KINGWORLD MEDICINES GROUP LIMITED

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code：01110

ANNUAL REPORT 2016

Healthy Life with

KINGWORLD

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Li Sheng *(Chairman)*
Ms. Chan Lok San
Mr. Zhou Xuhua

Non-executive Director

Mr. Zhang Yi

Independent Non-executive Directors

Mr. Duan Jidong
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

COMPANY SECRETARY

Mr. Chan Hon Wan

LEGAL ADVISORS TO THE COMPANY

King & Wood Mallesons
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AUDITOR

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Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Zhao Li Sheng
Mr. Chan Hon Wan

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Level 22, Hopewell Centre
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Hong Kong

AUDIT COMMITTEE

Mr. Wong Cheuk Lam *(Chairman)*
Mr. Duan Jidong
Mr. Zhang Jianbin

REMUNERATION COMMITTEE

Mr. Zhang Jianbin *(Chairman)*
Mr. Duan Jidong
Mr. Wong Cheuk Lam

NOMINATION COMMITTEE

Mr. Duan Jidong *(Chairman)*
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

STOCK CODE

01110

WEBSITE ADDRESS

www.kingworld.com.cn

Financial Highlights

	For the year ended 31 December		Changes
	2016 RMB 000	2015 RMB 000	Increase/ (Decrease)
Financial Highlights			
Revenue	1,053,527	713,548	47.6%
Cost of sales	(729,955)	(486,771)	50.0%
Gross profit	323,572	226,777	42.7%
Profit before taxation	89,044	51,322	73.5%
Profit for the year	67,406	39,387	71.1%
Profit attributable to owners of the Company	46,966	31,250	50.5%
Basic earnings per share (RMB cents)	7.26	4.74	53.2%
Proposed final dividends per share (HK cents)	2.95	1.53	94.8%
Liquidity and Asset-liability Ratio			
Current ratio (1)	1.22	1.66	N/A
Quick ratio (2)	1.05	1.44	N/A
Asset-liability ratio (3)	22.3%	15.5%	6.8% pts

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Asset-liability ratio is calculated as total bank borrowings divided by total assets and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kingworld Medicines Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2016 (the "Year Under Review") to the shareholders (the "Shareholders") for your review.

YEAR UNDER REVIEW

In 2016, Health China has been promoted to a national strategy. With the introduction of planning documents by highest authorities including the "Outline of the '13th Five-Year' Plan", the "'Healthy China 2030' blueprint" and the "'13th Five-Year' Plan for Healthcare", Communist Party of China (CPC) Central Committee and the State Council attached great importance to the healthcare development, vigorously promoted the construction of healthy China, and put the healthcare development on an important position in the overall economic and social development, which further enhanced the sound development of pharmaceutical industry with a huge expansion of the domestic health market in the future and also provided the Group with unlimited opportunities in developing its health businesses. Furthermore, continuous growth in disposable income of residents, gradual upgrade of consumption, including a significant increase in health care expenditure, laid a solid foundation of purchasing power for the development of healthcare industry. In 2015, the scale of health food market in China exceeded RMB200 billion, providing a sound market environment for the development of Kingworld's health businesses; it is expected, with the complete introduction of Two-Child Policy, there will be 2.5 million new-borns every year in the future and the number of new-borns in 2017 will exceed 20 million, bringing population dividend for maternity and childcare market, it is therefore expected that the scale of maternity and childcare market in 2020 will reach RMB1.8 trillion, providing great development opportunities for the maternity and childcare series of products of the Group as represented by Culturelle probiotic series product from USA (美國康萃樂益生菌). Population aging will increase the rigid demand for drugs and health care products as China's population over 65 years of age has been as high as 10.5% of total population, becoming an important factor for the growth of health market.

Separation of prescribing and dispensing has been continuously promoted under health care reform, together with prompt integration, including merger and acquisition, further enhancing the industry concentration as pharmacy chain rate further raised to 45.73%. And market shares of retail pharmacies, the main battlefield of the Group's businesses, is expected to be further increased. More and more products will be covered into healthcare insurance in pharmacies due the popularity and improvement of healthcare insurance system, which will significantly support the Group's promotion and sales of its products; distribution channel reforms such as Two-Invoice System may cause some uncertainties in the short term, but will make pharmacy circulation industry more standardized, further enhance the industry concentration and help with the improvement of distribution efficiency of the Group's products.

