products, and build out a product expert network that is more authoritative.

With respect to promotional network expansion, through developing the new market while increasing the output of the existing market, the Group will increasingly improve Direct Network that covers the entire China market. The Group will continue to optimize its Agency Network. The Group will continue to improve the cooperation policies with agencies according to the change of industry policies, endeavoring to maximize the advantage of the rapid development of its Agency Network.

Looking ahead, the Group will follow the reform pace of the industry, proactively grasp the opportunities, and implement strategic development direction to further improve the internal operation efficiency. Also, the Group will continue to optimize the internal governance structure, enhance risk control, and ensure standardized operations, to promote the healthy growth of the group. Furthermore, the Group will continue to provide Chinese doctors with professional academic service, and Chinese patients with premium products. The Group will continue to uphold the concept of "Green and Care", and remains committed to sustainable development and the fulfillment of its social responsibility. The Group will offer an ideal career development platform to its staff, and create more value for its partners and shareholders.

Financial Review

In reading the following discussion and analysis, please also refer to the audited consolidated financial statements and notes to the financial statements in the Annual Report.

The Group prepared the consolidated financial statements in accordance with the International Financial Reporting Standards. The Group's financial performance is summarized as follows:

Turnover

Turnover increased by 37.9% from RMB3,553.4 million for the year ended 31 December 2015 to RMB4,900.8 million for the year ended 31 December 2016, mainly due to a continuing increase in sales of original products, and the sales contributed by new products.

Gross Profit and Gross Profit Margin

Gross profit increased by 42.3% from RMB2,046.1 million for the year ended 31 December 2015 to RMB2,911.9 million for the year ended 31 December 2016; gross profit margin increased by 1.8 percentage points to 59.4% for the year ended 31 December 2016 from 57.6% for the year ended 31 December 2015, mainly due to an increase in turnover and sales weight of products with higher gross profit margin.

Selling Expenses

Selling expenses increased by 44.2% from RMB814.1 million for the year ended 31 December 2015 to RMB1,173.8 million for the year ended 31 December 2016; selling expenses as a percentage of turnover increased by 1.1 percentage points to 24.0% for year ended 31 December 2016 from 22.9% for year ended 31 December 2015, primarily reflecting the introduction of new products, an increase in academic promotion activities and human costs.

Administrative Expenses

Administrative expenses increased by 15.0 % from RMB192.7 million for the year ended 31 December 2015 to RMB221.7 million for the year ended 31 December 2016, mainly due to an increase in human costs and maintenance expenses. Benefiting from economies of scale, administrative expenses as a percentage of turnover decreased by 0.9 percentage point to 4.5% for year ended 31 December 2016 from 5.4% for year ended 31 December 2015.

Other Gains and Losses

Other gains and losses decreased by 170.0% from a gain of RMB31.5 million for the year ended 31 December 2015 to a loss of RMB22.1 million for the year ended 31 December 2016, mainly due to the exchange loss arising from the depreciation of Renminbi during the year, and an impairment for an intangible asset.

Share of Result of Associates

Share of result of associates increased by 179.4% from RMB17.4 million for the year ended 31 December 2015 to RMB48.6 million for year ended 31 December 2016, mainly reflecting an increase in the profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs increased by 76.4% from RMB24.1 million for the year ended 31 December 2015 to RMB42.5 million for the year ended 31 December 2016, mainly reflecting an increase in the use of bank borrowings.

Profit for the Year

Profit for the year increased by 38.3% from RMB996.5 million for the year ended 31 December 2015 to RMB1,377.9 million for the year ended 31 December 2016, mainly due to the continuous growth in sales.

Inventories

Inventories increased by 32.1% from RMB385.2 million as at 31 December 2015 to RMB509.0 million as at 31 December 2016, mainly reflecting growth in turnover and the addition of new products. Average inventory turnover days increased from 70 days for the year ended 31 December 2015 to 82 days for the year ended 31 December 2016.

Trade Receivables

Trade receivables increased by 45.1% from RMB736.3 million as at 31 December 2015 to RMB1,068.5 million as at 31 December 2016, primarily reflecting an increase in turnover. Average trade receivables turnover days was 68 days for the year ended 31 December 2016, the same as 68 days for the year ended 31 December 2015.

Trade Payables

Trade payables increased by 43.9% from RMB95.6 million as at 31 December 2015 to RMB137.6 million as at 31 December 2016, mainly reflecting the addition of new products. Average trade payables turnover days was 21 days for the year ended 31 December 2016, the same as 21 days for the year ended 31 December 2015.

Liquidity and Financial Resources

As at 31 December 2016, the Group's cash and bank deposits amounted to RMB482.5 million while readily realizable bank acceptance bills amounted to RMB423.6 million. As at 31 December 2015, our cash and bank deposits amounted to RMB508.5 million while readily realizable bank acceptance bills amounted to RMB233.3 million.

As at 31 December 2016, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("USD"), Euro ("EUR") and Hong Kong Dollars ("HKD").

The following table is a summary of our consolidated statements of cash flows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net cash from operating activities	1,067,880	614,552
Net cash used in investing activities	(1,461,339)	(852,503)
Net cash from financing activities	644,226	219,729
Net increase (decrease) in cash and cash equivalent	250,767	(18,222)
Cash and cash equivalent at beginning of the year	229,336	243,515
Effect of foreign exchange rate changes	2,348	4,043
Cash and cash equivalent at end of the year	482,451	229,336

Net cash from operating activities

The Group's net cash generated from operating activities was RMB1,067.9 million for the year ended 31 December 2016 compared with RMB614.6 million for the year ended 31 December 2015, an increase of 73.8% mainly reflecting a relatively lower occupation in working capital.

Net cash used in investing activities

For the year ended 31 December 2016, the Group's net cash used in investing activities was RMB1,461.3 million compared with RMB852.5 million for the year ended 31 December 2015, an increase of 71.4% mainly due to an increase in acquisition of drug rights, and a loan to an associate.

Net cash from financing activities

For the year ended 31 December 2016, the Group's net cash from financing activities was RMB644.2 million compared with RMB219.7 million for the year ended 31 December 2015, an increase of 193.2% mainly due to an increase in bank borrowings.

Net Current Assets

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current Assets		
Inventories	509,004	385,177
Trade receivables	1,068,481	736,294
Other receivables	613,939	427,719
Tax recoverable	14,240	21,701
Amount due from an associate	862,803	35,096
Bank balances and cash and deposits	482,451	508,516
	3,550,918	2,114,503
Current Liabilities		
Trade payables	137,590	95,595
Other payables	441,532	297,122
Bank borrowings	1,612,398	463,903
Deferred consideration payables	1,096,424	13,595
Tax payable	108,223	33,009
	3,396,167	903,224
Net current assets	154,751	1,211,279

The Group's liquidity requirements will be satisfied by a combination of cash flow generated from operating activities, long-term bank loans and other financing means which the Company may from time to time consider appropriate.

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Purchase of intangible assets	1,008,732	486,019
Deposits for acquisition of intangile assets	16,150	51,132
Purchase of property, plant and equipment	48,891	43,150
Purchase of land use right	-	349
	1,073,773	580,650

Capital Structure and Gearing Ratio

The Company reviews the capital structure on a regular basis, and considers the cost of capital and the risks associated with each class of capital, for maximising the return to shareholders of the Company.

The following table shows the Group's debts:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Interest bearing bank borrowings	1,612,398	463,903

The Group had bank borrowings of RMB1,612.4 million as at 31 December 2016 (31 December 2015: RMB463.9 million). During the year ended 31 December 2016, the Group obtained new bank loans for granting a loan to TopRidge Pharma Limited (formerly known as Everest Future Limited, a wholly-owned subsidiary of Tibet Pharmaceutical, "TopRidge Pharma"), and acquiring the exclusive license for the commercialization of Plendil in China. The interest rate of loans ranged from 1.5% to 5.22% per annum. All the loans are short-term and are repayable within one year. The Group's bank borrowings are mainly denominated in EUR, and certain loans are denominated in RMB.

The Group's gearing ratio, calculated as bank borrowings divided by total assets, increased by 9.2 percentage points to 16.5% as at 31 December 2016 from 7.3% as at 31 December 2015, mainly reflecting an increase in bank borrowings resulting from acquisition of drug rights, and loan to an associate.

Intangible Assets

The intangible assets of the Group as at 31 December 2016 were RMB2,885.6 million (31 December 2015: RMB1,026.2 million), the increase was principally due to the acquisition of Plendil's exclusive license for the commercialization in China for 20 years.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in note 30 to the consolidated financial statements.

Pledge of Assets

As at 31 December 2016, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB6,365,000 and RMB29,017,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2016, the Group's contingent liabilities are set out in note 37 to the consolidated financial statements.

Advance to Entity

Pursuant to Rule 13.13 of the Listing Rules, a general disclosure obligation arises where an advance to an entity from the Group exceeds 8% of the total assets of the Group. Pursuant to Rule 13.20 of the Listing Rules, details as required under Rule 13.15 of the Listing Rules in respect of the advance which remained outstanding as at 31 December 2016 are set out below.

As disclosed in the section headed "Business Review" of this annual report, on 26 February 2016 (London time), TopRidge Pharma, a wholly-owned subsidiary of Tibet Pharmaceutical (as purchaser), entered into an agreement with AstraZeneca AB (as seller) for the sale and purchase of the Imdur Assets. Completion of the sale and purchase of the Imdur Assets took place on 1 May 2016. The Group granted a shareholder loan to TopRidge Pharma to finance part of the purchase price for the acquisition. As at 31 December 2016, total of the amount advanced to TopRidge Pharma which remained outstanding and its interest receivable was RMB742.5 million. The loan is for a term of one year expiring on 30 April 2017 and is unsecured and bears an interest rate of 2.2% or 2.4% per annum. Further details about the acquisition of the Imdur Assets by TopRidge Pharma and the background of the loan are set out in the announcements of the Company dated 29 February 2016, 15 March 2016, 3 May 2016 and 17 November 2016 respectively.

Advance to Entity was grouped under Amount Due from an Associate in the consolidated statement of financial position.

Dividend

For the year ended 31 December 2016, the Group paid an interim dividend for 2016 and a final dividend for 2015 of RMB261.7 million and RMB201.2 million, respectively. For the year ended 31 December 2015, the Group paid an interim dividend for 2015 and a final dividend for 2014 of RMB197.5 million and RMB172.1 million, respectively.

Executive Director

Mr. Lam Kong, aged 52, is Chairman, Chief Executive Officer ("CEO") and President of the Group and was appointed as an executive Director on 18 December 2006. Mr. Lam is responsible for the creation, implementation and management of the Group's development and growth strategy. Mr. Lam has had many years' experience in marketing, promotion, sales and other value-added services for pharmaceutical products in China. He received his bachelor's degree in medicine from Zhanjiang Medical College in 1986, which was renamed to Guangdong Medical University. Mr. Lam is a member of the Nomination Committee of the Company and sole director of Treasure Sea Limited, the controlling shareholder of the Company.

Mr. Lam is one of the controlling shareholders of the Company and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of the Securities and Futures Ordinance ("SFO"), the details of which are set out on page 31 of this annual report.

Mr. Chen Hongbing, aged 50, is Chief Operating Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. He joined the Group in 1995 and has remained with the Group since then. Mr. Chen is responsible for the operation of the Group's marketing, promotion and sale business and management of product manufacturing. He had acquired about 4 years' clinical experience as a resident doctor with Nanjing Gulou Hospital from 1990 to 1994 prior to joining the Group in 1995. He received his bachelor's degree in clinical medicine from Nanjing Medical College in 1990, which was renamed to Nanjing Medical University.

Mr. Chen is sole director of Viewell Limited (a shareholder of the Company) and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 31 of this annual report.

Ms. Chen Yanling, aged 46, is Chief Financial Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. She joined the Group in 1995 and has remained with the Group since then. Ms. Chen is responsible for the Group's financial management, investor relations affairs and office administration. She received EMBA from the International East-West University and is a senior accountant. Ms. Chen was awarded the Top Place of 2016 "All-Asia Best CFO (Overall) in Healthcare and Pharmaceutical Industry" 2016 by the Institutional Investor magazine in July 2016. She earned the honour for the fifth time consecutively.

Ms. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 31 of this annual report.

Ms. Sa Manlin, aged 56, was appointed as an executive Director on 11 December 2012. Ms. Sa joined the Group in 1995 and has remained with the Group since then. Ms. Sa is responsible for the products' marketing and promotion strategy of Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"). She had acquired about 10 years' clinical experience prior to joining the Group in 1995. Ms. Sa received a bachelor's degree in medicine from Shanghai University of Traditional Chinese Medicine in 1984 and a master's degree in Business Administration from the Asia International Open University (Macau) in 2003, which was renamed as City University of Macau.

Ms. Sa is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 31 of this annual report.

Independent Non-Executive Directors

Mr. Cheung Kam Shing, Terry, aged 54, was appointed as an independent non-executive director of the Company on 18 August 2010. Mr. Cheung has more than 20 years' experience in securities broking, investment banking, fund management, private equity and other financial areas. The companies he worked for after graduating from the University of Hong Kong in 1984 included Sanyo Securities (Asia) Limited, Fidelity International Investment Management Limited, Kerry Securities Limited, Sassoon Securities Limited, and Core-Pacific Yamaichi International (HK) Limited from 1984 to 2000. Mr. Cheung served as Managing Director at Culturecom Holdings Limited (a company listed on the Stock Exchange with stock code 0343) from 2000 to 2005. He later served as Managing Director of Nouveau Investment Group Limited from 2005 to mid-2010. He served as Chief Operating Officer of GreaterChina Professional Services Limited (a company listed on the Stock Exchange with stock code 8193) from July 2010 until March 2015. Mr. Cheung was an independent non-executive director of Greens Holdings Limited (a company listed on the Stock Exchange with stock code 1318) from December 2014 and subsequently appointed as executive director until October 2015. Mr. Cheung was CEO of a private company engaging in investment of technology since November 2015. He has served as executive director of Pearl Oriental Oil Limited (a company listed on the Stock Exchange with stock code 632) since October 2016 until now.

Mr. Cheung received his bachelor's degree in social sciences from the University of Hong Kong in 1984 and his master's degree in science (financial economics) from the University of London in 1995. Mr. Cheung is chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company.

Mr. Wu Chi Keung, aged 60, was appointed as an independent non-executive director on 25 June 2010. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently managing director of a family-owned private company engaging in property and other investment activities. He is also an independent non-executive director of Jinchuan Group International Resources Co., Ltd (stock code: 2362), Zhong Fa Zhan Holdings Limited (stock code: 475), Huabao International Holdings Ltd. (stock code: 336) and YuanShengTai Dairy Farm Ltd. (stock code: 1431), Huajin International Holdings Limited (Stock code: 2738), COFCO Meat Holdings Limited (Stock code: 1610), and Zhou Hei Ya International Holdings Company Limited (Stock code: 1458), all the shares of which are listed on the Stock Exchange. Mr. Wu was also an independent non-executive director of GreaterChina Professional Services Limited (stock code: 8193) from 18 May 2011 to 2 July 2014, an independent non-executive director of China Wah Yan Healthcare Limited (formerly known as "China Renji Medical Group Limited") (stock code: 648) from 3 January 2012 to 15 July 2014, and an independent non-executive director of Link Holdings Limited (stock code: 8237) from 20 June 2014 to 3 October 2014.

Mr. Wu is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of Association of Chartered Certified Accountants in the United Kingdom. Mr. Wu graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in 1980 with a high diploma in accountancy. Mr. Wu is the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company.

Mr. Huang Ming, aged 52, was appointed as an independent non-executive director of the Company on 9 October 2013. Mr. Huang was an Assistant Professor and Associate Professor of Finance at Stanford Graduate School of Business, Stanford University from 1998 to 2002, and was Associate Dean and Visiting Professor of Finance and Professor of Finance at Cheung Kong Graduate School of Business from 2004 to 2005 and from 2008 to 2010 respectively, and was Head of School of Finance of Shanghai University of Finance and Economics from 2006 to April 2009. He has been a Professor of Finance at the Johnson Graduate School of Management at Cornell University since July 2005, and has been a Professor of Finance at China Europe International Business School since July 2010. He has been a non-executive director of Yingli Green Energy Holding Company Limited (stock code: YGE), a company listed on the New York Stock Exchange, since 2008. He has been an independent non-executive director of Fantasia Holdings Group Co., Ltd. (stock code: 1777), a company listed on the Stock Exchange, since 2009. On 16 July 2014, Mr. Huang was appointed as an independent director of WH Group Limited (HKEX Stock Code: 00288) and the effective date of the appointment was 5 August 2014, since which Mr. Huang has been an independent director of WH Group Limited. Mr. Huang is currently an independent non-executive director of 360buy Group and Guosen Securities Co. Ltd.

Mr. Huang graduated from Peking University in 1985 majoring in physics, and then obtained his doctorate degree in physics and finance from Cornell University and Stanford University respectively. Mr. Huang is chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company.

Senior Management

Dr. Wong Wai Ming, aged 56, has been Chief Technical Officer of the Group since 2010. He first joined the Group in 2000 and then became Chief R&D Officer in 2007. He is responsible for dealing with technical issues in introducing products and providing technical advice to the Group for selecting pharmaceutical products. Prior to this, Dr. Wong worked as manager of China pharma department for Jebsen Co. Ltd. He studied bio-chemistry and received his bachelor's degree in science and a PhD from the University of Hong Kong in 1983 and 1993, respectively.

Company Secretary

Ms. Wu Sanyan, aged 35, joined the Group in 2009 and currently holds the position of Company Secretary and Director of the Legal Department. Ms Wu is primarily responsible for overseeing the legal and regulatory compliance matters of the Group (including compliance with the Listing Rules). The responsibilities of Ms. Wu since her joining of the Group include advising on compliance of laws and regulations applicable to the Group(including the Listing Rules). Ms. Wu obtained a double bachelor's degree in history and law in 2004, and a master's degree in international law in 2008, both from the Wuhan University.

DIRECTORS' REPORT

The board of Directors of the Company (the "Board") is pleased to present the Directors' report and audited consolidated financial statements of the Group for the year ended 31 December 2016.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 38 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 65.

Business Review

Business review of the Group for the year ended 31 December 2016 can be found in the section headed "Management Discussion and Analysis" of this annual report , the discussion of which forms part of this "Directors' Report".

Reserves

Movements in reserves for the year ended 31 December 2016 are set out in the consolidated statement of changes in equity on page 68 and note 28 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2016, the Company had distributable reserves of RMB3,775.1 million available for distribution to our shareholders.

Property, Plant and Equipment

Details of changes in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

Share Capital

Movements in the share capital of the Company are set out in note 27 to the consolidated financial statements.

Final Dividend

The Board of Directors is pleased to recommend a final dividend of RMB0.1164 (equivalent to HK$0.131) per Share for the year ended 31 December 2016 to shareholders whose names appear on the register of members of the Company on Thursday, 4 May 2017. The register of members of the Company will be closed on Thursday, 4 May 2017. The final dividend will be paid to shareholders on Friday, 12 May 2017 after the shareholders' approval at the AGM scheduled for Wednesday, 26 April 2017.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association (the "Articles of Association") or the laws of the Cayman Islands which oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

None of the Company or its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2016.

Directors

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

Executive Directors:

Mr. LAM Kong (Chairman and CEO)
Mr. CHEN Hongbing (Chief Operating Officer)
Ms. CHEN Yanling (Chief Financial Officer)
Ms. SA Manlin

Independent Non-Executive Directors:

Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung
Mr. HUANG Ming

Pursuant to Article 16.18 of the Articles of Association, at every AGM of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall be eligible for re-election. Accordingly, Ms. Chen Yanling, Ms. Sa Manlin and Mr. Cheung Kam Shing, Terry will retire from offices at the AGM and, being eligible, offer themselves for re-election at the AGM.

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Ms. Chen Yanling, Ms. Sa Manlin and Mr. Cheung Kam Shing, Terry. Details of these retiring Directors are set out in the circular issued on 23 March 2017.

Annual Confirmation of Independence

The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in rule 3.13 of the Listing Rules on the Stock Exchange.

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and the senior management are set out on pages 24 to 26 of this annual report.

Directors' Service Contracts

Each of the Directors of the Company has respectively entered into an appointment letter with the Company, and all the executive Directors and independent non-executive Directors were appointed for a three-year and one-year term, respectively. Their appointments are subject to retirement from office by rotation and re-election at the AGM of the Company in accordance with the Articles of Association. Save as disclosed above, none of the Directors has entered or intended to enter into any contract of service with the Company or any of its subsidiaries which cannot be determinable by the employer within one year without payment of compensation (except for statutory compensation).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Employee Benefit Scheme

The Key Employee Benefit Scheme (the "2009 Scheme") established in 2009 has been terminated and merged into the CMS Key Employee Benefit Scheme (the "New KEB Scheme"). As approved by the board of the Company, the Company adopted a new employee incentive scheme (the "Bonus Scheme") for the purpose of providing discretionary bonuses to selected employees. Given the pool of the participants of the Bonus Scheme is significantly larger than that of the 2009 Scheme, the Company has appointed TMF Trust (HK) Limited, an independent professional trustee, to manage both the New KEB Scheme and the Bonus Scheme under a new trust with effect from 1 January 2017. As at 31 December 2016, 11,207,162 shares in the Company were held by Fully Profit Management (PTC) Limited (a company wholly owned by Mr. Lam Kong) as trustee of the 2009 Scheme. Fully Profit Management (PTC) Limited has ceased to become a trustee of the new trust and the trust funds of the 2009 Scheme were transferred to the New KEB Scheme and the Bonus Scheme which are managed by TMF Trust (HK) Limited with effect from 1 January 2017. Under the current arrangements, Mr. Lam Kong is not interested in such shares and Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Sa Manlin are not beneficiaries of the new trust. Details of the Employee Benefit Scheme are set out in note 36 to the consolidated financial statements.

Directors' interests in Transactions, Arrangements or Contracts of Significance

During the Reporting Period and as at 31 December 2016, none of the Directors or entities connected with the Directors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2016, the interests or short positions of the Directors in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Name of Corporation	Nature of Interest	Class of Shares and Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,142,719,000 (L) (Note 2)	45.94%
		Interest in controlled corporation	2,406,500 (L) (Note 3)	0.10%
		Interest in controlled corporation	11,207,162 (L) (Note 4)	0.45%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225(L)	0.81%
		Interest in controlled corporation	75,000,000 (L) (Note 5)	3.02%
		Beneficiary of a trust	11,207,162 (L) (Note 6)	0.45%
Ms. Chen Yanling	The Company	Beneficial owner	7,246,250(L)	0.29%
		Beneficiary of a trust	11,207,162 (L) (Note 6)	0.45%
Ms. Sa Manlin	The Company	Beneficial owner	6,074,237(L)	0.24%
		Family interest	750,000 (L) (Note 7)	0.03%
		Beneficiary of a trust	11,207,162 (L) (Note 6)	0.45%

Notes:

1. The letter "L" denotes long positions in the Shares.

2. These Shares are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.

3. These interests in respect of warrants are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.

4. As at 31 December 2016, these Shares are held by Fully Profit Management (PTC) Limited, a company wholly owned by Mr. Lam Kong. Fully Profit Management (PTC) Limited is the trustee of the Key Employee Benefit Trust, a discretionary trust established by the Company on 31 July 2009 for the Key Employee Benefits Scheme.

   With effect from 1 January 2017, the Company has terminated the 2009 Scheme and replaced it with a new key employee benefit scheme on terms which are substantially similar to the 2009 Scheme save for certain modifications, and adopted a new employee incentive scheme for the purpose of providing discretionary bonuses to selected employees. Fully Profit Management (PTC) Limited has ceased to become a trustee of the New Trust. The trust funds under the 2009 Scheme were transferred to the New KEB Scheme and the Bonus Scheme under a new trust which is managed by an independent professional trustee. Please refer to note 6 below for further details.

5. These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.

6. As at 31 December 2016, these Shares are held by Fully Profit Management (PTC) Limited acting as the trustee of the 2009 Scheme. The objects of the 2009 Scheme include Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Sa Manlin and they are deemed to be interested in these 11,207,162 Shares.

   With effect from 1 January 2017, the 2009 Scheme was terminated and a new trust was established to administer the New KEB Scheme and the Bonus Scheme. Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Sa Manlin are not beneficiaries of the new trust under the current arrangements.

7. These Shares are held by Mr. Zhang Ziqiang, the spouse of Ms. Sa Manlin, in respect of which Ms. Sa Manlin is deemed to be interested in.

Directors' Right to Acquire Shares or Debentures

At no time during the year any right to acquire benefits by means of the acquisition of shares in or debentures of the Company was granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2016, the Directors were not aware of any other person (other than the Directors of the Company), who held interest and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Connected Transactions

Details of connected transactions are set out in note 34 and note 36 to the consolidated financial statements.

Employees

As at 31 December 2016, the Group had 3614 employees. For the purpose of better enhancing the Group, the Group has initiated the organizational reform and speeded up the cultivation and recruitment of talents through optimizing the current human resources and innovating the way of management. A series of measures have been adopted in order to facilitate the efficiency of the management. The Group, on a regular basis assessed employee performance and adjusted their salaries and bonuses accordingly. Additionally, the Group has offered training programs to employees from different business units.

Directors and Management's Emoluments

The remuneration committee determines and proposes to the Board (as the case may be) on the remuneration and other benefits payable to the Directors and Management. The committee, on a routine basis, supervises the remuneration of all Directors and Management to ensure that their remuneration and compensation are appropriate and reasonable. The Group adopts competitive remuneration packages with reference to the industry standard and in the light of the business advancement of the Group, and determines remuneration of the Directors and Management after taking into account their qualifications, experience and contributions, so as to attract and retain its Directors and Management.

Particulars of directors' emoluments and the five highest paid individuals of the Group are set out in note 8 and note 9 to the consolidated financial statements, respectively.

For the year ended 31 December 2016, emoluments of the senior management including Chief Technical Officer Dr. Wong Wai Ming and Company Secretary Ms. Zhang Lingyan (resigned on 23 March 2017) and Ms. Wu Sanyan (appointed on 23 March 2017) was between HK$300,000 and HK$800,000 each.

Key Relationship with Employee, Customers and Suppliers

The Company maintains good relationship with its employees by taking all practicable measures, including but not limited to improving, reviewing and updating its polices on remuneration and benefits, training, occupational health and safety, to ensure that all the staff are reasonably remunerated.

The Company is in good relationship with its customers and is always improving its communication mechanism with customers to ensure all the complaints or feedback from its customers can be informed by the Company in time and the customers receive service of high quality.

The Company maintains long-period good cooperation with domestic and overseas suppliers, which are of good reputation in the industry.

Environmental Policies and Performance

The Group has strictly enforced the "Environmental Protection Law of the PRC", the "Water Pollution Prevention Law of the PRC", the "Environmental Noise Pollution Prevention Law of the PRC", and other laws and regulations. The Group has set up environmental management organizations, equipped with full-time environmental management personnel, established and improved the environmental management system, and developed the comprehensive risk-defensive measure and emergency plan for accidents which guard against environmental risk accidents in business management and production processes. We also require our suppliers to operate in strict compliance with the relevant environmental regulations and rules and obtain all necessary permission and approval from the relevant government authorities.

Compliance with Laws and Regulations

During the Reporting Period, the Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group.

Principal Risks and Uncertainties

There are a number of risks and uncertainties which may affect the performance and operation of the company. The followings are summary of principal risks and uncertainties identified by the Company. There may be other principal risks and uncertainties in addition to those shown below which are not known to the Company or which may not be material now but could turn out to be material in the future.

Compliance with GMP and GSP standards

In accordance with applicable laws and regulations, the Company is required to comply with Good Manufacturing Practice ("GMP") standards and Good Supplying Practice ("GSP") standards by certain time limits. The Company has been granted the relevant certificates by China Food and Drug Administration ("CFDA") and other applicable governmental authorities. There can be no assurance that the Company may be able to renew those certificates when they expire and in the event that those certificates are not renewed upon their expiry, the Company's business may still be largely and adversely affected after taking related remedies.

Product Liability

As the insurance is not mandatory required, the Group has no effective product liability insurance policy in respect of the manufacture and distribution of pharmaceutical products in the PRC. In the event of any product liability claim or proceedings pertaining to the products of the Group couldn't be solved through negotiation or any other ways, the Group may suffer major cost and damage on its relationship with customers.

Healthcare Reform In China

The government regulation and governance over the healthcare system in the PRC is undergoing a crucial reform period, where (i) the applicable laws, regulations and policies pertaining to the healthcare, medical and pharmaceutical industry are constantly evolving, and (ii) governmental authorities in the PRC may regularly or unexpectedly amend their implementation practices. Any enforcement action taken by the government against the Group may affect us materially and adversely and significant costs may be therefore incurred if our Group didn't optimize company strategy to adapt the variation of medical system of China. Moreover, continual changes in the scope and level of application of the government regulation and governance lead to more risks and uncertainties in respect of the performance and operation of the Group.

Tender and Price Control

The Company and its subsidiaries have to participate in a government-led tender process every year or every few years. Any failure of the tender in a provincial tender process will affect the Group to sell products in such province. Moreover, the product price, our market share, revenue and profitability may generate related impact due to certain new methods recently adopted in the provincial tender process.

Major Customers and Suppliers

For the year ended 31 December 2016, the percentage of sales to the Group's five largest customers was approximately 15.0% of the Group's total sales, and sales to the top customer accounted for approximately 5.0% of the total sales.

For the year ended 31 December 2016, the percentage of purchases from the Group's five largest suppliers was approximately 82.9% of the Group's total purchases, and purchase from the top supplier accounted for approximately 25.0% of the total purchases.

Except as disclosed in note 34 to the consolidated financial statement, none of the Group's directors, their close associates or shareholders had an interest in supplier or customer.

Corporate Governance

A report for the corporate governance principles and practices adopted by the Company is set out on pages 38 to 46 of this annual report.

Sufficiency of Public Float

According to the publicly available information and as far as the Directors were aware of, as at the date of this annual report, there was a sufficient public float of the Company's issued shares as required under the Listing Rules.

Non-competition and Indemnity Agreements

The Company entered into a deed of non-competition with Mr. Lam Kong and his wholly owned company registered in the British Virgin Islands—Treasure Sea Limited ("Treasure Sea") on 14 September 2010 (the "Non-competition Deed"). Mr. Lam Kong and Treasure Sea jointly undertook not to carry on businesses that are in competition with the Company's businesses.

Mr. Lam Kong and Treasure Sea stated that they complied with the relevant clauses of the Non-competition Deed, and did not engage in businesses that are in competition or may compete with the businesses of the Company and any of its subsidiaries, and also did not directly or indirectly hold any business interest that is in competition with the businesses of the Company and any of its subsidiaries during the Reporting Period.

The independent non-executive Directors have reviewed the compliance of the Non-competition Deed by Mr. Lam Kong and Treasure Sea during the Reporting Period, and reviewed the relevant business information provided by the Company. The independent non-executive Directors were of the opinion that Mr. Lam Kong and Treasure Sea complied with the relevant terms of the Non-competition Deed during the Reporting Period and did not cause any competition with the Company. The Board of Directors operated and managed the Company's businesses independently in the interests of the Company and its shareholders as a whole.

Donation

During the Reporting Period, the Group had not made any donation.

Permitted Indemnity Provision

According to the articles of association of the Company, among others, every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Appropriate insurance covering for the Directors' and senior management's liabilities in respect of legal actions against the Directors and senior management of the Company arising out of corporate activities of the Group has been arranged by the Company.

Equity-Linked Agreements

The Company has not entered into any equity-linked agreement during the year ended 31 December 2016.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 January 2016 to 31 December 2016, except for a deviation from the Code provision A.2.1 in respect of the roles of chairman of the board ("Chairman") and CEO which shall not be performed by the same individual. The details of the Company's compliance with the CG Code are set out on pages 38 to 46 of this annual report.

Competing Interests

None of the Directors or management and their respective associates (as defined in the Listing Rules) has an interest in a business which competes or may compete with the businesses of the Company or any of its subsidiaries or has any other conflict of interest with the Company during the Reporting Period.

Audit Committee

The details of Audit Committee are set out on page 42 of the Corporate Governance Report of this annual report.

Auditors

The Company has appointed Deloitte Touche Tohmatsu as auditors since the listing of the Company on the Main Board of the HKEx on 28 September 2010. The financial statements in the Annual Report for the year have been audited by Deloitte Touche Tohmatsu. A resolution will be submitted at the AGM of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

Significant Events of the Group after Reporting Period

Change of Person in Hong Kong Authorized Representative to Accept Service of Process and Notices on Behalf of the Company and the Company Secretary

The Board announces that Ms. Zhang Lingyan ("Ms. Zhang") has tendered her resignation as the authorized representative in Hong Kong to accept service of process and notices on behalf of the Company (the "Authorized Representative") as required under Part 16 of Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Company secretary with effect from 23 March 2017, due to her other work arrangements within the Group. Following her resignation, she will remain a full-time employee of the Group. Ms. Zhang confirmed that she has no disagreement with the Board and there are no matters in relation to her resignation that need to be brought to the attention of the shareholders of the Company.

During the Reporting Period, Ms. Zhang had received the professional training for no less than 15 hours in accordance with the requirements of the Listing Rules.

The Board also announces that Ms. Wu Sanyan ("Ms. Wu") has been appointed as the company secretary of the Company with effect from 23 March 2017. The Authorized Representative of the Company has been changed to Mr. Lam Kong on the same day.

The Board considers that Ms. Wu has the relevant experience to discharge her duties as company secretary of the Company in compliance with Rule 3.28 of the Listing Rules. The Board has fully considered all the factors stated in notes 2(a) to (d) to Rule 3.28 of the Listing Rules in considering whether Ms. Wu has the related experience to serve as a company secretary. Details are set out below.

(1) Ms. Wu joined the Group in 2009 and currently serves as Director of the Legal Department. Ms. Wu is primarily responsible for overseeing the legal and regulatory compliance matters of the Group (including compliance with the Listing Rules). The responsibilities of Ms. Wu since her joining of the Group include advising on compliance of laws and regulations applicable to the Group(including the Listing Rules). Considering that Ms. Wu is familiar with the Group matters and has extensive experience in compliance matters, the Board believes Ms. Wu is a qualified candidate for the position of company secretary.

(2) The specific responsibilities of Ms. Wu include advising on transactions of the Group and compliance matters relating to corporate activities, publishing announcements, circulars and announcements of financial reports, annual results, interim results in accordance with the Listing Rules. Furthermore, Ms. Wu was involved in the Company's listing on the Hong Kong Stock Exchange in September 2010. Her role at that time included assisting in devising and putting in place a corporate governance structure that complies with the Listing Rules as well as other law and regulations, making disclosure of relevant information in the prospectus, identifying connected transactions and ensuring such transactions comply with the Listing Rules. The Board believes that Ms. Wu is acquainted with the Listing Rules and other related laws and regulations and is competent to serve as company secretary of the Company.

(3) Ms. Wu has attended training courses in relation to compliance with the Listing Rules organized by the professional advisers. Ms. Wu also has enrolled in related professional trainings for company secretaries to further strengthen her skills and knowledge and is committed to taking no less than 15 hours of relevant professional training in each financial year upon becoming the company secretary of the Company.

(4) Ms. Wu has obtained a double bachelor's degree in history and law in 2004, and a master's degree in international law in 2008, both from the Wuhan University. The Board believes Ms. Wu has extensive experience and legal professional skills to handle legal and compliance matters.

Accordingly, considering that Ms. Wu has extensive experience in corporate governance, legal and compliance supervision, the Board believes that Ms. Wu is competent to serve as company secretary.

By order of the Board
China Medical System Holdings Limited
Lam Kong
Chairman

23 March 2017, Hong Kong

Corporate Governance Report

The Company is committed to upholding high standards of corporate governance and has adopted sound governance and disclosure practices. The Company believes that continuously improving the corporate governance can increase the Group's accountability and transparency so as to maximize the long-term level shareholder value.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the revised Corporate Governance Code as set out in Appendix 14 to the Listing Rules from 1 January 2016 to 31 December 2016, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and CEO which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2016. The Model Code also applies to other specified senior management of the Company.

Employees who are likely to be in possession of unpublished price-sensitive information about the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance of the guidelines by such employees was noted by the Company in the Reporting Period.

Operation of the Board

In accordance with good corporate governance principles, the Board convened regular meetings in accordance with, and complied strictly with the applicable laws, regulations and the Articles of Association in the exercise of its authority, with an emphasis on protecting the interests of the Company and its shareholders as a whole.

The role and responsibilities of the Board broadly cover reviewing and approving corporate mission and broad strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate measures and control systems to manage these risks; and reviewing and approving important matters such as financial results, investments and divestments and other material transactions.

The Board has performed a scientific decision-making function in accordance with the long-term interest of the Group as well as the interest of shareholders and relevant party, and been subject to effective supervision and assessment in maintaining corporate resources and conducting operation management. The Board is responsible to make effective incentives and constraints for the senior management when duly delegating powers to them. Meanwhile, as the core of the Company's corporate governance framework, the Board has clearly separated its functions and duties from that of senior management. Differentiating itself from the functions and duties of the Board, the specific responsibilities and duties of senior management of the Company are inclusive of running the Company's day-to-day business; drafting and proposing the Company's annual business plan and investment plan; working out the human resource policy and arranging an appropriate organizational structure of the Company; drafting plans for the establishment of the Company's branch offices; creating and upgrading the Company's basic internal management system and mandates for Company management; within the authority delegated by the Board, appointing, changing or recommending shareholder representatives, directors and supervisors in its holding subsidiary or joint stock subsidiary; and other powers delegated by the Board.