According to the "Report on Survey of Consumers' Recognition on Health Food" (《保健食品消費者認知度調查報告》) published by China Consumers Association, there are over 60% of consumers who "don't know, not satisfied and don't believe" the domestic health product market, over 40% of consumers prefer overseas health food. And distributors of overseas health products have good foundation of consumer trust, of which, immune boosting products, nutritional supplement products and antihyperlipidemic agents account for over 50% of imported species. In 2016, the Group continued to expand product portfolios by adapting this consumption trend. Greater efforts were made to introduce quality new products all over the globe in addition to the branding and distribution of core products to form portfolio marketing. Online and offline advertising and brand promotion were strengthened with focuses on the basis of fully understanding the consumer groups, their buying habits and influence factors on decision-making. With respect to groups of Post-80s and Post-90s generations, the Group also enhanced marketing, promotion and the brand reputation by leveraging the strengths of we media and new media. In the meantime, the Group also encouraged sales elites throughout the country to enhance product distribution, display and price maintenance, and promote sales by leveraging distribution and network advantages of many years. Benefited from above measures, the Group achieved over RMB1 billions of sales (tax inclusive), and has therefore stepped into a sound and rapid development channel. As the import registration licence of Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) series of products has been successful approved in the first half of the year, followed by a rapid recovery of overall supply of the product, a new price system was established to raise the initiatives of distributors at all levels and terminals, and also made sales for the year resume the rapid growth. Furthermore, the Group also actively expanded new products. Through participating in industrial exhibitions, enhancing communication with industry experts, associations and upstream manufacturers, the Group collected more product information and mastered market dynamics so as to prepare for the introduction of more new health products. During the year, the Group visited various manufactures in USA, Belgium, Italy and Germany and successfully introduced Tilman from Belgium, ZUCARRi from Italy and BMI smart from Germany, developed featured slimming series of products including herbal, fruits and vegetables, oral, topical and others products, enriched the diversified healthy slimming products platform of "Global Slimming", and carried out sales and marketing on Hong Kong offline channels, cross-border e-commerce platforms and WeChat platform quickly, achieving an excellent sales results for the year.

In recent years, the maternity and childcare market saw a rapid development. And reputation is the most important factor in purchase decision-making of maternity and childcare products. The consumer's pre-purchase behaviour and post-use evaluation form a closed-loop of purchasing decision-making, while the word-of-mouth communication between friends and families/product experience on social media forms the reputation of the product. The Culturelle probiotic series product from USA (美國康萃樂益生菌) distributed by the Group is with 100% LGG and is the best seller and pediatrician recommended products in USA. With these strengths and through the effective marketing and promotion, this series of product achieved strong market growth and became the second major series of product of the Group. During the year, the Group accelerated the extension of market coverage of such product, and carried out a full range of offline multi-channel marketing and distribution in key regions of Mainland China and Hong Kong, Macau, distributed to multiple platforms and build its own platform to achieve a steady development. In addition, the Group was successfully granted with the exclusive agency right of Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素) in the Greater China. As Lifeline Care fish oil series of product has already had a certain consumer groups in e-commerce networks and is a high-quality product recommended by doctors in Norway, the Group carried out targeted marketing plan and channel distribution after obtaining the agency right and achieved excellent sales performance at the day of "11.11" e-commerce campaign. Furthermore, its sales in Mannings in Hong Kong showed a monthly growth trend, which is expected to become another major new product of the Group after Culturelle.

As for sales channel distribution, the Group further increased the distribution terminals in Hong Kong, Macau market and achieved excellent results with large-scale coverage of stores such as Mannings, CRCare, Eugene Baby stores and major chain pharmacies. The Group closely adapted the trend of "Internet+" and further realized the strategic cooperation with major e-commerce platforms so as to enhance the Group's online marketing ability. In addition to the cooperation with professional e-commerce platforms such as Tmall, JD.com and Suning.com, the Group focused on the operation development of "Kingworld Health" WeChat shop and developed the WeChat shop into one of our major online sales platforms, further achieving the sales strategic layout of full channels.

"Internet + Big data" is the trend for future development, therefore, the Group continued to cooperate with SAP during the year and purchased SAP's Hybris software to develop the vertical e-commerce platform of Qianhai cross-border e-commerce, integrate data of sales, logistics, inventory, capital and followers of the Group's online platforms, connect with the Group's ERP system, so as to form big data of the product consumers, sales, terminals and other big data of the Group, providing evidence for the promotion and introduction of new products, better serving consumers and promoting product sales.

Chairman's Statement

During the year, the Group dedicated itself to charity by its own actions while striving to present every consumers the world's best health products. Kingworld Care and Health Foundation carried out a series of charitable events: donated drugs to heirless aged persons in poverty-stricken minority areas; entered into the public charity cooperation strategic agreement with Hong Kong University of Science and Technology in support of the University's Chinese Medicine R&D and student exchange activities; co-organized the charitable campaign for pangolin protection with The Nature Conservancy (TNC); cooperated with Shenzhen Civilisation Office, Shenzhen Project Care Committee and Foundation and Shenzhen Evening News to hold the "Do A Good Deed Every day and Develop a Healthy Lifestyle" action ("日行一善健康 成 劃"), donated "Candidate Caring Pack", and organized the "Tender Hand" ("温柔之手") caring event and other public welfare activities, delivering health and care to many campus and communities in Shenzhen and receiving favourable responses.

FUTURE OUTLOOK

According to the results of the top 100 research in 2015, there were a total of approximately 448,000 pharmacies registered in China in 2015, an increase of 13,000 over 2014. The total number of pharmacy stores increased by 3%, of which the number of drugstores decreased by 7.7%, the number of chain stores surged by 19.5% as the chain rate further increased to 45.73%. The chain concentration of Top 100 increased to 34.8%, direct-sale stores of Top 100 increased by 12.5% year on year. And the contribution rate of top 100's sales scale amounted to 34.8%. With prompt integration, including mergers and acquisitions in the future, industry concentration will be further enhanced. As such, the Group will continue to consolidate and deepen the KA chain cooperation model with key terminals to improve the Group's sales, market share and to further play the brand's market competitiveness. In the future, the Group will actively develop and improve KA systems in pharmaceutical sector and maternity and childcare sector within the Greater China, accelerate the expansion of diversified networks and the promotion of products such as Culturelle and White Flower Embrocation sold by the Group in the market to consumers so as to improve the terminal coverage.

The Group aims at building a health slimming concept of "Global Slimming" from all aspects and thereby actively seizes shares of The Greater China slimming market. In the future, the Group will continue to enrich categories of "Global Slimming" serious, build an integrated slimming and health management platform and select best-selling and high-quality healthy slimming products which are non-toxic and without side effects around the world.

At present, the Group is the exclusive agency of many quality health products in The Greater China. In the future, the Group will accelerate the internationalization, explore the Asian market while stabilizing Hong Kong, Macao market, and conduct researches on Taiwan and key markets of Southeast Asia, so as to explore the feasibility of stationing products in a broader market and consolidate the leading position of distributing healthy brand. In the meantime, the Group will accelerate the introduction of new products fit for the development of Chinese market, in particular, tap the product resources of current manufactures in cooperation so as to deepen the cooperation. For instance, the Group will introduce Culturelle probiotic powder for adults and another probiotic for treatment of infantile diarrhea, namely Amerifit Culturelle Probiotics for Kids (Fruit and vegetable and for baby suffering from digestive upset) (康萃樂兒童益生菌沖劑 (果蔬潤腸型)) The Group firmly believed that talents are an important capital for a company. As a result, the Group will implement a number of incentive policy packages to enhance the sales personnel's initiatives as well as their performance. In addition, the Group will continue to optimize the assessment program, launch the rotation system of sales vice chairman, rearrange the KPI index base of each department, so as to further ensure that the Group can achieve the goal of improving performance and selecting outstanding management talents.

The rapid development of internet technology greatly facilitated the social production efficiency and also affected consumer's consumption habits and behaviour. In recent years, the CAGR of e-commerce was above 20%, of which, the total transaction volume of online shopping continued to grow with mobile phones becoming the first major online shopping device. Regarding to this, the Group has to keep pace with the times, seize the trend of e-commerce and big data development, and actively use this new technology in its new business development. It also has to upgrade the informatization level, and establish a big data centre for full-channel management of all products, to achieve seamless connection of information and share operation data, market data and consumer data in a timely and accurate manner. The Group shall analysis and use data in an effective manner, make rapid response to market and improve the efficiency and effectiveness of decision-making.