The Company has established three committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee, which mainly comprise independent non-executive Directors and responsible for overseeing particular aspects of the Group's business, and to provide the Group with recommendations for improvements. Please see below for the work scope of these committees. The Board has delegated the responsibilities of the day-to-day management and operation of the Group's businesses to the senior management of the Company and its subsidiaries.

Composition of the Board

As at the date of this annual report, the Board consists of seven Directors, including four executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Sa Manlin; three independent non-executive Directors, namely Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Huang Ming. Biographical details of the Directors are set out on pages 24 to 26 of this annual report. Save as disclosed in the section headed "Directors and Senior Management" of this annual report, none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

Appropriate insurance covering for the Directors' and senior management's liabilities in respect of legal actions against the Directors and senior management of the Company arising out of corporate activities of the Group has been arranged by the Company.

Board Attendances and Time Commitment

During the Reporting Period, the Company held five Board meetings and one AGM. The following is the attendance record of the Directors at such meetings held during the Reporting Period.

Name	Title	Attendance Rate	
		Board Meeting	AGM
Mr. Lam Kong	Chairman and CEO	5/5	1/1
Mr. Chen Hongbing	Chief Operating Officer	5/5	1/1
Ms. Chen Yanling	Chief Finance Officer	5/5	1/1
Ms. Sa Manlin	Executive Director	4/5	1/1
Mr. Cheung Kam Shing, Terry	Independent Non- Executive Director	5/5	1/1
Mr. Wu Chi Keung	Independent Non- Executive Director	5/5	1/1
Mr. Huang Ming	Independent Non- Executive Director	5/5	1/1

Upon reviewing (i) the annual confirmation of the time commitment given by each Director; (ii) the directorships and major commitments of each Director; and (iii) the attendance rate of each Director for the Board meetings and AGM, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during the Reporting Period.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Independent Non-executive Directors

For the year ended 31 December 2016, three independent non-executive Directors were appointed, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

The independent non-executive Directors are appointed for a period of one year. All of them are subject to retirement by rotation and re-election by shareholders at AGM in accordance with the Articles of Association of the Company. The responsibilities of the independent non-executive Directors include, without limitation: regular attendance at meetings of the Board and of Board Committees of which they are members; provision of independent opinion at meetings of the Board and other Board Committees; service on the Audit Committee, Remuneration Committee and Nomination Committee; and scrutinizing and monitoring the performance of the Company as a whole.

Directors' Continuous Professional Development

On appointment to the Board, each newly appointed Director has received professional lawyer's training covering the general, statutory and regulatory obligations of being a director of a listed company to ensure that he/she is sufficiently aware of his /her responsibilities under the Listing Rules and other relevant legal requirements.

From time to time, the Directors are provided with written materials to develop and refresh their professional skills. The Company Secretary also organizes and arranges seminars on the latest development of the applicable laws, rules and regulations for the Directors to assist them in discharging their duties.

According to the records maintained by the Company, the following Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the revised CG Code on the continuous professional development during the Reporting Period.

	Corporate Governance/ Updates on Laws, rules and Regulations/Updates on Industry Specific	
	Written Materials	**Briefings/Seminars**
Executive Directors		
Mr. Lam Kong	√	√
Mr. Chen Hongbing	√	√
Ms. Chen Yanling	√	√
Ms. Sa Manlin	√	√
Independent Non-executive Directors		
Mr. Cheung Kam Shing, Terry	√	√
Mr. Wu Chi Keung	√	√
Mr. Huang Ming	√	√

Committees

The Company has established Audit Committee, Remuneration Committee and Nomination Committee. The function of each of these committees is to study pertinent issues in its area of expertise and to provide opinion and recommendations for consideration by the Board under its own defined terms of reference.

Audit Committee

The Company established an Audit Committee in 2007. The Audit Committee currently comprises three independent non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Mr. Huang Ming as the Committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual results announcement and annual report for the year ended 31 December 2016 have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2016, the Audit Committee has held two meetings. At the meetings, the Audit Committee reviewed the annual results for 2015 and the interim results for 2016 respectively with the external auditors, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	**Attendance Rate of the Meeting for the Year ended 31 December 2016**
Mr. Wu Chi Keung	2/2
Mr. Cheung Kam Shing, Terry	2/2
Mr. Huang Ming	2/2

Remuneration Committee

The Company established a Remuneration Committee in 2007. The Remuneration Committee comprises three independent non-executive Directors, and is chaired by Mr. Huang Ming, with Mr. Cheung Kam Shing, Terry and Mr. Wu Chi Keung as the committee members.

The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board on the policy and structure for remunerations of all Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of the Directors and senior management; (iii) approving the terms of Directors' service contracts, and (iv) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time. The terms of reference of the Remuneration Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

During the Reporting Period, the remuneration committee reviewed remuneration of the directors and senior management, and thought that the remunerations of whom are reasonable and appropriate.

For the year ended 31 December 2016, the Remuneration Committee has not held any meeting.

Nomination Committee

The Company established the Nomination Committee in 2007. The Nomination Committee comprises one executive Director and three independent non-executive Directors, and is chaired by Mr. Cheung Kam Shing, Terry, with Mr. Lam Kong, Mr. Wu Chi Keung and Mr. Huang Ming as the committee members.

The primary duties of the Nomination Committee are to make recommendations to the Directors on all new appointments of Directors and senior management, interviewing nominees, and to take up references and to consider related matters. The nomination procedures and the process and criteria adopted by the nomination committee to select and recommend candidates for directorship are posted on the Company's website (http://www.cms.net.cn). The terms of reference of the Nomination Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

During the Reporting Period, the committee reviewed the composition and structure of the Board in order to determine whether it is in compliance with requirements under the relevant laws, regulations and rules. In addition, the committee reviewed the elements in respect of Board diversity (including professional skills, experience, culture and education background, ethnicity, gender, age, etc). The committee is of the view that the current composition and structure of the Board complies with the applicable regulations and the Board is experienced and have diversified perspectives and views.

For the year ended 31 December 2016, the Nomination Committee has not held any meeting.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Auditor's Remuneration

For the year ended 31 December 2016, we have appointed Deloitte Touche Tohmatsu as our independent external auditor to provide the annual performance auditing service, the remuneration for the service was HK$2.6 million.

Directors' and Auditor's Responsibilities for Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2016. In preparing these financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

The responsibility of auditor is set out in the independent auditor's report in page 62.

Risk Management and Internal Controls

The Group has established and designed appropriate policies and controls to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and main risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable but not absolute assurance to prevent material misstatement or losses, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Board confirms its responsibility for supervising the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Group Internal Audit and the Audit Committee assist the Board in the review of the effectiveness of the Group's risk management and internal control systems on the basis of continuity. The directors through these committees are kept regularly appraised of significant risks that may impact on the Group's performance.

The Company regulates the handling and propagation of inside information as indicated in the Corporate Responsibility Policy and various affiliate proceedings to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the propagation of such information is efficiently and consistently made.

The Audit Committee assists the Board in performing its supervision and corporate governance roles in the Group's financial, operational, compliance, risk management , internal controls, the resourcing of the finance and internal audit functions. During the Reporting Period, the Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group in respect of financial, operational and compliance controls with emphasis on information technology and security, information privacy and protection, business continuity management and procurement. Such results were assessed by the Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. The Audit Committee and the Board were not aware of any areas of concern that would have a significant impact on the Group's financial position or results of operations and considered the risk management and internal control systems to be generally effective and sufficient including the adequacy of resources, staff qualifications and experience, sufficient training programs for the staff and budget of the accounting, internal audit and financial reporting functions.

In addition to the review of risk management and internal controls executed within the Group, the external auditor appointed by the Group also assessed the adequacy and effectiveness of certain main risk management and internal controls as part of their regulatory audits. The external auditor's related recommendation will be adopted under appropriate circumstances to strengthen the risk management and internal controls.

Shareholders' Rights

Convening an Extraordinary General Meeting

Pursuant to article 12.3 of Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times has the right, by written requisition specifying the objects of the meeting and signed by the requisitionists to the Company's principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meetings for adoption.

Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited (Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong). Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publically available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

Articles of Association

During the Reporting Period, there were no changes made in the Company's Articles of Association.

Communications with Shareholders and Investors

CMS is always adhering to close and sincere communication with investors and keep them updated with company operations through transparent and timely information disclosure since listed in HK stock market. The Company actively communicates with its shareholders and investors through multiple channels as shown below: (i) the Annual General Meeting and Extraordinary General Meetings, which provide a platform for shareholders and investors to communicate with the board of directors of the Company; (ii) the timely release of the latest news and updates of the Company on the official website; (iii) the replying of various questions related to the Company's business raised by shareholders and investors of the Company via various ways.

During the Reporting Period, the Company actively attended different forms of investors' communication activities, including face to face dialogue with investors, telephone conference and road shows activities organized by sell-side institutions, with the hope that investors can thoroughly understand the business model and development strategy of the Company. For the year ended 31 December 2016, Management of the Company has received over 1,000 domestic and overseas institution representatives or individual investors. In addition, with the engagement of professional Hong Kong institution as consultant of investor relations, we have effectively maintained and improved investor relations affairs.

The active communication with shareholders and investors is recognized by the third party. During the Reporting Period, Ms. Yanling Chen, Vice President and CFO of CMS, won the Top Place of "All-Asia Best CFO (Overall) in Healthcare and Pharmaceutical Industry" held by the Institutional Investor Magazine for the fifth year consecutively. Moreover, CMS Investor Relations Team won the Third Place of "All-Asia Best IR Team (Buy-Side) in Healthcare and Pharmaceutical Industry" for the second year consecutively, and the Second Place of "All-Asia Best Analyst Days in 2016 (Overall) in Healthcare and Pharmaceutical Industry" in this selection event. Besides, the Company was awarded BIVA "The Listed Company with the Best Investment Value" in December 2016. In 2015, the Company was awarded "The Best Listed Company" at "The 5th Chinese Securities Golden Bauhinia" Award Ceremony held by Ta Kung Pao in Hong Kong; the Company was awarded the "Best Investor Relations" - Healthcare Industry at IR Magazine Awards - Greater China. In 2014, Mr. Lam Kong, CEO of CMS, won "All-Asia Best CEO (Buy-Side) in the Healthcare and Pharmaceutical Industry" held by Institutional Investor Magazine, ranking Second Place; the Company was awarded "The Listed Company with the Best Information Disclosure" at "The 4th Chinese Securities Golden Bauhinia" Award Ceremony held by Ta Kung Pao in Hong Kong in 2014.

The Company believes that shareholders' rights have been well respected and protected. According to the Listing Rules, the Company set up Shareholders Communication Policy and will regularly review this Policy to ensure its effectiveness. During the Reporting Period, the Company has disclosed all necessary data to the shareholders, and have reported to our shareholders and investors through various formal channels, and maintain good communication with shareholders and investors so that they may make an informed assessment for their investment and exercise their rights as shareholders. Going forward, we will keep close communication with investors, thus further optimize investor relations work.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has been adhering to the policy of "Green and Caring" ("綠色及關愛"), upholding the commitment to sustainable development and social responsibility. The Group firmly believes that environmental protection is an important topic in today's society. Thus the Group is committed to the concept of energy conservation and environmental protection in every aspect of the Group's operation and makes due contribution to mitigating the global climate change problem. In 2016, the Group is pleased to present the Environmental, Social and Governance Report ("ESG Report") for the first time in order to disclose what the Group has done to fulfil social responsibility and the goal of environmental protection. And the Group will adhere to the same disclosure every year in the future. The Group believes that environmental and social issues will be integrated into the workplace and daily life at both the management and staff level. And the Group hopes to achieve annual progress in energy conservation, emission reduction and social responsibility.

The scope of operations covered by the ESG Report includes the headquarters office of the Group in Shenzhen that engages in the direct academic promotion of pharmaceuticals, the subsidiary in Tianjin that engages in the network management of pharmaceutical agencies, the subsidiaries in Hunan Province and Hebei Province that engage in the pharmaceutical production, and the subsidiary in Hunan Province that engages in the agricultural and livestock business. This report covers the financial year 2016 ("FY2016"), from 1 January 2016 to 31 December 2016.

Stakeholder Engagement

In preparing the ESG report, we carried out a stakeholders participation process, in order to analyse the degree of personal and institutional stakeholders' concerns and evaluate their significance in the Group's environmental and social governance. The Group's stakeholders include our employees, customers, suppliers, shareholders, investors, regulators, the media and government departments. The Group believes that the participation of the stakeholders has a certain influence on the Group's strategy of sustainable development and the fulfilment of its social responsibilities, which is also the basis for the Group's strategy formulation and decisions.

During FY2016, the Group conducted a series of stakeholders' participation surveys to collect their advice and opinions on the Group's environmental and social governance through various communication channels, such as online surveys, telephone interviews, face-to-face interviews or distribution of questionnaires. Stakeholders with high influence and high dependence on the Group were selected by the management of the Group. Selected stakeholders were invited to express their views and concerns on major social and environment issues arising from the operation period of the Group. For the ESG report in FY2016, the Group has set environmental policy, energy consumption, pollutant control, supply chain management and operational management compliance as material concerns to stakeholders, which will be included in this report, as well as descriptions of the work done and the progress made by the Group in these areas. The Group will focus on every aspect of these topics in its long-term operations, and formulate appropriate strategies, improving policies and set long-term goals.

Environment

Over the past two decades, the acceleration of global warming has led to serious air pollution and water pollution caused by human activities, thus more and more attention is given to environmental protection. The Group is concerned about global warming and is aware that both the management and the employees should shoulder the responsibility of mitigating the global warming problem. The Group is committed to environmental protection by integrating the concept of sustainable development into all aspects of pharmaceutical operation and production, and regarding energy conservation and emission control as the key concerns during the Group's operations.

1. Emissions

The Group strictly complies with relevant laws and regulations, such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》) and other relevant laws and regulations.

Business of direct academic promotion of pharmaceuticals and network management of pharmaceutical agencies

In the business of direct academic promotion of pharmaceuticals and the network management of pharmaceutical agencies, the Group exerts relatively less influence on the environment pollution emissions. Emissions mainly include wastewater and solid waste produced from daily operations and daily working and living in the offices by the staff, and indirect Greenhouse Gases ("GHGs") emissions from electricity consumption.

The Group is committed to environmental protection during daily operations in the office. Starting from minor things, the Group has implemented the following typical practices:

- The office cleaning staff of the Group will sort the solid waste before disposal and recycle those with recycling value;
- The Group encourages all the employees to reduce the use of disposable items such as disposable tableware and advocates the use of rechargeable batteries to replace traditional disposable batteries; and
- The Group advocates saving paper to reduce the generation of waste paper, minimizing unnecessary printing and insisting on double sided printing.

The GHGs emissions in the business of direct academic promotion of pharmaceuticals and the network management of pharmaceutical agencies were generated entirely from electricity consumption in FY2016. The Group calls on the management and all employees to comply with the slogan "Start From Me" ("從我做起") and contribute to energy saving and emission reduction. The Group will adhere to the calculation and recording of annual carbon emissions and achieve the goal of reducing carbon emissions within the same operation scope progressively.

Business of pharmaceutical production

The Group is very prudent in controlling the discharge of environmental pollutants in the production process of pharmaceuticals. The wastewater, solid waste, exhausted gas and noise generated from the Group's pharmaceutical production processes all meet the requirements of the state emission standards via efficient treatment systems and monitoring equipment. Still, the Group tries its best to minimise pollutant emissions.

Wastewater Treatment

The wastewater generated in the business of pharmaceutical production mainly includes domestic wastewater from daily life of staff and industrial wastewater from the manufacturing process of pharmaceuticals.

The Group's pharmaceutical manufacturer sites in Hunan and Hebei take action known as rain and sewage diversion to decrease the amount of wastewater. The domestic wastewater is produced from daily life of the employees. The industrial wastewater will be strictly tested after the Anaerobic/Anoxic/Oxic ("A2O") biochemical treatment, and could only be discharged to the municipal sewage network until it meets the local discharge standard.

The Group is committed to maximizing the usage efficiency of water resources at all stages, enhancing the use of recycled water and using qualified cleaning water generated from the production process as landscape water.

Solid Waste Treatment

The solid wastes generated from the pharmaceutical manufacturing process are non-toxic and harmless industrial solid wastes generated from the production process, as well as domestic wastes produced in the employees' daily life.

The Group has taken a number of practical and effective measures to reduce the environmental burden of solid wastes and to maximize the utilization of resources, such as:

- Sell the waste plastic bags to the wastes recycling department for comprehensive utilization;
- Collect domestic solid wastes separately and sell the recyclable wastes to the recycling station.

Exhausted Gases Treatment

The main air pollutants involved in the Group's pharmaceutical production are smoke from the production process and fume from the canteen. The Group treats all the exhaust gases carefully and strictly controls the concentrations of dust, sulfur dioxide, nitrogen dioxide and soot in the exhaust gases, and could only be discharged until it meets the Integrated Emission Standard for Air Pollutants (《大氣污染物綜合排放標準》).

Kangzhe Hunan has invested in and completed the natural gas refurbishment projects in FY2016, and has fully switched to natural gas (clean energy) to reduce air pollutant emissions since December. Hebei Xili is not able to do so because it is located in a remote county without natural gas pipeline. However, the Group started using alcohol-based liquid fuels instead of coal in 2015 to reduce air pollutants from coal combustion.

Noise Treatment

Noise is mainly generated from the operation of machinery and equipment during the pharmaceutical manufacturing process. According to the monitoring results from the factory, the noise level has complied with the Industrial Enterprise Boundary Noise Emission Standards (《工業企業廠界環境噪聲排放標準》) and has not had negative impact on the surroundings.

Kangzhe Hunan attaches great importance to greenery and plants trees in all open space except the roads and buildings in the factory area to offset carbon emissions and clean up the air.

Agricultural and livestock business

The Group's agricultural and livestock business, located in Hunan Province, mainly contains the cultivation of high-end fruits such as white strawberries, golden melons, black watermelons, purple tomatoes, red bananas and kumquats, as well as the breeding of Yunnan pig and green shell eggs.

The Group is committed to the development of sustainable and green agricultural and livestock business. It adopts the recycling strategy to reduce solid waste emission in this business segment. It produces organic fertilizer using animal manure by bio-fermentation and uses those fertilizers on the plants in order to realize the maximum recycling of resources.

The Group regularly inspects and monitors the environmental conditions in the operation areas and ensures that the wastewater and solid wastes generated by the business reach the local emission standards at all times.

The Group has implemented two levels of protection in the livestock area to maintain a clean and healthy environment there. The Group has planted reed, alfa and other plants around the animal houses and the entire project area to purify the outdoor residual animal waste or dirty water, which would then be treated to meet the discharge standard before going to the sewage network. In the meantime, the plants can prevent the outdoor faeces and other residuals from being washed into the surrounding waters by rain and polluting the environment.