Looking forward, as the leading distributor of healthy brand in China, and at the beginning of the Group's "fourth five-year strategy", we will adhere to take "to serve the community and to heal the souls" as our mission, and consolidate the Group's leading position in The Greater China by continuously leveraging our rich operation experiences and resources strengths.

Finally, on behalf of Kingworld Medicines Group, I would like to express my sincere gratitude to the Group's shareholders, customers and partners for their continuous trust and support, as well as to the staff for their outstanding contributions to the development of the Group.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 28 March 2017

Management Discussion and Analysis

MARKET AND INDUSTRY REVIEW

1. *The healthcare reform is put forward in full scale with huge expansion of the industry*

All aspects of healthcare reform have been put forward intensively since the introduction of the "New Healthcare Reform" in 2009. China has established a basic health care system covering more than 95% of the population, with the focus of healthcare reform shifting from the construction of national essential medicines system to reform of healthcare service system. Since 2015, various policies were promulgated with regard to the public hospital reform to encourage social capital's participation in the construction of medical institutions. However, the supply of medical resources in China is still seriously inadequate. With the aging of the population intensified, domestic medical demand will enter a period of rapid growth, resulting a huge expansion in domestic medical service market in the future. By the end of December 2016,the Medical Reform Office of the State Council National together with Health and Family Planning Commission, China Food and Drug Administration, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce, State Administration of Taxation and State Administration of Traditional Chinese Medicine printed and issued the "Notice on the Distribution of the Opinions on the Implementation of the "Two-Invoice System" in Drug Procurement by Public Medical Institutions (for Trial Implementation)" (《關於在公立醫療機構藥品採購中推行「兩票制」的實施意見 (試行) 的通知》). As such, in the face of the significant increase in market demands, it is necessary to attract social capital to invest in medical and significantly increase the supply of medical services. While more stringent and efficient policies and measures will promote the industry integration and eliminate those upstream enterprises lacking competitiveness. Under such long-term stringent supervision, industry leader will benefit the most.

On 30 September 2016, The notice on requesting public comment on "The Work Plan of the Adjustment of Drug Category of the National Basic Health Insurance, Employment Injury Insurance and Maternity Insurance (Consultation Paper)" (《二零一六年國家基本醫療保險、工傷保險和生育保險藥品目錄調整工作方案 (徵求意見稿) 》) was issued by Ministry of Human Resources and Social Security to put forward the overall requirement regarding the new drug category of health insurance: 1. To complete adjustment on drug category of health insurance by the end of 2016; 2. To amend and improve management measures on basic health insurance drugs and gradually establish a standardized mechanism of dynamic adjustment of drug category in 2017. It is therefore expected that the year of 2017 will enter into the implementation stage for adjusting health insurance drug category in which the sales volume of new categories in the list is expected to increase rapidly with the help of health insurance payment, so as to promote the growth of corporate performance.

In addition, the "Healthy China 2030" blueprint, printed and distributed on October 2016 by the Communist Party of China (CPC) Central Committee and the State Council clearly stated the strategic goals of "Health China", which is, by 2020, China will have established a basic medical and health care system with Chinese characteristics that has covered both urban and rural residents; health literacy will continue to improve; the health service will be more complete and efficient; all the people will have access to basic medical and health care services and basic physical fitness services; a system of health industry with rich contents and reasonable structure will take shape preliminarily; and in terms of the main health indicators, China will top other mid- and high-income countries in the world. By 2030, the institutional system for promoting health for all will be more complete; the development in the health sector will become more coordinated; health lifestyles will be popularized; the quality of health services and the level of health security will continue to improve; the health industry will be prosperous; health equality will be realized general; and in terms of the main health indicators, China will rank top among the high-income countries in the world. By 2050, a health China that has achieved socialist modernization will have been built. As such, the concept of "Health China" will be more deeply rooted, the sound development of pharmaceutical industry will be further strengthened with a huge expansion of domestic medical service market in the future.