2. Use of Resources

The Group has adopted a variety of effective measures to conserve energy and reduce water consumption within the scope of the routine operations, such as:

- Use energy-saving lamps to save energy, and the lighting of the office area is divided into different zones reasonably, for turning on and off by zones, and security personnel will inspect office areas regularly;
- Default air conditioning temperature to 26℃ ;
- Educate and engage employees in saving water and electricity;
- Reduce turn-on time of the landscape lights for about 1.5 hours less per day than before (except on Monday morning and during major festivals);
- Employees are not allowed to take personal electrical appliances to the company, nor can they connect to an additional power outlet without authorization. It is forbidden to use electrical appliances such as electric cookers and electric kettles;
- In areas where there is sufficient natural light, the number of lights used will be reduced and the lighting system will be shut down after work;
- Turn off all standby electrical appliances when the employees are leaving the office;
- Set up smart sensor flushing systems in toilets to save water;
- Carry out pipe leak-proof maintenance regularly in order to avoid waste arising from leakage and enhance water efficiency;
- Recycle the qualified wastewater generated from the production line as landscape water; and
- Carefully select equipment in the production line, giving preference to water saving equipment.

The Group will continue to record electricity consumption and water consumption, and adhere to the energy conservation measures, striving to make full and effective use of resources, and to reduce resource consumption within the same scale of operation.

The Group uses green materials as packaging materials for drug delivering, and pays great attention to minimize the consumption of packaging materials. The Group encourages customers to apply for the whole package of goods, reducing the amount of scattered packing materials; after the completion of each shipment, the Group collects and reuses the leftover packaging material to avoid the waste of materials. The agricultural and livestock business adheres to the concept of environmental protection, avoids plastic but chooses more environmental friendly paper materials for egg packaging, and insists on the recycling of packaging materials.

3. The Environment and Natural Resources

The Group is well aware that the Earth's natural resources are limited and attaches great importance to the conservation of natural resources and their utilization efficiency. In order to improve paper utilization efficiency and minimize paper consumption, the Group has taken the following measures strictly:

- The internal circulation of documents must use double-sided printing except for application forms, or official documents that must be signed by the management;
- When printing, reduce the font size and narrow the margins so that each page can hold more content;
- Carefully review the content and format before printing to reduce the error printing;
- Promote the use of paperless multimedia conferencing systems, such as CVTouch intelligent conferencing systems to reduce paper consumption;
- Try best to use email to reduce fax paper consumption (single-sided paper could be put into the fax machine tray). Scan the paper fax into electronic version for mail delivery, saving paper and telephone charges;
- Adopt the mode of "use - recycling" instead of that of "use - disposing". Separate the single-sided paper and double-sided paper neatly for better recycling;
- Single-sided paper can be used as scratch paper or printing paper.

Society

Employment and Labour Practices

1. Employment

The Group regards employees as one of the most important and valuable assets. As businesses grow, it is essential to build sustainable workforce and attract and retain talented people. The Group strictly abides by the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) and other relevant laws to ensure legitimate and reasonable wages and benefits for employees and effectively prevent illegal employment of child labour to ensure a fair and equitable work environment for the employees. The Group respects all employees and does not discriminate on the grounds of race, religion, complexion, sex, nationality, age and disability in respect of employment, training, performance management, election, payroll and promotion. At the same time, any termination of the employment contract will be based on reasonable and legitimate reasons. Unfair or unreasonable dismissals are strictly prohibited. The Human Resources Department of the Group regularly reviews the latest laws and regulations and updates the relevant human resources policies.

The Group abides by the law and takes into account market trends in attracting and retaining employees. Besides the statutory paid holidays, social insurance, housing fund and competitive salary, the Group provides the employees with other paid leaves, such as annual leave, maternity leave, paternity leave, marriage leave, funeral leave, and family planning leave. The work and rest periods of the Group's employees are in accordance with local employment laws and are stated in the labour contract. Also, for some work positions and special work types, the Group adopts flexible working time system to protect the balance between work and personal life of the employees. The Group conducts annual assessment according to staff performance, attitude, ability and other factors, and adjusts salary levels according to the assessment results to ensure that outstanding employees get the appropriate return. To cultivate a sense of belonging among employees, the Group provides various welfares for employees, including birthday gifts, annual physical examination, work uniforms, fully equipped dormitories, and annual travel expenses reimbursement for family visits and plentiful self-cultivated agricultural products as holiday gifts. Annual meetings, team-building projects and various cultural and sports activities are held annually to promote friendship and team-building. In addition, in order to retain and reward key personnel, the Group has a project entitled 2009 Scheme that contains a superannuation fund and provides at most ten years' retiring allowances for certain employees who have been actively involved in the business development of the Group and served the Group for more than ten years. Under the scheme, the Board may select the members to join the scheme from time to time based on appropriate terms and conditions. The 2009 Scheme was terminated and replaced by a New Key Employee Benefit Scheme with effect from 1 January 2017 upon obtaining the approval of the Board. Related details of the New Key Employee Benefit Scheme are indicated in note 36 of Consolidated Financial Statements.

To attract talents, the Group regularly holds annual campus recruitment regularly drive targeting fresh graduates with bachelor's and master's degrees from well-known medical and pharmaceutical universities all over China. In order to create an equal and comfortable working environment for employees, the Group organises annual staff meetings and maintains daily opinion exchanges through open mailbox of the Human Resources Department to encourage employees to express their opinions and suggestions on the working environment and remuneration. The Group's Human Resources Department has reviewed the staff feedback and taken corresponding measures to make the staff satisfied.

2. Health and Safety

The Group is committed to creating a safe and healthy working environment for the employees and has strictly complied with relevant laws and regulations of the People's Republic of China, including the People's Republic of China Safety Production Law (《中華人民共和國安全生產法》), the Law of the People's Republic of China on Prevention and Control of Occupational Diseases(《中華人民共和國職業病防治法》), Regulations on Work-Related Injury Insurances(《工傷保險條例》) and other relevant policies. Moreover, the Group urges the responsible personnel at all levels to do their due responsibilities of safety management in daily work and production and eliminate hidden dangers timely. The Group upholds the concept of "Safety First, Health First" ("安全第一，健康至上") and continuously strengthens safety awareness of employees to ensure that the working environment is clean, smokeless, healthy and safe.

Meanwhile, the Group pays great attention to the health and safety of employees and organises annual comprehensive health examination for the employees. The Group strictly manages the health status of relevant staff engaged in direct contact with drugs and makes sure that staff in different positions complies with health requirements. For the employees whose health conditions are not qualified, the Group will transfer their positions promptly. During the Reporting Period, there were no industrial accidents and no adverse problems in health and safety.

3. Development and Training

The Group is committed to the development of human resources and arranges regular internal and external trainings for staff with different level of experience in different positions. The Group has established the "Kangzhe College" training base in Shenzhen Pingshan pharmaceutical factory to provide professional training to relevant employees. The Group also has an online training platform Training Master ("培訓寶") for convenience. The training system of the Group is mainly divided into trainee induction training, new staff induction training, advanced training, and district manager training. The training covers product knowledge, sales skills, corporate culture, industry compliance, corporate structure and business scope, employee development and benefits, regional management policies, business etiquette and so on. The main training staffs are intern representatives, sales representatives and regional managers.

For promotion specialists, the Group organises training relating to medical knowledge, pharmaceutical academic knowledge and law compliance. All the promotion specialists are obliged to complete the Group's professional training timely and completely in order to deliver sufficient and accurate medical information to the medical professionals. The Group also actively organises training for all staff on drug operation and related knowledge. For example, during the Reporting Period, the Registration and Quality Management Department arranged training and assessment on GSP knowledge and drug and medical equipment adverse reactions/ event awareness (《藥品及醫療器械不良反應/事件意識》) for all the staff in order to enhance staff awareness and responsibility for GSP, adverse reaction/ event monitoring and reporting.

4. Labour Standards

The Group strictly abides by the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), Prohibition of the Use of Child Labour of the People's Republic of China (《中華人民共和國禁止使用童工規定》), the Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》) and other related labour laws and regulations to prohibits any child and forced labour employment. The Human Resource Department of the Group specifies that all employees shall provide valid identity documents to ensure that the applicants are lawfully employable to ensure the full compliance with the relevant laws and regulations prohibiting child and forced labour. There will be regular checks and inspections on the execution of our human resources policies for the Group headquarters and subsidiaries to prohibit child labour, underage labour and forced labour. In the Reporting Period, there is no breach of laws on child labour or forced labour identified in the Group.

Operation Practices

5. Supply Chain Management

The Group's main suppliers are pharmaceutical manufacturers from Germany, Denmark, Ireland, France, Switzerland, Japan and Mainland China, providing raw materials and finished products, etc. When selecting suppliers, the Group seriously considers factors such as the operation and production qualification, product quality, market prospect, service quality, environmental protection concept, business ethics and social responsibility. The Group is inclined to select socially responsible suppliers and hopes to implement green supply chain practices in the Group's business. The Group is committed to creating mutually beneficial cooperation with the suppliers.

The products purchased by the Group are mainly finished drug products. In selection of these suppliers, the Group will first examine the size, history, production status, product types, quality reputation, quality management, and whether it is certified in terms of production, operation and sales according to local standards. Before export of drugs, overseas suppliers must provide delivery inspection report with equivalent or higher standard certificates than the Chinese registration standards to ensure the product quality. The relevant suppliers must have export qualifications. For domestic suppliers, the Group requires to obtain and inspect the following certificates that include but not limited to: Drug Production License (《藥品生產許可證》) or Drug Operation License (《藥品經營許可證》), Business License (《營業執照》) and GMP or GSP quality control system certificate.

During the course of transportation, the Group accords to strict standard of temperature and humidity required by the products and buys necessary transportation insurance. The Purchase Department, Sales Department and the management have close contact with the suppliers, and update procurement planning regularly. Suppliers are actively positioned ahead based on the Group's projection, including expansion of production lines, finding more upstream raw material suppliers, and replacement of large capacity equipment to ensure the production requirements. The Group has signed mid or long term supply agreements and quality assurance agreements with most major suppliers to ensure price and quality stability.

Business of pharmaceutical production

The suppliers in this segment mainly provide raw materials required in the production procedure and packaging materials for pharmaceuticals. The Group uses a variety of channels to find and collect suppliers' information. Potential suppliers will be investigated in details and handed to the Quality Management Department for further assessment. The Group usually chooses at least two potential suppliers for each material. Qualified suppliers must be legitimate production/ operation enterprises approved by the relevant state departments and have a sound quality management system, a solid technical capacity and good management standard. Besides, the Group prefers suppliers with easier transportation of products to reduce the transportation costs and indirect pollution to the environment. Furthermore, the Group conducts annual assessment to existing suppliers.

The Group is also in strict control over the post-management of selected suppliers. The Group traces and monitors the quality of material in the procedures of acceptance, inspection and production. Once finding quality problems, the Quality Management Department of the factory sites will hand in the Material Quality Complaints Notice (《物料品質投訴通知單》) and corresponding evidence to the supplier. When the supplier receives the quality complaint, the Quality Management Department asks the supplier to reply according to the time stipulated in the quality agreement. The Group tracks the rectification and only places the order to the supplier after it identifies the reasons and makes rectification.

Agriculture and livestock business

The main suppliers in this segment are located in Hunan Province, mainly providing animal feeds such as corn, soybean meal and wheat bran. The Group attaches great importance to the supply's quality and whether the supplier has the concept of going green and environmental protection and gives priority to those providing high-quality and green products. The Group conducts an assessment of the suppliers every year. If the supplies are found to be unqualified, the Group will promptly return them or replace them with the qualified products.

6. Product Responsibility

The Group has strictly abided by relevant laws and regulations of the People's Republic of China relating to the drug products in business of direct academic promotion and others, including but not limited to the People's Republic of China Drug Administration Law （《中華人民共和國藥品管理法》), the People's Republic of China Drug Administration Law Implementation Regulations（《中華人民共和國藥品管理法實施條例》), Provisions for Adverse Drug Reaction Reporting and Monitoring（《藥品不良反應報告和監測管理辦法》), Provisions for Drug Registration（《藥品註冊管理辦法》), Administrative Regulations for Insert and Packaging Labels of Drug （《藥品說明書和標籤管理規定》) and Provisions for Supervision of Drug Distribution（《藥品流通監督管理辦法》).

The drug products promoted and sold by the Group are all registered in the nation, and the imported products are all checked and accepted by the imported pharmaceutical inspection report issued by the drug import ports or, domestic drugs by manufacture inspection report. The Group's subsidiaries involved in pharmaceutical operations have all passed the latest GSP certification. As for product storage, the Group has reasonable storage arrangement according to the quality characteristics of the products, which is equipped with warehouse, air conditioning, and facilities for shading, ventilation, anti-moisture, pest control, rodent control and safety monitoring. Furthermore, the Group is equipped with 24-hour automatic temperature and humidity monitoring system to maintain a good storage status. Before delivery, the Group will check the products in line with the requirements of the GSP to ensure packaging integrity. The Group has established the drug alert team, who is responsible for the collection, evaluation, feedback, reporting complains of adverse drug reaction, and reports to the provincial and national drug regulatory authorities about the complains of adverse drug reaction received according to the regulation. The Group has stipulated the Rules for the Recall of Drug （《藥品召回操作規程》） in accordance with the Measures for the Administration of Drug Recall（《藥品召回管理辦法》), the Codes for Quality Management of Pharmaceutical（《藥品經營品質管制規範》), the Provisions for Adverse Drug Reaction Reporting and Monitoring（《藥品不良反應報告和監測管理辦法》) issued by the State Food and Drug Administration. The relevant quality managers will set up a recall team according to the results of the investigation of product safety risks and decide whether to recall the products and decide on the recall level. Most of the drugs can be tracked with drug regulatory code to protect the public's health and safety. During the Reporting Period, there was no recall of drugs due to health and safety issues.

The Group strictly abides by the Advertising Law of the People's Republic of China（《中華人民共和國廣告法》) and relevant laws and regulations. The Group only publishes any advertising content based on the academic promotion needs on the medical professional publications designated jointly by the Ministry of Health and the State Food and Drug Administration (CFDA) with approval from relevant departments of the government. At the same time, the Group strictly abides by Administrative Regulations for Insert and Packaging Labels of Drug（《藥品說明書和標籤管理規定》). And the Group's legal department provides real-time communication and assistance in such matters.

Business of pharmaceutical production

Adhering to the concept of "Quality first, Customer first; Program management, Continuous improvement" ("品質第一，用戶至上；程式管理，持續改進"), the Group requests every employee engaged in pharmaceutical product manufacturing to try best to provide zero-defect work quality to the clients. To ensure product quality, the Group emphasises the quality audit of the materials provided by suppliers. Starting from the origin, after the raw materials entered the manufacturer, the Group has strictly complied with the national quality standards to examine the material and make sure they are qualified before production. Production workshop has passed the latest drug GMP certification, where production proceeds strictly up to GMP standards and approved process prescription with process monitoring in all aspects.

The Group has established a sound quality and safety mechanism. The Group's subsidiaries in production have quality management departments to carry out quality inspection of the materials and products samples. All the finished products and their packaging have been inspected by the quality management department with an inspection report to show that they have met the relevant national drug standards. The Group has a storage room for finished products, where the temperature, humidity, light are strictly controlled to ensure that the drugs are stored properly.

Agriculture and livestock business

The Group is committed to building "agriculture with green ecology, science and technology" ("綠色生態、科技智慧農業"). The crop products from the Group comply with the Regulations of the People's Republic of China on Food Safety (《中華人民共和國食品安全條例》) and are tested as qualified by the professional quality inspection agency. This business segment is still in its infancy, mainly including the production of green shell eggs, kumquat and purple small tomatoes and others which are distributed to employees as welfare. The soil, water and nutrient matrices used in this segment have all passed the SGS test to ensure that the crops are grown in an excellent agricultural environment. The Group also engages a professional testing institution to test the chemical substances on the crops to ensure food security. The Group plans to establish a comprehensive quality management system as soon as possible to enhance the quality control of crop products.

Protection of intellectual property and data confidentiality

The Group strictly abides by the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Trademark Law of the People's Republic of China (《中華人民共和國商標法》), the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》) and other relevant laws and regulations. To prevent the infringement of intellectual property rights, the Group has established internal supervision system and controls the infringement promptly if found. The practices include that the relevant technical staff must sign the Confidentiality Agreement to implement the daily technical confidentiality work.

To ensure the stable development of the Group, employees must be in strict accordance with the staff manual and related systems to implement the confidentiality system on products, including but not limited to operating secrets and technical secrets. The Group is committed to abiding by the Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) and internal privacy policy to ensure that the rights of products and customers are strictly protected. The Group has a sound regulatory system to protect the customer's personal data and privacy, and has taken security measures to prevent data loss or leakage as below:

- All data are stored in the Group's headquarter server, which has security measures to prevent loss of information or leakage; and
- Customer information is stored on the server. Staff access and maintain the database only if they are authorised.

7. Anti-corruption

The Group strictly adheres to Law of the People's Republic of China on Anti-money Laundering (《中國反洗錢法》) and relevant laws and regulations related to the pharmaceutical products, including but not limited to the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》), Regulations of the People's Republic of China on Drug Administration Law (《中華人民共和國藥品管理法實施條例》) and the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》). The Group attaches great importance to the moral concept and code of conduct in the employees. The Group has stipulated the CMS Employee Codes of Professional Ethics (《CMS 員工職業道德守則》) and CMS Anti-Fraud Management Policies (《CMS 反舞弊管理制度》), and requires all employees to strictly abide by professional ethics and eliminate any corruption and bribery. The Group has established internal Compliance Department to supervise and report any violations of the professional ethics. To ensure the conduct compliance of sales promotion during their promotional activities with the medical professionals, the Group has also stipulated the Codes of Conduct for Promotional Personnel (《從業人員推廣行為準則》).

The Group has formulated the functional division of labour and departmental operation standards for different departments to prevent internal and external corruption, money laundering and bribery and ensure the normal operation of business. The Group allows employees to communicate with their supervisors or relevant departments when they encounter or suspect a violation. Employees can also use fax, mail or internal ERP platform to report directly or anonymously to the Chief Executive Officer. The Group is strictly confidential to any reported information.

Community

8. Community Activity Investments

The Group believes that enterprise and community are inseparable as a whole. On the one hand, the development of enterprise can lead to the development of the community. For example, it can promote employment and increase tax revenue, providing economic and social security for community development. On the other hand, the development of enterprise is also inseparable from the community's support and help. To better fulfil its social responsibilities, the Group is committed to contributing in the following areas:

- Actively cooperate with the work of the community to strengthen communication with local government and social organizations;
- Actively promote social employment and contribute to alleviating employment problems;
- Protect the environment, effectively control the "three wastes" emissions, and actively achieve energy conservation; and
- Adhere to tax legally.

The Group upholds the concept of "Take from the people, Return to society" ("取之於民，回報社會") and is committed to promoting the economic development and living environment of the community by self-improvement. The Group insists on providing monetary assistance to individuals and organizations in the community, and always holds community caring activities. The followings are the representative deeds of the Group in recent years:

The Group donated about RMB1.3 million worth of medicines and RMB500,000 in cash to the Tianjin Red Cross through the Chinese Red Cross for the emergency rescue of the explosion tragedy in Binhai New District in Tianjin. The Group joined the digestive branch of the Chinese Medical Association to participate in the volunteer clinic activities in the Liangshan First Hospital, and gave away free medicines, for sending health and cares to Yi people. The Group sponsored Guangdong Medical College for two consecutive years for their "Warming Countryside Activity" (“暖風三下鄉”)and donated anti-altitute medicine and money to their volunteer activities. The Group has contributed to the development of local education for many years and has helped hundreds of poor students to finish their education, sponsoring them to achieve their education dreams. The Group periodically donates the extra agricultural products to the nearby villages and schools.

For employees and their family members, the Group sponsors a variety of sports activities each year, including swimming, badminton, basketball, travel and so on, and provides excellent and poor family with education and living fund.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Medical System Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 65 to 133, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 Hong Kong Institute of Certified Public Accountants ("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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED- continued
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Intangible Assets	
We identified the impairment of intangible assets as a key audit matter due to significant judgment required by the management in determining the impairment of intangible assets. The impairment of intangible assets is determined by comparing the carrying amounts with the recoverable amounts which are estimated with reference to the value in use calculation based on the cash flow forecast prepared by management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on management's view of future business prospects. As at 31 December 2016, the carrying value of intangible assets was RMB2,886 million. Details relating to the Group's intangible assets are set out in note 17 to the consolidated financial statements.	Our procedures in relation to the impairment of intangible assets included: • Making inquiries with management on their bases and assumptions used in relation to the preparation of the value in use calculation; • Checking the mathematical accuracy of the value in use calculation; • Evaluating the reasonableness of the key assumptions including growth rate, discount rate and the forecast performance used by the management with reference to the historical performance; • Checking the inputs used in the cash flow forecast against supporting documentation; and • Evaluating the sensitivity analysis prepared by the management on the growth rate and discount rate to assess the extent of impact on the value in use calculation.

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED- continued
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Goodwill	
We identified the impairment of goodwill as a key audit matter due to the involvement of significant judgment of the management in determining the impairment of goodwill. The impairment of goodwill is determined based on the higher of fair value less costs to sell and value in use of the cash generating units, which is based on the cash flow forecast prepared by management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on management's view of future business prospects. As at 31 December 2016, the carrying value of goodwill was RMB1,385 million. Details relating to the Group's goodwill are set out in note 18 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill included: • Enquiring of management on their bases and assumptions used in relation to the preparation of the value in use calculation; • Checking the mathematical accuracy of the value in use calculation; • Evaluating the reasonableness of the key assumptions including growth rate, discount rate and the forecast performance used by the management with reference to the historical performance; • Testing the inputs used in the cash flow forecast against supporting documentation; and • Evaluating the sensitivity analysis prepared by the management on discount rate and growth rates to evaluate the extent of impact on the value in use calculation.

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED- continued
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our 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 Directors and Those Charged with Governance 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 IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED- continued
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

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

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

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

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

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

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

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

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

TO THE SHAREHOLDERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED- continued
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

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

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

The engagement partner on the audit resulting in the independent auditor's report is Gladys Fung Suet Ngan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Turnover	5	4,900,812	3,553,431
Cost of goods sold		(1,988,911)	(1,507,335)
Gross profit		2,911,901	2,046,096
Other gains and losses	6	(22,078)	31,547
Selling expenses		(1,173,760)	(814,122)
Administrative expenses		(221,714)	(192,721)
Finance costs	7	(42,520)	(24,109)
Share of results of associates		48,612	17,400
Profit before tax		1,500,441	1,064,091
Income tax expense	10	(122,524)	(67,625)
Profit for the year	11	1,377,917	996,466
Other comprehensive income (expense), net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		-	(432)
Share of other comprehensive income of associates		315	431
Other comprehensive income (expense) for the year, net of income tax		315	(1)
Total comprehensive income for the year		1,378,232	996,465
Profit for the year attributable to:			
Owners of the Company		1,375,936	995,935
Non-controlling interests		1,981	531
		1,377,917	996,466
Total comprehensive income attributable to:			
Owners of the Company		1,376,251	995,934
Non-controlling interests		1,981	531
		1,378,232	996,465
		RMB	RMB
Earnings per share	13		
Basic		0.5532	0.4037

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	14	361,724	325,936
Prepaid lease payments	15	60,541	61,379
Interests in associates	16	1,363,361	1,321,793
Intangible assets	17	2,885,597	1,026,242
Goodwill	18	1,384,535	1,384,535
Deposits paid for acquisition of property, plant and equipment and intangible assets		143,413	127,650
Interest-bearing and secured loan receivable		10,960	10,642
Deferred tax assets	19	30,544	24,903
		6,240,675	4,283,080
Current assets			
Inventories	20	509,004	385,177
Trade and other receivables	21	1,682,420	1,164,013
Tax recoverable		14,240	21,701
Amount due from an associate	22	862,803	35,096
Bank balances and cash and deposits	23	482,451	508,516
		3,550,918	2,114,503
Current liabilities			
Trade and other payables	24	579,122	392,717
Bank borrowings	25	1,612,398	463,903
Deferred consideration payables	26	1,096,424	13,595
Tax payable		108,223	33,009
		3,396,167	903,224
Net current assets		154,751	1,211,279
Total assets less current liabilities		6,395,426	5,494,359
Capital and reserves			
Share capital	27	85,200	85,200
Reserves	28	6,124,182	5,210,807
Equity attributable to owners of the Company		6,209,382	5,296,007
Non-controlling interests		58,442	56,461
		6,267,824	5,352,468

	NOTES	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Deferred tax liabilities	19	105,563	108,613
Deferred consideration payables	26	22,039	33,278
		127,602	141,891
		6,395,426	5,494,359

The consolidated financial statements on pages 65 to 133 were approved and authorised for issue by the Board of Directors on 23 March 2017 and are signed on its behalf by:

LAM Kong
DIRECTOR

CHEN Yanling
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to the owners of the Company									
	Share capital	Share premium	Capital reserve	surplus reserve fund	Translation reserve	Accumulated profits	Dividend reserve	Total	attributable to non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (note 28)	RMB'000 (note 28)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	82,974	1,767,684	19,545	137,844	(9,204)	1,824,895	167,101	3,990,839	-	3,990,839
Profit for the year	-	-	-	-	-	995,935	-	995,935	531	996,466
Exchange differences arising on translation of foreign operations	-	-	-	-	(432)	-	-	(432)	-	(432)
Share of other comprehensive income of an associate	-	-	-	-	431	-	-	431	-	431
Total comprehensive income for the year	-	-	-	-	(1)	995,935	-	995,934	531	996,465
Issue of shares (note 27)	2,226	676,612	-	-	-	-	-	678,838	-	678,838
Acquisition of a subsidiary (note 31)	-	-	-	-	-	-	-	-	55,930	55,930
Dividends paid (note 12)	-	-	-	-	-	(202,503)	(167,101)	(369,604)	-	(369,604)
Dividends proposed (note 12)	-	-	-	-	-	(201,218)	201,218	-	-	-
Transfer of reserves	-	-	-	11,905	-	(11,905)	-	-	-	-
Balance at 31 December 2015	85,200	2,444,296	19,545	149,749	(9,205)	2,405,204	201,218	5,296,007	56,461	5,352,468
Profit for the year	-	-	-	-	-	1,375,936	-	1,375,936	1,981	1,377,917
Share of other comprehensive income of an associate	-	-	-	-	315	-	-	315	-	315
Total comprehensive income for the year	-	-	-	-	315	1,375,936	-	1,376,251	1,981	1,378,232
Dividends paid (note 12)	-	-	-	-	-	(261,658)	(201,218)	(462,876)	-	(462,876)
Dividends proposed (note 12)	-	-	-	-	-	(289,516)	289,516	-	-	-
Transfer of reserves	-	-	-	26,688	-	(26,688)	-	-	-	-
Balance at 31 December 2016	85,200	2,444,296	19,545	176,437	(8,890)	3,203,278	289,516	6,209,382	58,442	6,267,824

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES			
Profit before tax		1,500,441	1,064,091
Adjustments for:			
Amortisation of intangible assets	17	150,883	58,488
Impairment loss on intangible assets	17	20,000	-
Interest expenses		39,040	19,985
Depreciation of property, plant and equipment	14	24,976	19,263
Allowance for inventories		2,940	2,701
Loss on disposal of property, plant and equipment		314	1,044
Release of prepaid lease payments		1,672	1,639
Imputed interest expense on deferred consideration payables		3,480	4,124
Allowance for bad and doubtful debts		2,313	1,644
Share of results of associates		(48,612)	(17,400)
Interest income		(20,005)	(10,039)
Operating cash flows before movements in working capital		1,677,442	1,145,540
Increase in inventories		(126,767)	(185,027)
Increase in trade and other receivables		(519,139)	(278,375)
Increase in amount due from an associate		(85,244)	(8,197)
Increase in trade and other payables		170,129	47,629
Cash generated from operations		1,116,421	721,570
People's Republic of China ("PRC") Enterprise Income tax paid		(46,313)	(104,169)
Hong Kong Profits Tax paid		(2,228)	(2,849)
Net cash from operating activities		1,067,880	614,552

	NOTES	2016 RMB'000	2015 RMB'000
INVESTING ACTIVITIES			
Receipt of (investment in) structured deposits		279,180	(279,180)
Release of pledged bank deposit		-	209,481
Interest received		7,515	14,029
Dividends received from associates		7,361	4,500
Purchase of prepaid lease payments		-	(349)
Acquisition of subsidiaries	31	-	(229,449)
Purchase of property, plant and equipment		(48,891)	(43,150)
Purchase of intangible assets		(1,008,732)	(486,019)
Proceeds from disposal of property, plant and equipment		1,643	-
Loan to an associate		(683,265)	-
Deposits for acquisition of property, plant and equipment and intangible assets		(16,150)	(51,132)
Repayment from the related parties of non-controlling interests		-	8,766
NET CASH USED IN INVESTING ACTIVITIES		(1,461,339)	(852,503)
FINANCING ACTIVITIES			
New bank borrowings raised		2,883,940	561,963
Repayment of deferred consideration payables		(8,000)	(6,122)
Interest paid		(39,751)	(25,561)
Dividends paid	12	(462,876)	(369,604)
Repayment of borrowings		(1,729,087)	(619,785)
Proceeds from issue of shares		-	678,838
NET CASH FROM FINANCING ACTIVITIES		644,226	219,729
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		250,767	(18,222)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		229,336	243,515
Effects of exchange rate changes on the balance of cash held in foreign currencies		2,348	4,043
CASH AND CASH EQUIVALENT AT THE END OF YEAR REPRESENTED BY BANK BALANCES AND CASH	23	482,451	229,336

1. GENERAL

China Medical System Holdings Limited, the "Company" was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by The Stock Exchange of Hong Kong Limited on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 8/F., Block A, Tong Fong Information Centre, Lang Shan Road, Nan Shan, Shenzhen, the PRC.

The Company is an investment holding company. The principal activities of its subsidiaries are production of medicines, marketing, promotion and sale of drugs.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and major subsidiaries.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

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

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

IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets. Key requirements of IFRS 9 which are relevant to the Group is in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the application of IFRS 9 in the future may have impact on the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 15 *Revenue from Contracts with Customers*

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

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 16 *Leases* - continued

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group had non-cancellable operating lease commitments of RMB9,873,000 as disclosed in note 32. The application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Except as described above, the directors of the Company do not anticipate that the application of the new and amendments to IFRSs will have material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRS issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

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

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

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

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent of the lowest level of which the goodwill is monitored for internal management purposes and not lower than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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

Investments in associates

An associate is an entity over which the Group has 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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

When the Group acquires additional interest in an investee such that it has become an associate after additional acquisition, the investment in the associate is initially recognised at cost, which is the sum of the fair value of the previously held interest at the date when significant influence is obtained and the consideration paid/payable for the additional interest. The Group has adopted an accounting policy to reclassify to profit or loss the cumulative gain or loss in relation to the available-for-sale ("AFS") investments previously held by the Group up to the date when significant influence is obtained which has been previously accumulated in the investment revaluation reserve by analogy to IFRS 3 Business Combination, i.e. treat the transaction as if the original investment was disposed of for fair value and the Group acquired an associate for the first time.

When the associate is acquired in stages, goodwill is calculated at the time at which the investment becomes an associate and the goodwill is calculated as the difference between the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates - continued

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

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets - research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Internally-generated intangible assets - research and development expenditure - continued

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

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

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

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

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

Prepaid lease payments

Prepaid lease payments represent the cost of land use rights paid to the local land bureau of the PRC Government.

Land use rights are stated at cost and are charged to profit or loss on a straight-line basis over the period for which the relevant land use right has been granted to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

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

Financial assets

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Financial assets at FVTPL

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan receivable, trade and other receivables, amount due from an associate and bank balances and cash and deposits) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

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

Impairment of financial assets

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities, including trade and other payables, bank borrowings and deferred consideration payables, are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associate liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service fee income is recognised when services are provided. Service fee income is deferred and included in "trade and other payables" line item in the consolidated statement of financial position for amount received but related services yet to be provided by the Group.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Taxation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

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

Exchange differences, arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group interests.

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

Leasing

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing - continued

The Group as lessee

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

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

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Borrowing costs

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Government grants

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

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes, which is a defined contribution scheme, are recognised as expenses when employees have rendered service entitling them to the contributions.

Payments to Employee Benefit Scheme including 2009 Scheme and New KEB Scheme, which is classified as a defined contribution scheme, are recognised as expenses in the reporting period in which the Board of Directors approve for the contribution to a trust.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to the five (2015: five) cash generating units ("CGU"s) (see note 18). The impairment assessment is based on the higher of fair value less costs to sell and value in use of the CGUs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on management's view of future business prospects. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss / further impairment loss may arise. In the opinion of the directors of the Company, no impairment of goodwill is required for the years ended 31 December 2016 and 2015. As at 31 December 2016, the carrying amount of goodwill is RMB1,384,535,000 (2015: RMB1,384,535,000).

Deferred tax assets

As at 31 December 2016, a deferred tax asset of approximately RMB29,343,000 (2015: RMB23,701,000) in relation to unrealised profits on inventories has been recognised in the Group's consolidated statement of financial position. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or there is a change in facts and circumstances which results in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the profit or loss in the period in which such a reversal or further recognition takes places.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Estimated impairment of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on management's view of future business prospects. If the recoverable amount of an intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. During the year ended 31 December 2016, an impairment loss of RMB20,000,000 (2015: nil) was recognised. An impairment loss is recognised as an expense immediately. As at 31 December 2016, the carrying amount of intangible assets is approximately RMB2,885,597,000 (2015: RMB1,026,242,000).

Estimated impairment of trade receivables

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made on the estimation of the future cash flows discounted at an effective interest rate. If the financial condition of the customers of the Group were deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2016, the carrying amounts of trade receivables (net of allowance for bad and doubtful debts) and allowance for bad and doubtful debts are approximately RMB1,068,481,000 (2015: RMB736,294,000) and RMB6,096,000 (2015: RMB3,914,000), respectively.

Estimated allowance for inventories

As at 31 December 2016, the carrying amount of the Group's inventories is approximately RMB509,004,000 (2015: RMB385,177,000). The management of the Group reviews an ageing analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete and slow moving items. The management also estimates the net realisable value for finished goods, work-in progress and raw materials based primarily on the latest invoice prices and current market conditions. If the conditions of inventory of the Group become no longer suitable for use in production or sale, an additional allowance may be required.

Estimated impairment of interest in associates

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of the recoverable amount of the associate which is the higher of value in use and fair value less costs of disposal. The Group has carried out impairment testing to determine whether the Group's interest in associates, specifically Tibet Rhodiola Pharmaceutical Holding Company, are impaired. The fair value less costs of disposal is determined based on the quoted market price of the shares of the associate as the directors of the Company considers that the costs of disposal are insignificant. As at 31 December 2016, the carrying amount of interest in associates is approximately RMB1,363,361,000 (2015: RMB1,321,793,000). Details of the interests in associates are disclosed in note 16.

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amount received and receivable for goods sold during the year.

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker, the Executive Directors of the Company that are used for resources allocation and assessment of segment performance.

The Group only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products. No operating results and discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group primarily operates in the PRC. All revenue for external customers are attributed to the PRC and a majority of non-current assets of the Group are located in the PRC.

No single customer contributes over 10% of the total sales of the Group for both years.

6. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Interest income	20,005	10,039
Government subsidies (note a)	25,330	29,083
Loss on disposal of property, plant and equipment	(314)	(1,044)
Net foreign exchange loss	(50,776)	(8,070)
Impairment loss on intangible assets (Note 17)	(20,000)	-
Others	3,677	1,539
	(22,078)	31,547

Note:

(a) The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to encourage business operation in the PRC. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings wholly repayable within five years	39,040	19,985
Imputed interest on deferred consideration payables	3,480	4,124
	42,520	24,109

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remunerations for the year, disclosed pursuant to the applicable Listing Rules and CO, are as follows:

	Year ended 31 December 2016							
	Executive Directors (Note b)			Independent Non-executive Directors (Note c)			Executive Director (Note b) and chief executive	
	Chen Hong Bing RMB'000	Chen Yan Ling RMB'000	Sa Man Lin RMB'000	Wu Chi Keung RMB'000	Cheung Kam Shing, Terry RMB'000	Huang Ming RMB'000	Lam Kong RMB'000 (Note a)	Total RMB$'000
Fees	156	156	156	156	156	156	156	1,092
Other emoluments								
Salaries and other benefits	654	525	529	-	-	-	624	2,332
Contributions to retirement benefits schemes	49	49	-	-	-	-	16	114
Total emoluments	859	730	685	156	156	156	796	3,538

	Year ended 31 December 2015							
	Executive Directors (Note b)			Independent Non-executive Directors (Note c)			Executive Director (Note b) and chief executive	
	Chen Hong Bing RMB'000	Chen Yan Ling RMB'000	Sa Man Lin RMB'000	Wu Chi Keung RMB'000	Cheung Kam Shing, Terry RMB'000	Huang Ming RMB'000	Lam Kong RMB'000 (Note a)	Total RMB$'000
Fees	146	146	146	146	146	146	146	1,022
Other emoluments								
Salaries and other benefits	655	526	529	-	-	-	586	2,296
Contributions to retirement benefits schemes	42	42	-	-	-	-	15	99
Total emoluments	843	714	675	146	146	146	747	3,417

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS - continued

Notes:

(a) Mr. Lam Kong is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.
(b) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Group.
(c) The independent non-executive director's emoluments shown above were mainly for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2016 included three directors (2015: four), details of whose emoluments are set out in note 8 above. The emoluments of the remaining two individuals for the year ended 31 December 2016 (2015: one individual) were as follows:

	2016 RMB'000	2015 RMB'000
Employees		
- basic salaries and allowances	1,372	642
- retirement benefits scheme contributions	89	40
	1,461	682

The emoluments of the employee were within the following bands:

	Number of employees	
	2016	2015
Up to HK$1,000,000 (equivalent to approximately RMB894,500)	2	1

During the year, no emoluments were paid by the Group to the directors or the highest paid individual (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments in both years.

10. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax:		
PRC Enterprise Income Tax	127,831	75,977
Hong Kong Profits Tax	3,258	2,034
Other jurisdictions	39	31
	131,128	78,042
Underprovision (overprovision) in prior years:		
PRC Enterprise Income Tax	-	(3,006)
Hong Kong Profits Tax	87	(20)
	87	(3,026)
Deferred taxation (note 19):		
- Current year	(8,691)	(7,391)
	122,524	67,625

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for the PRC taxation purposes at the rate of taxation applicable for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for those described below.

Starting from 1 January 2009, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% granted by the local tax authority until 7 December 2018. Starting from 15 October 2014, 康哲(湖南)制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% granted by local tax authority until 14 October 2017. Starting from 1 January 2015 , 西藏康哲醫藥科技有限公司 (Tibet Kangzhe Pharmaceutical Technology Co., Ltd.) ("Tibet Kangzhe Technoloy") and 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") are entitled to a reduced tax rate of 9% granted by local tax authority until 31 December 2017.

Pursuant to EIT Law, enterprises engaged in prescribed agriculture projects are exempted from EIT. In 2015 and 2016, 湖南康哲農牧業發展有限公司 (Hunan Kangzhe Agricultural Development Co., Ltd.) ("Kangzhe Agricultural") is eligible for such tax concession.

10. INCOME TAX EXPENSE - continued

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharma Co., Ltd ("CMS Pharma") (formerly known as CMS Pharmaceutical Agency Co., Ltd.) is eligible to elect to pay a lump sum taxation charge of MYR 20,000 (equivalent to approximately RMB36,000) or 3% on net audited profits. For the years ended 31 December 2016 and 2015, CMS Pharma elected to pay a lump sum tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit in both years.

The tax charge for the year can be reconciled to the 'profit before tax' per the consolidated statements of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	1,500,441	1,064,091
Tax at the applicable tax rate (note)	375,110	266,023
Tax effect of share of results of associates	(12,153)	(4,350)
Tax effect of expenses that are not deductible in determining taxable profit	29,570	17,366
Tax effect of income that is not taxable in determining taxable profit	(3,993)	(3,464)
Tax effect of tax losses not recognised	1,350	384
Tax effect of deductible temporary differences not recognised	2,555	68,153
Tax effect of tax concession	(98,467)	(51,574)
Effect on different applicable tax rates of subsidiaries	(3,357)	(1,124)
Effect of tax benefit arising from Labuan Tax Act	(168,734)	(218,754)
Underprovision (overprovision) in prior years	87	(3,026)
Utilisation of tax losses previously not recognised	(1,431)	(6,568)
Others	1,987	4,559
Income tax expense for the year	122,524	67,625

Note: The applicable PRC EIT rate of 25% (2015: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group.

11. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,092	1,022
Other emoluments	2,332	2,296
Pension costs	114	99
	3,538	3,417
Other staff costs	290,048	247,360
Pension costs	18,141	16,397
Employee benefit expense (note 36)	64,982	4,140
Total staff costs	376,709	271,314
Auditor's remuneration	2,295	2,046
Allowance for bad and doubtful debts	2,313	1,644
Allowance for inventories	2,940	2,701
Release of prepaid lease payments	1,672	1,639
Depreciation of property, plant and equipment	24,976	19,263
Amortisation of intangible assets (included in cost of goods sold)	150,883	58,488
Impairment loss on intangible assets	20,000	-
Cost of inventories recognised as an expense	1,828,085	1,438,291
Minimum lease payment under operating lease in respect of property	8,835	7,498

12. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividend paid		
Dividends recognised as distributions during the year:		
2016 Interim - RMB0.1052 (2015: 2015 interim dividend RMB0.0794) per share	261,658	197,486
2015 Final - RMB0.0809 (2015: 2014 final dividend RMB0.0692) per share	201,218	172,118
	462,876	369,604
Dividend proposed		
Dividend proposed during the year:		
2016 final - RMB0.1164 (2015: 2015 final dividend of RMB0.0809) per share	289,516	201,218

The Board of Directors have declared a final dividend of RMB0.1164 per ordinary share of par value of US$0.005 for the year ended 31 December 2016 (2015: RMB0.0809 per ordinary share of par value of US$0.005).

13. EARNINGS PER SHARE

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

	2016 RMB'000	2015 RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	1,375,936	995,935

	Number of ordinary shares as at 31 December	
	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,487,247,512	2,466,788,608

The Group has no outstanding potential ordinary shares as at 31 December 2016 and 2015 and during the years ended 31 December 2016 and 2015. Therefore, no diluted earnings per share is presented.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2015	96,915	1,295	31,873	27,756	12,888	137,129	307,856
Additions	4,222	-	41,651	347	2,185	26,931	75,336
Acquired on acquisition of subsidiaries (note 31)	13,291	-	3,205	-	535	-	17,031
Disposals	(209)	-	(5,079)	(463)	(2,621)	-	(8,372)
Transfer	70,667	-	87,050	-	-	(157,717)	-
At 31 December 2015	184,886	1,295	158,700	27,640	12,987	6,343	391,851
Additions	2,778	-	18,317	1,737	5,076	34,813	62,721
Disposals	(3,029)	-	(3,928)	(2,004)	(71)	-	(9,032)
Transfer	6,247	-	-	-	-	(6,247)	-
At 31 December 2016	190,882	1,295	173,089	27,373	17,992	34,909	445,540
ACCUMULATED DEPRECIATION							
At 1 January 2015	17,345	1,295	9,137	17,618	8,585	-	53,980
Provided for the year	6,526	-	7,799	3,471	1,467	-	19,263
Eliminated on disposals	(101)	-	(4,403)	(417)	(2,407)	-	(7,328)
At 31 December 2015	23,770	1,295	12,533	20,672	7,645	-	65,915
Provided for the year	8,394	-	12,502	2,429	1,651	-	24,976
Eliminated on disposals	(1,711)	-	(3,504)	(1,802)	(58)	-	(7,075)
At 31 December 2016	30,453	1,295	21,531	21,299	9,238	-	83,816
CARRYING VALUES							
At 31 December 2016	160,429	-	151,558	6,074	8,754	34,909	361,724
At 31 December 2015	161,116	-	146,167	6,968	5,342	6,343	325,936

14. PROPERTY, PLANT AND EQUIPMENT - continued

The above items of property, plant and equipment are depreciated over their estimated useful lives as follows:

Buildings	Over the shorter of the lease terms, or 20/40 years
Leasehold improvement	Over the shorter of the lease terms, or 20 years
Plant and machinery	9% - 18%
Motor vehicles	18%
Furniture, fixtures and equipment	18%

The Group has pledged property, plant and equipment with a net book value of approximately RMB6,365,000 (2015: RMB10,854,000) to secure certain bank borrowings granted to the Group.

15. PREPAID LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	61,966	62,804
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables)	1,425	1,425
Non-current assets	60,541	61,379
	61,966	62,804

The Group has pledged leasehold land with a net book value of approximately RMB29,017,000 (2015: RMB17,494,000) to secure general banking facilities granted to the Group.

16. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	1,304,356	1,304,356
Unlisted	11,536	11,536
Share of post-acquisition profits and other comprehensive income, net of dividends received	47,469	5,901
	1,363,361	1,321,793
Fair value of listed investment (note a)	2,097,591	1,696,205

16. INTERESTS IN ASSOCIATES - continued

Note a: As at 31 December 2016, the fair value of the Group's interest in its listed associate, Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical"), of which its shares are listed on the Shanghai Stock Exchange, was approximately RMB2,098 million (2015: approximately RMB1,696 million) based on the quoted market price available on the Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13 Fair Value Measurement.

As at 31 December 2016 and 2015, details of the associates are as follows:

Name of associates	Place of establishment/ incorporation	Principal place of business	Proportion of ownership interest held by the Group		Principal activities
			2016	2015	
Ophol Limited ("Ophol")	Hong Kong	Hong Kong	24.49%	24.49%	Investment holding and provision of agency service
Tibet Pharmaceutical (note b)	Tibet	Tibet	26.61%	26.61%	Production of medicines and sale

Note b: The Group holds an aggregate of 38,743,834 ordinary shares of Tibet Pharmaceutical and is able to exercise significant influence over Tibet Pharmaceutical which is thus being accounted for as an associate of the Group. Included in the cost of investment in Tibet Pharmaceutical as at 31 December 2016 and 2015, there is a goodwill of approximately RMB1,171,244,000. In the opinion of the directors, no impairment is identified in the interest in associate as the fair value of Tibet Pharmaceutical is higher than the carrying value at the end of both reporting periods.

Summarised financial information of associates

Summarised financial information in respect of each of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

16. INTERESTS IN ASSOCIATES - continued

Tibet Pharmaceutical

	31.12.2016 RMB'000	31.12.2015 RMB'000
Current assets	641,530	405,975
Non-current assets	1,649,150	300,355
Current liabilities	(1,604,722)	(192,222)
Non-current liabilities	(27,768)	(28,208)

	Year ended 31.12.2016 RMB'000	Year ended 31.12.2015 RMB'000
Turnover	796,807	1,375,726
Profit for the year	199,397	90,737
Other comprehensive income for the year	554	743
Total comprehensive income for the year	199,951	91,480
Dividends received from the associate during the year	7,361	1,937

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements.

	31.12.2016 RMB'000	31.12.2015 RMB'000
Net assets of Tibet Pharmaceutical	658,190	485,900
Non-controlling interests	2,445	3,552
	660,635	489,452
Proportion of the Group's ownership interest in Tibet Pharmaceutical	26.61%	26.61%
	175,795	130,243
Goodwill	1,171,244	1,171,244
Effect of fair value adjustment at acquisition	32,861	32,861
Effect of deferred tax relating to fair value adjustment at acquisition	(8,215)	(8,215)
Other adjustments	(11,260)	(7,030)
Carrying amount of the Group's interest in Tibet Pharmaceutical	1,360,425	1,319,103

16. INTERESTS IN ASSOCIATES - continued

Ophol

	2016 RMB'000	2015 RMB'000
Current assets	6,426	41
Non-current assets	5,575	10,953
Current liabilities	(12)	(11)

	2016 RMB'000	2015 RMB'000
Turnover	623	897
Profit for the year	325	184
Other comprehensive income for the year	681	956
Total comprehensive income for the year	1,006	1,140
Dividends received from the associate during the year	-	2,563

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements.

	2016 RMB'000	2015 RMB'000
Net assets of Ophol	11,989	10,983
Proportion of the Group's ownership interest in Ophol	24.49%	24.49%
Carrying amount of the Group's interest in Ophol	2,936	2,690

17. INTANGIBLE ASSETS

	Exclusive distribution rights	Patent rights	Product rights	Total
	RMB'000 (note a & note b(i))	RMB'000 (note b)	RMB'000 (note c)	RMB'000
COST				
At 1 January 2015	82,908	202,495	270,191	555,594
Exchange adjustments	-	2,221	44,346	46,567
Acquired on acquisition of a subsidiary (note b(iv) & note 31)	-	114,489	-	114,489
Additions (note c(iii))	-	-	486,019	486,019
At 31 December 2015	82,908	319,205	800,556	1,202,669
Additions (note a(iii))	2,029,012	1,226	-	2,030,238
At 31 December 2016	2,111,920	320,431	800,556	3,232,907
AMORTISATION				
At 1 January 2015	43,044	39,185	32,469	114,698
Exchange adjustments	-	231	3,010	3,241
Charge for the year	5,367	18,135	34,986	58,488
At 31 December 2015	48,411	57,551	70,465	176,427
Charge for the year	87,503	21,370	42,010	150,883
At 31 December 2016	135,914	78,921	112,475	327,310
IMPAIRMENT LOSS				
At 1January 2015	-	-	-	-
Charge for the year	-	-	-	-
At 31 December 2015	-	-	-	-
Charge for the year (note a(ii))	20,000	-	-	20,000
At 31 December 2016	20,000	-	-	20,000
CARRYING VALUES				
At 31 December 2016	1,956,006	241,510	688,081	2,885,597
At 31 December 2015	34,497	261,654	730,091	1,026,242

17. INTANGIBLE ASSETS - continued

(a) Exclusive distribution right

(i) On 9 March 2008, the Group entered into an exclusive distribution agreement and a supplementary agreement (the "XinHuoSu Agreements") with Tibet Pharmaceutical in connection to a finished drug product (Lyophilized Recombinant Human Brain Natriuretic Peptide) which was distributed in the PRC market under the trade name of XinHuoSu for a term of three years with effect from 1 July 2008 to 30 June 2012.

Pursuant to the XinHuoSu Agreements, the Group obtained the exclusive distribution right of XinHuoSu for nil consideration and committed to handle the Phase IV clinical trials of XinHuoSu for 2,000 cases in the PRC to meet the drug safety standards set by the Food and Drug Administration in the PRC ("SFDA"). The drug, XinHuoSu, to be used in the 2,000 case clinical trials would be provided by Rhodiola free of charge. All other costs of the 2,000 case clinical trials should be borne by the Group. The management of the Group estimated the total costs to be incurred for completion of the 2,000 case clinical trials would be approximately RMB6,500,000.

In the opinion of the directors of the Company, the Group obtained the exclusive distribution right of XinHuoSu on the basis that the Group should complete the clinical trials of XinHuoSu and would bear all the costs of the clinical trials. Therefore, the costs incurred in clinical trials of approximately RMB4,745,000 were capitalised as an intangible asset.

As at 31 December 2011, the exclusive distribution right was fully amortised.

(ii) On 23 August 2012, the Group entered into a product rights transfer agreement (the "Agreement") with 北京亞東生物製藥有限公司 (Beijing Yadong Biopharmaceutical Co., Ltd.) ("Beijing Yadong"), an independent third party. According to the Agreement, Tianjin Kangzhe purchased from Beijing Yadong the exclusive distribution rights of three Traditional Chinese Medicinal Products - Yin Lian Qing Gan Ke Li, Xiang Fu Yi Xue Kou Fu Ye, Ma Jiang Jiao Nang (collectively referred to as "Three Products") for a term of 20 years with effect from 23 August 2012 at a consideration of RMB33,000,000. Tianjin Kangzhe exclusively promotes and sells the Three Products in the PRC and Beijing Yadong is responsible for the production of the Three Products as required by Tianjin Kangzhe and sells the Three Products exclusively to Tianjin Kangzhe.

An impairment loss of RMB20,000,000 (2015: RMBnil) was recognised on the exclusive distribution rights of Three Products as the market base of Three Products is relatively weak and the actual sales of Three Products was lower than the amount previously projected. The recoverable amount of Three Products has been determined from a value in use, based on the expected free cash flow up to the end of the exclusive distribution right at a discount rate of 11% (2015: 11%). The recoverable amount of approximately RMB5,850,000 is lower than the carrying amount of approximately RMB25,850,000, an impairment loss of RMB20,000,000 was recognised during the year ended 31 December 2016.

The exclusive distribution rights are amortised over their expected useful lives of 20 years. As at 31 December 2016, the carrying amount was approximately RMB5,850,000 (2015: RMB27,500,000).

17. INTANGIBLE ASSETS - continued

(a) Exclusive distribution right - continued

(iii) On 26 February 2016, the Group entered into an exclusive license agreement with AstraZeneca AB, an independent third party, pursuant to which AstraZeneca AB grants an exclusive license to the Group for the commercialization of Plendil (Felodipine Sustained Release Tablet) in the PRC, at a consideration of US$310,000,000 (equivalent to approximately RMB2,029,012,000). US$155,000,000 had been paid during the year with the remaining balance of US$155,000,000 (equivalent to approximately RMB1,075,235,000) being included in deferred consideration which will be due in February 2017 (see note 26). As at 31 December 2016, the carrying amount of the exclusive license right was approximately RMB1,944,470,000.

Under the exclusive license agreement, the Group has agreed to meet certain pre-agreed annual sales target in relation to the sales of Pendil in the PRC for the first three years of the term of the exclusive license agreement. If the Company does not meet such sales targets, AstraZeneca AB has the right to terminate the exclusive license agreement.

The expected useful life of the exclusive license right is 20 years.

(b) Acquisition of exclusive distribution rights and patent rights

(i) The Group acquired 100% of equity interest in Great Move Enterprises Limited ("Great Move") and 51% of equity interest in Kangzhe Guangming on 3 April 2011 and 30 April 2011, respectively. This included the acquisition of exclusive distribution rights and patent rights for the sales of several products. The exclusive distribution rights and patent rights were measured at their fair values at the date of acquisition and the valuation of the intangible assets is performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent rights at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. The fair value of the exclusive distribution rights at the date of acquisition was determined based on the multi-period excess earnings method by capitalising future cash flows derived from the intangible assets for the remaining term of the distribution rights.

As at the acquisition date, the major patent rights owned by Tianjin Kangzhe, the wholly owned subsidiary of Great Move, represented YiNuoShu and ShaDuoLiKa amounting to RMB137,917,000 and RMB8,287,000, respectively and the exclusive distribution rights owned by Tianjin Kangzhe amounted to RMB39,350,000. As at 31 December 2016, the carrying amounts of patent rights of YiNuoShu and ShaDuoLiKa and exclusive distribution rights owned by Tianjin Kangzhe were approximately RMB91,313,000, RMB5,484,000 and RMB2,288,000, respectively (2015: RMB98,413,000, RMB5,972,000 and RMB3,296,000).

17. INTANGIBLE ASSETS - continued

(b) Acquisition of exclusive distribution rights and patent rights - continued

The Group also acquired the exclusive distribution right and patent right of XiDaKang amounting to RMB5,813,000 and RMB7,715,000, respectively through the acquisition of a former subsidiary, Kangzhe Guangming. As at 31 December 2016, the exclusive distribution right and patent right of XiDaKang were approximately RMB3,401,000 and RMB2,629,000, respectively (2015: RMB3,701,000 and RMB2,859,000).

The expected useful lives of the exclusive distribution rights and patent rights are ranging from 1 year to 17 years.

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming (the "Sellers") in connection with the transfer of the patent right of XiDaKang at a consideration of RMB40,000,000. The Sellers, who directly hold 49% equity interest of Kangzhe Guangming, agreed to transfer the 49% interest in the patent right of XiDaKang to Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), a wholly-owned subsidiary of the Company. The consideration will be settled by the first payment of RMB30,000,000 and annual payment of RMB1,000,000 to the Sellers over the next ten years. The directors of the Company recognised the payable as a deferred consideration payable (see note 26) in the amount of RMB6,145,000 at initial recognition which represents the present value of the annual consideration of RMB1,000,000 over next ten years discounted at 10%. Pursuant to the transfer agreement, the 51% interest in the patent right of XiDaKang is also transferred from Kangzhe Guangming to Kangzhe Hunan. Starting from 27 December 2013, Kangzhe Hunan has replaced Kangzhe Guangming as the patent right owner of XiDaKang. As at 31 December 2016, the carrying amount was approximately RMB28,579,000 (2015: RMB33,125,000).

The expected useful lives of the patent right is 14 years.

(iii) The Group acquired 100% of equity interest in Kangzhe Lengshuijiang Pharmaceutical Co., Ltd. (formerly known as Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd.) ("Kangzhe Lengshuijiang") on 28 February 2013. This included the acquisition of the patent right of GanFuLe. The patent right was measured at their fair values at the date of acquisition and the valuation of the intangible assets is performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. As at the acquisition date, the patent right owned by Kangzhe Lengshuijiang, represented GanFuLe, amounted to RMB16,005,000.

17. INTANGIBLE ASSETS - continued

(b) Acquisition of exclusive distribution rights and patent rights - continued

During the year ended 31 December 2016, Kangzhe Lengshuijiang was deregistered and merged with Kangzhe Hunan. The assets and liabilities held by Kangzhe Lengshuijiang were transferred to Kangzhe Hunan at the time of merger and Kangzhe Hunan is responsible for the production of GanFuLe after the merger. As at 31 December 2016, the carrying amount of the patent right of GanFuLe was approximately RMB10,784,000 (2015: RMB12,146,000).

The expected useful live of the patent right is 11 years.

(iv) The Group acquired 52.01% of equity interest in Hebei Xili Pharmaceutical Co., Ltd. ("Xili Pharmaceutical") on 16 February 2015. This included the acquisition of the patent right of DanShenTong. The patent right was measured at their fair values at the date of acquisition and the valuation of the intangible assets is performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right.As at the acquisition date, the patent right of DanShenTong owned by Xili Pharmaceutical, amounted to RMB114,489,000. As at 31 December 2016, the carrying amount was approximately RMB102,719,000 (2015: RMB109,139,000).

The expected useful live of the patent right is 18 years.

(c) Acquisition of product rights

(i) On 1 July 2014, the Group entered into a series of agreements related to Stulln with Pharma Stulln GmbH ("Pharma") in connection with the transfer of all assets related to Stulln for the Chinese market (including Hong Kong and Macau Special Administration Regions "SAR"), including but not limited to the right of manufacturing Stulln for the Chinese market, marketing authorization for the Chinese market and relevant intellectual property rights, including trademark in Chinese characters and know-how of Stulln, and has been licensed the exclusive right to utilise the trademark in English characters, at a consideration of EUR10,000,000 (equivalent to approximately RMB72,317,000). During the year ended 31 December 2014, the residual balance of the exclusive agency right of Stulln of approximately RMB14,625,000 was transferred to product right accordingly. As at 31 December 2016, the carrying amount of the product right was approximately RMB73,110,000 (2015: RMB81,312,000), which included a deferred consideration payable (see note 26) in the amount of approximately EUR4,487,000 (equivalent to approximately RMB32,785,000) (2015: EUR4,170,000 (equivalent to approximately RMB29,586,000)), which represented the present value of the annual consideration of EUR1,000,000 (equivalent to approximately RMB7,307,000) over next five years discounted at 10%.

The expected useful life of the product right is 20 years.

17. INTANGIBLE ASSETS - continued

(c) Acquisition of product rights - continued

(ii) On 17 December 2014, the Group entered into a series of agreements related to Lamisil Tablet and Parlodel Tablet (the "Products") with Novartis AG and Novartis Pharma AG, the suppliers of the Products in Switzerland in connection with the transfer of all assets related to the Products, including the drug production license of Lamisil Tablet, co-marketing authorization in Switzerland and imported drug license in China of Parlodel Tablet, all know-how, books and records, commercial and medical information exclusively to the Products for Chinese market (For Lamisil Tablet, Chinese market refers to Chinese Mainland; For Parlodel Tablet, Chinese market refers to Chinese Mainland and Hong Kong SAR and Taiwan), at a consideration of USD25,000,000 (equivalent to approximately RMB152,972,000). As at 31 December 2016, the carrying amount was approximately RMB146,106,000 (2015: RMB154,223,000).

The expected useful life of the product rights is 20 years.

(iii) On 25 March 2015, the Group entered into a series of agreements related to Combizym and Hirudoid (the "Purchased Products") with DKSH International AG, in connection with the purchase of (i) all trademarks regarding the Purchased Products; (ii) all market authorizations or similar licenses, certificates or approvals regarding the Purchased Products and all rights, benefits or other interests obtained; (iii) the exclusive right and title to develop, manufacture, register, apply for registration, import, market, distribute, sell or otherwise use and/or exploit the Purchased Products; and (iv) all books and records, commercial information and medical information related to the Purchased Products, with respect to Combizym in China, Hong Kong and Switzerland, and certain other designated countries or areas in Asia, and with respect to Hirudoid in China, at a consideration of CHF76,600,000 (equivalent to approximately RMB486,019,000). As at 31 December 2016, the carrying amount was approximately RMB468,865,000 (2015: RMB494,556,000).

The expected useful life of the product rights is 20 years.

18. GOODWILL

	RMB'000
COST	
At 1 January 2015	1,184,591
Arising on acquisition of subsidiaries (note 31)	199,944
At 31 December 2015 and 31 December 2016	1,384,535

For the purposes of impairment testing, the entire amount of goodwill has been allocated to five (2015: five) CGUs, representing five (2015: five) subsidiaries, namely Tianjin Kangzhe, Kangzhe Hunan, Sky United Trading Limited ("Sky United"), Xili Pharmaceutical and Tibet Kangzhe Development (2015: Tianjin Kangzhe, Kangzhe Lengshuijiang, Sky United, Xili Pharmaceutical and Tibet Kangzhe Development. Tianjin Kangzhe is engaged in marketing, promotion and sale of drugs. Sky United and Tibet Kangzhe Development are engaged in trading of drugs. Kangzhe Hunan and Xili Pharmaceutical are engaged in production of medicines. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2016 and 2015 allocated to these units are as follows:

	2016 RMB'000	2015 RMB'000
Tianjin Kangzhe	1,160,333	1,160,333
Kangzhe Hunan (2015: Kangzhe Lengshuijiang)	21,295	21,295
Sky United	2,963	2,963
Xili Pharmaceutical	198,090	198,090
Tibet Kangzhe Development	1,854	1,854
	1,384,535	1,384,535

The recoverable amounts of Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical and Tibet Kangzhe Development are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past performance and expectations of future changes in the market.

During the years ended 31 December 2016 and 2015, no impairment loss was recognised.

Tianjin Kangzhe

At 31 December 2016, the impairment review is determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 11% (2015: 11%). Tianjin Kangzhe's cash flows beyond the third-year period are extrapolated using a declining growth rate ranging from 4% to 3% (2015: 5% to 4%). This growth rate is based on management's best estimate and past experience on the industry.

18. GOODWILL - continued

Kangzhe Hunan

At 31 December 2016, the impairment review is determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 11% (2015: 11%). Kangzhe Hunan's cash flows beyond the third-year period are extrapolated using a declining growth rate from 10% to 5% (2015: 7% to 4%). This growth rate is based on management's best estimate and past experience on the industry.

Xili Pharmaceutical

At 31 December 2016, the impairment review is determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 11% (2015: 11%). Xili Pharmaceutical's cash flows beyond the third-year period are extrapolated using a declining growth rate from 21% to 8% (2015: 15% to 10%). This growth rate is based on management's best estimate and past experience on the industry.

The goodwill of Sky United and Tibet Kangzhe Development was immaterial as at the end of both reporting periods.

19. DEFERRED TAX

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Unrealised profits on inventories	Fair value adjustments to assets acquired in business combinations	Unrealised profit of available-for-sale investments	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	19,377	(17,213)	(63,964)	41	(61,759)
Credit (charge) to profit or loss for the year (note 10)	4,324	3,105	-	(38)	7,391
Acquisition of a subsidiary (note 31)	-	(30,541)	-	1,199	(29,342)
At 31 December 2015	23,701	(44,649)	(63,964)	1,202	(83,710)
Credit (charge) to profit or loss for the year (note 10)	5,642	3,050	-	(1)	8,691
At 31 December 2016	29,343	(41,599)	(63,964)	1,201	(75,019)

19. DEFERRED TAX - continued

The following is the analysis of the deferred tax assets (liabilities) for financial reporting purposes:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	30,544	24,903
Deferred tax liabilities	(105,563)	(108,613)
	(75,019)	(83,710)

At 31 December 2016, the Group had unused tax losses of approximately RMB14,322,000 (2015: RMB15,835,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2016 are tax losses of approximately RMB4,743,000 (2015: RMB9,218,000) that will be expired within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2016, tax losses of approximately RMB778,000 (2015: RMB602,000) was expired.

As at 31 December 2016, the Group had deductible temporary differences of RMB624,418,000 (2015:RMB596,446,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB116,320,000 (2015: RMB94,804,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB508,098,000 (2015: RMB501,642,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB2,202,450,000 (2015: RMB1,571,546,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

20. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	6,882	5,731
Work in progress	5,326	4,608
Finished goods	496,796	374,838
	509,004	385,177

21. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	1,074,577	740,208
Less: Allowance for bad and doubtful debts	(6,096)	(3,914)
	1,068,481	736,294
Bills receivables	423,624	233,269
Purchase prepayment	35,947	23,756
Value added tax receivable	88,479	121,325
Other receivables and deposits	65,889	49,369
Total trade and other receivables	1,682,420	1,164,013

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months is allowed to some selected customers.

An aging analysis of trade receivables (net of allowance for bad and doubtful debts) presented based on the invoice date at the respective reporting period, which approximated the respective revenue recognition date is as follows:

	2016 RMB'000	2015 RMB'000
0 - 90 days	976,052	671,069
91 - 365 days	91,820	63,618
Over 365 days	609	1,607
	1,068,481	736,294

The bills receivables of the Group are of the age within six months at the end of the reporting period. As at 31 December 2016, RMB263,801,000 (2015: nil) was discounted to banks for cash proceeds, of which RMB224,297,000 (2015: nil) arose from intra-group transactions which had then been fully eliminated on consolidation.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB108,993,000 (2015: RMB61,353,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

21. TRADE AND OTHER RECEIVABLES - continued

The following is an aging analysis of trade receivables which are past due but not impaired:

	2016 RMB'000	2015 RMB'000
0 - 90 days	103,388	59,250
91 - 365 days	5,018	1,359
Over 365 days	587	744
	108,993	61,353

The Group has provided full impairment for receivables that aged over 3 years from invoice date because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts:

	2016 RMB'000	2015 RMB'000
Balance at beginning of the reporting period	3,914	2,270
Impairment losses recognised on receivables	2,313	1,644
Amount written off as uncollectible	(131)	-
Balance at end of the reporting period	6,096	3,914

22. AMOUNT DUE FROM AN ASSOCIATE

During the year ended 31 December 2016, the Group granted a loan of US$105,100,000 to its associate, Tibet Pharmaceutical, to be used for the settlement of first part of the consideration for the acquisition of Imdur Assets by the Tibet Pharmaceutical (Note 37). At 31 December 2016, the aggregate amount of the loan and its interest receivable due from this associate was RMB 742,463,000. The loan is for a term of one year expiring on 30 April 2017 and is unsecured and bears an interest rate of 2.2% or 2.4% per annum.

As at 31 December 2016, the remaining balance of approximately RMB120,340,000 (2015: RMB35,096,000) represented prepayments made to Tibet Pharmaceutical for purchases of inventories. The amount is non-interest bearing and expected to be utilised within one year.

23. BANK BALANCES AND CASH/DEPOSITS

	2016 RMB'000	2015 RMB'000
Bank balances and cash	482,451	229,336
Deposits	-	279,180
	482,451	508,516

At 31 December 2015, the bank deposits carried interest at the prevailing market rate of 0.5% to 3.8% per annum.

The deposits amounting to approximately RMBnil (2015: RMB279,180,000) represented structured deposits denominated in RMB that were arranged by banks in the PRC. The structured deposits carried interest at rates which varied depending on the performance of the underlying money market instruments and debt instruments. The structured deposits were redeemable anytime from the date of purchase to the date of maturity. The structured deposits were designated at FVTPL on initial recognition as they contained non-closely related embedded derivatives. The directors of the Company were of the opinion that the fair values of the structured deposits approximated their principal amounts as at 31 December 2015.

All the structured deposits were subsequently redeemed at a price approximate to their fair value.

Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2016 RMB'000	2015 RMB'000
United State dollar ("US$")	17,902	905
Euro ("EURO")	9,780	14,211
Hong Kong dollars ("HK$")	849	2,321
RMB	-	59,874

24. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the reporting period as follows:

	2016 RMB'000	2015 RMB'000
0 - 90 days	106,681	92,496
91 - 365 days	29,624	3,025
Over 365 days	1,285	74
	137,590	95,595
Payroll and welfare payables	123,517	58,003
Other tax payables	28,424	36,594
Deferred promotion income	78,310	60,542
Payables for acquisition of property, plant and equipment	14,474	29,138
Other payables	78,378	37,358
Accruals	118,429	75,487
	579,122	392,717

The credit period on purchases of goods is ranging from 0 to 120 days.

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2016 RMB'000	2015 RMB'000
EURO	7,663	6,118
USD	99,757	-

25. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank loans	1,348,597	463,903
Advance from banks on discounted bills receivables with recourse - repayable within one year (Note a)	263,801	-
	1,612,398	463,903
Analysed as:		
Secured	288,801	25,000
Unsecured	1,323,597	438,903
	1,612,398	463,903
Carrying amount repayable within one year	288,801	25,000
Carrying amounts of bank loans that contain a repayment on demand clause		
Within one year	962,045	438,903
Within a period of more than one year but not exceeding two years	142,150	-
Within a period of more than two years but not exceeding five years	219,402	-
Amount due within one year shown under current liabilities	1,612,398	463,903

Note:

(a) Balance represented bills receivable discounted to banks for cash proceeds of approximately RMB263,801,000. The receivables arose from intra-group transactions which had then been fully eliminated on consolidation. If the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance.

25. BANK BORROWINGS - continued

The ranges of effective interest rates (which are also equal to contractual interest rate) on the Group's borrowings and their carrying values are as follows:

	2016 RMB'000	2015 RMB'000
Fixed-rate borrowings		
Denominated in RMB (range from 2.91% to 5.22% per annum as at 31 December 2016 and 6.42% per annum as at 31 December 2015)	563,935	25,000
Denominated in EUR (nil as at 31 December 2016 and 2.8% as at 31 December 2015)	-	141,898
	563,935	166,898
Variable-rate borrowings		
Denominated in EUR (range from 1.5% to 2.25% as at 31 December 2016 and range from 1% to 2.5% as at 31 December 2015) (Note b)	1,048,463	297,005
Total	1,612,398	463,903

Note:

(b) Variable rates range from Euro Interbank Offered Rate ("EURIBOR") plus 1.5% to 2.25% as at 31 December 2016 (2015: EURIBOR plus 1.0% to 2.5%).

As at 31 December 2016, the Group has unutilised banking facilities of approximately RMB919,916,000.

26. DEFERRED CONSIDERATION PAYABLES

	2016 RMB'000	2015 RMB'000
Non-current	22,039	33,278
Current	1,096,424	13,595
	1,118,463	46,873

During the year ended 31 December 2008, the Group acquired an agency right from Ophol which had become an associate of the Group during the year ended 31 December 2009 for a consideration of RMB60,000,000. The consideration is payable annually of RMB6,000,000 for 10 years commencing on 26 April 2008. The present value of the discounted consideration determined based on a discount rate of 5% amounting to RMB46,330,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2016, the carrying value amounting to RMB5,575,000 (2015: RMB10,952,000) was included in deferred consideration payables.

During the year ended 31 December 2013, the Group acquired 49% interest in the patent right of XiDaKang for a consideration of RMB40,000,000 (see note 17(b) (ii)). In addition to the first payment of RMB30,000,000, the consideration is payable annually of RMB1,000,000 for 10 years commencing on 27 December 2014. The present value of the discounted consideration determined based on a discount rate of 10% amounting to RMB6,145,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2016, the carrying value amounting to RMB4,868,000 (2015: RMB6,335,000) was included in deferred consideration payables.

During the year ended 31 December 2014, the Group acquired all assets related to Stulln for the Chinese Market, part of the consideration is payable annually of EUR1,000,000 (equivalent to approximately RMB7,307,000) for five years since 2016. The present value of the discounted consideration determined based on a discount rate of 10% amounting to approximately EUR3,614,000 (equivalent to approximately RMB30,342,000) was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2016, the carrying value amounting to approximately EUR4,487,000 (equivalent to approximately RMB32,785,000) (2015: EUR4,170,000 (equivalent to approximately RMB29,586,000)) was included in deferred consideration payables.

During the year ended 31 December 2016, the Group entered into an exclusive license agreement with AstraZeneca AB, pursuant to which AstraZeneca AB grants an exclusive license to the Group for the commercialization of Plendil (Felodipine Sustained Release Tablet) in the PRC, at a consideration of US$310,000,000 (equivalent to approximately RMB2,029,012,000). US$155,000,000 had been paid during the year with the remaining balance of US$155,000,000 (equivalent to approximately RMB1,075,235,000) being included in the deferred consideration which will be due in February 2017 and the directors of the Company consider that the carrying amount of the deferred consideration approximates to the fair value as at 31 December 2016.

27. SHARE CAPITAL

	Number of shares	Amount
	'000	RMB'000
Authorised share capital:		
At 1 January 2015, 31 December 2015 and 31 December 2016	20,000,000	765,218
Issued and fully paid:		
At 1 January 2015	2,414,747	82,974
Issue of shares on 13 April 2015 (Note)	72,500	2,226
At 31 December 2015, 1 January 2016, and 31 December 2016	2,487,247	85,200

Note: On 13 April 2015, the Company issued 72,500,000 shares of par value of US$0.005 per ordinary share to Treasure Sea Limited which is the controlling shareholder of the Company, at the issue price of HK$11.86 per share.

28. RESERVES

Capital reserve

Capital reserve resulted from transactions between the Group and its shareholders. It mainly represents equity shares of Shenzhen Kangzhe granted by Mr. Lam Kong, a director and former shareholder of Shenzhen Kangzhe, to certain employees for their services rendered in prior year, rights granted by Mr. Lam Kong to certain employees to receive cash at a pre-determined formula for their services rendered in prior year, waiver of an advance to the Company by Mr. Lam Kong in 2006, discount on acquisitions of additional interest in subsidiaries from Mr. Lam Kong in 2004 and 2005, the difference between the transfer of the entire interest in Shenzhen Kangzhe to Sino Talent Limited ("Sino Talent") pursuant to the group restructuring in 2005 and the nominal value of Shenzhen Kangzhe's share capital, and difference between the par value of shares issued by the Company for the entire interest in CMS International Limited ("CMS International") and Healthlink Consultancy Inc. ("Healthlink") pursuant to the group reorganisation in 2006 and the nominal value of the issued share capital of CMS International and Healthlink in preparation for the listing of the Company's shares. The balance was reduced by the capitalisation issue in 2007. The equity shares and rights granted by Mr. Lam Kong to certain employees had been terminated on or before 2006.

On 19 April 2010, the Group acquired additional interest in Sky United. An amount of approximately RMB15,026,000, representing the excess of the fair value of the new ordinary shares issued by the Company over the decrease in the carrying value of the non-controlling interest is charged to capital reserve.

During the year ended 31 December 2010, a deemed distribution to a shareholder in respect of expenses incurred for a shareholder during the initial public offering exercise by the Company.

28. RESERVES - continued

Surplus reserve fund

Articles of Association of the Group's subsidiaries established in the PRC require the appropriation of certain percentage of their profit after taxation each year to the surplus reserve fund until the balance reaches 50% of the registered capital of the relevant subsidiaries. In normal circumstances, the surplus reserve fund shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation. For the capitalisation of surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

29. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves including accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Financial assets at FVTPL	-	279,180
Loans and receivables (including cash and cash equivalents)	2,848,319	1,488,722
Financial liabilities		
Others financial liabilities measured at amortised cost	(3,061,032)	(725,078)

30. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies

The Group's major financial instruments include loan receivable, trade and other receivables, amount due from an associate, structured deposits, bank balances and cash, trade and other payables, bank borrowings and deferred consideration payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk management

The Group's fair value interest rate risk is the risk that the fair value of fixed rate bank borrowings (see note 25) will fluctuate because of changes in market interest rates.

The Group is also exposed to cash flow interest rate risk in relation to variable rate bank borrowings (see note 25). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank borrowings at the end of the reporting period. The analysis is prepared assuming that the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 1% (2015: 1%) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variable were held constant, the Group's post tax profit for the year ended 31 December 2016 would decrease/increase by approximately RMB238,000 (2015: RMB59,000). This is mainly attributable to the Group's exposure on interest rates on its variable rate bank borrowings.

Foreign currency risk management

Some subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 41.5% (2015: 22.0%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

30. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

The carrying amounts of the Group's foreign currency denominated monetary assets (representing loan receivable, amount due from an associate and bank balances) and monetary liabilities (representing trade and other payables, deferred consideration payables and bank borrowings) at the reporting date are as follows:

	Assets		Liabilities	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
US$	746,981	905	1,150,077	-
EURO	20,741	24,853	1,058,911	474,607
HK$	849	2,321	-	-
rmb	-	59,875	-	17,287

Management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

The Group is mainly exposed to currency risk of the US$, Euro, HK$ and RMB. The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2015: 5%) change in foreign currency rates. The sensitivity analysis includes loan receivable, bank balances, trade and other payables, bank borrowings and deferred consideration payables of which the foreign currency exposures are not hedged with hedging instruments. A positive/negative number below indicates an increase/decrease in pre-tax profit for the year where the functional currencies of the relevant group entities strengthen 5% (2015: 5%) against the relevant foreign currencies. If there is a 5% (2015: 5%) weakening in functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the result for the year:

	2016 RMB'000	2015 RMB'000
RMB (as functional currency of the relevant group entities) against US$	20,155	(45)
RMB (as functional currency of the relevant group entities) against EURO	51,909	-
US$ (as functional currency of the relevant group entities) against euro	-	22,488
RMB (as functional currency of the relevant group entities) against HK$	(42)	(116)
US$ (as functional currency of the relevant group entities) against RMB	-	(2,129)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year

30. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2016 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk on amount due from an associate. As at 31 December 2016, the carrying amount of the Group's amount due from an associate of RMB862,803,000 (2015: RMB35,096,000). The directors of the Company do not consider that the credit risk in relation to the amount due from an associate is significant because the associate is financially healthy.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings and amount due from an associate, the Group has no significant concentration of credit risk on trade and other receivables, with exposure spread over a number of counterparties and customers.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

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

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of the reporting period.

30. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk management - continued

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2016
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016						
Trade and other payables	-	330,171	-	-	330,171	330,171
Deferred consideration payables	9.36%	1,096,424	26,227	2,000	1,124,651	1,118,463
Fixed interest rate borrowings	2.91%	580,318	-	-	580,318	563,935
Variable interest rate borrowings	2.39%	1,073,551	-	-	1,073,551	1,048,463
Financial guarantee contract (note 37)	-	624,330	-	-	624,330	-
		3,704,794	26,227	2,000	3,733,021	3,061,032

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2015
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2015						
Trade and other payables	-	214,302	-	-	214,302	214,302
Deferred consideration payables	8.83	13,595	41,434	3,000	58,029	46,873
Fixed interest rate borrowings	3.34	172,476	-	-	172,476	166,898
Variable interest rate borrowings	2.00	302,951	-	-	302,951	297,005
		703,324	41,434	3,000	747,758	725,078

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the below maturity analysis. As at 31 December 2016 and 31 December 2015, the aggregate undiscounted principal amounts of these bank loans amounted to approximately RMB1,367,352,000 and RMB475,427,000, respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity Analysis - Bank loans with a repayment on demand clause based on scheduled repayments

	Less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
31 December 2016	986,887	380,465	-	1,367,352	1,323,597
31 December 2015	475,427	-	-	475,427	438,903

Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

31. ACQUISITION OF SUBSIDIARIES

Acquisition of Xili Pharmaceutical

On 16 February 2015, the Group acquired an 52.01% interest in Xili Pharmaceutical from an independent third party. Xili Pharmaceutical is engaged in manufacture of DanShenTong, a traditional Chinese medicine product. The purpose of the acquisition is to acquire the product rights of DanShenTong and take full advantage of the Group's existing promotion network.

Consideration transferred

	RMB'000
Cash	258,705

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	16,835
Prepaid lease payments	11,657
Intangible assets	114,489
Deferred tax assets	1,199
Inventories	11,812
Amounts due from related parties	8,186
Amounts due from shareholders of non-controlling interests	580
Amounts due from the Group	267
Trade and other receivables	46,741
Tax recoverable	2,977
Bank balances and cash	2,872
Bank borrowings	(40,000)
Trade and other payables	(30,529)
Deferred tax liabilities	(30,541)
	116,545

In the opinion of the directors of the Company, the fair value of the receivables acquired (which principally comprised of trade and other receivables) approximated to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables expected to be collected.

31. ACQUISITION OF SUBSIDIARIES - continued

Goodwill arising on acquisition

	RMB'000
Consideration transferred	258,705
Plus: non-controlling interests	55,930
Less: fair value of identifiable net assets acquired	(116,545)
Goodwill arising on acquisition	198,090

Goodwill arose in the acquisition of Xili Pharmaceutical was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, future market development and cost control of Xili Pharmaceutical. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

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

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash during the year ended 31 December 2015	243,705
Less: cash and cash equivalent balances acquired	(2,872)
	240,833
Consideration paid in cash during the year ended 31 December 2014	15,000
	255,833

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2015 was RMB1,106,000 attributable to Xili Pharmaceutical. Revenue for the year ended 31 December 2015 included RMB37,000 generated from Xili Pharmaceutical.

Had the acquisition of Xili Pharmaceutical been completed at 1 January 2015, the revenue of the Group for the year ended 31 December 2015 would have been RMB3,574 million, and the profit for the year ended 31 December 2015 would have been RMB908 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2015, nor is intended to be a projection of future results.

In determining the pro-forma revenue and profit of the Group had Xili Pharmaceutical been acquired at the beginning of 2015 , the directors have calculated depreciation and amortisation of plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

31. ACQUISITION OF SUBSIDIARIES - continued

Acquisition of Tibet Kangzhe Development

On 23 December 2015, the Group acquired 100% interest in Tibet Kangzhe Development from an independent third party, at a consideration of RMB2,000,000. Tibet Kangzhe Development is engaged in trading of drugs.

Consideration transferred

	RMB'000
Cash	2,000

Assets and liabilities recognized at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	196
Inventories	1,583
Trade and other receivables	15,952
Bank balances and cash	13,384
Trade and other payables	(13,725)
Amounts due to former shareholders	(17,244)
	146

In the opinion of the directors of the Company, the fair value of the receivables acquired (which principally comprised of trade and other receivables) approximated to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables were expected to be collected.

Goodwill arising on acquisition

	RMB'000
Consideration transferred	2,000
Less: fair value of identifiable net assets acquired	(146)
Goodwill arising on acquisition	1,854

Goodwill arose in the acquisition of Tibet Kangzhe Development was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, future market development and cost control of Tibet Kangzhe Development. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

Net cash inflow arising on acquisition

	RMB'000
Consideration paid in cash during the year ended 31 December 2015	(2,000)
Add: cash and cash equivalent balances acquired	13,384
	11,384

32. OPERATING LEASE

The Group as lessee

The Group's total future minimum lease payments under non-cancellable operating lease in respect of property which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	4,700	5,545
In the second to fifth year inclusive	5,173	1,610
	9,873	7,155

The lease is negotiated for a lease term of 1 to 5 years at fixed monthly rental. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew.

The Group does not have an option to purchase the leased asset at the expiry of the lease period.

33. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment and intangible assets contracted for but not provided in the consolidated financial statements	42,906	33,676

34. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

Name of related company	Relationship	Nature of transactions	2016	2015
			RMB'000	RMB'000
Ophol	Associate	Interest expense	623	811
Tibet Pharmaceutical	Associate	Promotion income	289,335	245,903
Tibet Pharmaceutical	Associate	Purchase of goods	440,690	372,990
Tibet Pharmaceutical	Associate	Interest income	13,384	-

(b) On 8 May 2015, A&B (HK) Company Limited ("A&B"), a company wholly-owned by a controlling shareholder of the Company, entered into agreements with Faron Pharmaceuticals, Ltd ("Faron"), to acquire 15.72% of the shareholding of Faron, assets related to Traumakine in China, Hong Kong, Macau and Taiwan (the "Territory"), intellectual properties related to Traumakine form the Territory and the right to exchange Traumakine information with Faron.

On 19 May 2015, the Group entered into agreements with A&B and/or Faron respectively, to acquire the assets related to Traumakine in the Territory. The consideration for above transfer will be further negotiated and agreed between A&B and the Group at a later stage prior to the launch of Traumakine in the Territory, the amount would be calculated with reference to the net sales of Traumakine in the Territory.

The acquisition was not yet completed up to the date of this report.

(c) The key management personnel includes solely the directors of the Company and the compensation paid to them as disclosed in note 8.

35. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

During the year, the total expense recognised in the profit or loss for the above schemes amounted to RMB18,255,000 (2015: RMB16,496,000).

36. EMPLOYEE BENEFIT SCHEME

The Key Employee Benefit Scheme (the "2009 Scheme") was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the 2009 Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the 2009 Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the 2009 Scheme. A summary of some of the principal terms of the 2009 Scheme is set out in below.

(a) The purpose of the 2009 Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the 2009 Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think to select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the 2009 Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund. As such, the 2009 Scheme is classified as defined contribution scheme.

36. EMPLOYEE BENEFIT SCHEME - continued

On 22 December 2016, the Board has resolved to adopt two new employee incentive schemes, with details as follows:

(a) CMS Employee Incentive Scheme (the "Bonus Scheme")

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.
ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

(b) CMS Key Employee Benefit Scheme (the " New KEB Scheme")

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.
ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

For the purposes of effecting the merger and facilitating the administration of the Bonus Scheme and the New KEB Scheme, the Company has resolved to set up a new trust comprising the Bonus Scheme and KEB Scheme (collectively referred to as the "Master Scheme"). Unless terminated earlier by the Board, the Master Scheme shall be valid and effective until the later of the termination of the Bonus Scheme or the New KEB Scheme. The term of each of the Bonus Scheme and the New KEB Scheme is 20 years subject to the terms of their respective scheme rules. TMF Trust (HK) Limited ("TMF"), a company incorporated in Hong Kong, is appointed as the initial trustee of the new trust (the "New Trustee").

A summary of some of the principal terms of the Bonus Scheme is set out in below:

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 5% to 15% on the net profit growth on the audited consolidated financial statements of the Group ("Annual Contribution"), subjected to the approval from the Benefit Scheme Executive Committee, comprising executive directors of the Company. No contribution will be made by the Company if there is no growth on the net profit in the year.

(b) The amount payable to the members of the Bonus Scheme in a financial year depends on a variety of factors, including the value of the assets held by the New Trustee (the "New Fund"), the appreciation in the value of the assets held under the New Fund, the financial performance of the Group and the performances of individual employees during the year. The New Fund is independent from the Company and the change in value of the New Fund has no impact on the Group's financial performance and financial position. The only obligation of the Company is to make the Annual Contributions to the New Fund subject to the terms of the scheme rules of the Bonus Scheme. As such, the Bonus Scheme is classified as a discretionary scheme of the Company.

During the year ended 31 December 2016, the Company contributed cash amounting to RMB4,982,000 (2015: RMB4,140,000) to the Fund and recognised RMB60,000,000 on the Master Scheme based on the Group's financial performance. RMB64,982,000 (2015: RMB4,140,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

37. CONTINGENT LIABILITIES

On 26 February 2016, the Group and Tibet Pharmaceutical entered into an asset purchase agreement with AstraZeneca AB (the "Transaction"), pursuant to which Tibet Pharmaceutical agrees to purchase, and AstraZeneca AB agrees to sell i) the trademarks of Imdur; ii) the know-how used exclusively for the manufacture of Imdur for the entire world excluding the United State of America ("Territory"); iii) the goodwill associated with the use of the trademarks in the Territory; iv) the product records necessary to exploit Imdur in the Territory; and v) the legal rights and interests to or in the relevant regulatory approvals exclusively relating to the Imdur.

Pursuant to the agreement, the Group agrees to guarantee the payment obligations of Tibet Pharmaceutical under this Transaction. As at 31 December 2016, Tibet Pharmaceutical has a payment obligation amounted to US$90,000,000 (equivalent to approximately RMB624,330,000), representing the balancing payment under this Transaction. The directors of the Company consider that the default risk of such financial guarantee is minimal and nil amount is recognized in the respect of the financial guarantee on the consolidated statement of financial position.

38. SUBSIDIARIES OF THE COMPANY

As at 31 December 2016 and 31 December 2015, the details of the Company's subsidiaries are set as follows:

Name of subsidiaries (note i)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2016	31 December 2015	31 December 2016		31 December 2015		
				Directly	Indirectly	Directly	Indirectly	
CMS International (note a)	British Virgin Islands	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (wholly-owned domestic enterprise)	PRC	RMB36,750,000	RMB26,670,000	-	100%	-	100%	Production of medicines
Kangzhe Pharmaceutical Technology (wholly-owned domestic enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Investment holding
Kangzhe Pharmaceutical Industrial Ltd. (note a)	British Virgin Islands	RMB21,288,000	RMB21,288,000	-	100%	-	100%	Investment holding
Shenzhen Kangzhe (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB350,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Sino Talent	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Sky United	Hong Kong	HK$10	HK$10	-	100%	-	100%	Trading of drugs
Changde Kangzhe Pharmaceutical Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB2,000,000	RMB2,000,000	-	100%	-	100%	Marketing and promotion of drugs
CMS Pharma (formerly known as CMS Pharmaceutical Agency Co. Ltd.)	Malaysia	US$1	US$1	-	100%	-	100%	Trading of drugs
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding
Great move	British Virgin Islands	US$10,000	US$10,000	-	100%	-	100%	Investment holding
Generous Wealth Limited	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Tianjin Kangzhe (wholly foreign-owned enterprise)	PRC	RMB500,000,000	RMB500,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs

38. SUBSIDIARIES OF THE COMPANY - continued

Name of subsidiaries (note i)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2016	31 December 2015	31 December 2016		31 December 2015		
				Directly	Indirectly	Directly	Indirectly	
Kangzhe Lengshuijing (wholly-owned domestic enterprise) (note g)	PRC	-	RMB10,080,000	-	-	-	100%	Production of medicines
Kangzhe Agricultural (wholly-owned domestic enterprise)	PRC	RMB20,000,000	RMB20,000,000	-	100%	-	100%	Agriculture
香港鼎成投資有限公司 (note b)	Hong Kong	HK$10,000	HK$10,000	-	100%	-	100%	Investment holding
Bridging Pharma Limited	United Kingdom	GBP100	GBP100	-	100%	-	100%	Investment holding
Bridging Pharma GmbH (note c)	Switzerland	CHF20,000	CHF20,000	-	100%	-	100%	Investment holding
Xili Pharmaceutical (note d) (sino-foreign equity joint venture)	PRC	RMB11,360,000	RMB11,360,000	-	52.01%	-	52.01%	Production of medicines
Tibet Kangzhe Technology (note e) (wholly-owned domestic subsidiary)	PRC	RMB3,000,000	RMB3,000,000	-	100%	-	100%	Marketing and promotion of drugs
Tibet Kangzhe Development (note f) (wholly-owned domestic subsidiary)	PRC	RMB100,000,000	RMB2,000,000	-	100%	-	100%	Trading of drugs
Everest Fortune Limited (note h)	Hong Kong	HK$1	-	-	100%	-	-	Dormant

Notes:

(a) Being inactive subsidiaries.

(b) The subsidiary was acquired on 16 February 2015.

(c) The subsidiary was established on 25 September 2015.

(d) The subsidiary was acquired on 16 February 2015 (note 31).

(e) The subsidiary was established on 11 June 2015.

(f) The subsidiary was acquired on 23 December 2015 (note 31).

(g) The subsidiary was deregistered on 21 January 2016. The assets and liabilities held by this subsidiary were transferred to Kangzhe Hunan at the time of deregistration.

(h) The subsidiary was established on 6 January 2016.

(i) None of the subsidiaries had issued any debt securities at the end of the year.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Investments in subsidiaries	61	61
Amount due from a subsidiary	3,697,265	2,663,837
	3,697,326	2,663,898
Current assets		
Amount due from a subsidiary	500,000	878,698
Amount due from an associate	742,463	-
Bank balances and cash	1,043	154
	1,243,506	878,852
Current liabilities		
Amount due to a subsidiary	2,958	2,958
Other payables and accruals	1,077,529	1,766
	1,080,487	4,724
Net current assets	163,019	874,128
Total assets less current liabilities	3,860,345	3,538,026
Capital and reserves		
Share capital (note 27)	85,200	85,200
Reserves	3,775,145	3,452,826
Total equity	3,860,345	3,538,026

Movement in reserves

	Share premium	**Capital reserve**	**Accumulated profits**	**Dividend reserve**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	1,767,684	6,960	391,220	167,101	2,332,965
Profit and total comprehensive income for the year	-	-	812,853	-	812,853
Issue of shares	676,612	-	-	-	676,612
Dividend paid	-	-	(202,503)	(167,101)	(369,604)
Dividend proposed	-	-	(201,218)	201,218	-
Balance at 31 December 2015	2,444,296	6,960	800,352	201,218	3,452,826
Profit and total comprehensive income for the year	-	-	785,195	-	785,195
Dividend paid	-	-	(261,658)	(201,218)	(462,876)
Dividend proposed	-	-	(289,516)	289,516	-
Balance at 31 December 2016	2,444,296	6,960	1,034,373	289,516	3,775,145