Products currently sold by the Group are premium products of high quality produced in various countries. The products are in compliance with relevant national regulation standards. With excellent quality and good consumer reputation, the Group will maintain its leading position in the context of health care reform, and the expansion of the overall industry will also bring a brighter future to the development of the Group.

2. *New development opportunities are emerged in internet + pharmaceutical industry*

At present, the drug circulation industry is faced with the new situation of the strategic implementation of "Health China" and the reform of pharmaceutical and health care system. By the end of 2016, the Ministry of Commerce issued The National Development Plan for Drug Circulation Industry (2016-2020) (《全國藥品流通行業發展規劃（二零一六至二零二零年）》) (hereinafter referred to as the "Plan"), which proposed that China will foster and establish a number of large-scale drug distribution enterprises covering the whole country and at a high level of intensification and informatization, to facilitate the integrated online and offline development.

Medical e-commerce entered into the development stage with the gradual liberalization of the policy, which promote the transformation of offline enterprises. Following the debut of "Internet + pharmaceuticals" in 2014, online medical services, such as purchasing medicines and seeking medical advice online, experienced an unprecedented development. Various online medical services and products were further integrated and distributed in 2015, forming a more comprehensive internet medical system. In 2016, the Plan clearly stated the model and direction for "Internet + pharmaceuticals", putting forward new requirements on the transformation and upgrading of the industry and also indicating new development opportunities for medical e-commerce. According to China Medical E-Commerce Market Research Report for the Year 2016 (《中國醫藥電商市場專題研究報告二零一六》), it is expected that the transaction scale of Chinese Medical B2C Market will exceed RMB60 billion in 2018.

Looking forward, driven by various aspects including the support of national policies, upgrading of internet technology, reform of traditional pharmaceutical business model, the Chinese medical internet market will maintain its rapid development. With the greater efforts being made to the marketing of different online platforms, it is believed that the Group's revenue from online sales will continue to rise, and the Group will further broaden the Internet market in the future.

3. *The consumption structure of maternity and childcare market is upgraded in full scale with dividend ready to release*

With the complete introduction of two-child policy on 1 January 2016, China has stepped into the era of complete two children. According to the industry report of Huatai Securities, new births in China may increase by around 1 to 2 million every year. According to the prediction in the "Report on consumption trend of China Maternity and Childcare products" (《2016中國母嬰產品消費趨勢報告》) issued by the 21st Century Economic Research Institute (21世紀經濟研究院), it is expected that the complete introduction will drive China's potential economic growth rate to raise by around 0.5%, and will place a direct impact on maternity and childcare consumption market, which is expected to bring about over RMB30 billion a year and at least an average of around 13% new growth per year. The accelerating transformation towards the consumption-led economy in China, together with the trend of the fertility peak and upgrading consumption brought by the complete introduction of two-child policy, will become the double engine for a rapid growth in maternity and childcare industry. Furthermore, as the first generation born under the "One-Child Policy" has reached the marriage and child-bearing age, and the Post-80s and Post-90s generation has become the major contributor of maternity and childcare consumption, more attention has been paid to the safety and quality of maternity and childcare products with the improvement of livelihoods.

Since 2014, the maternity and childcare e-commerce has been growing by leaps and bounds as the growth rate of maternity and childcare online transaction in China has exceeded the growth rate of overall online shopping. According to the "Report on consumption trend of China Maternity and childcare products", the market capitalization of the maternity and childcare market in China was RMB2,3 trillion in 2015, an increase of 25.2% year-on-year, of which the online transaction reached RMB360.6 billion, representing an increase of 98.4% year-on-year and four times of the growth rate of overall maternity and childcare consumption. It is expected that in the next few years, the growth of online transaction will be significantly faster than the growth rate of overall maternity and childcare consumption. By the end of 2015, the penetration rate of maternity and childcare online consumption was 15.5%, which is expected to be increased as there is still much room for improvement of maternity and childcare e-commerce development in the future based on the experience of the United States' mature maternity and childcare market.

Supported by the national two-child policy, the e-commerce, medical and healthcare markets for mothers and babies and other relevant markets is experiencing explosive growth of high-frequency rigid demand. Efforts is being made with respect to various maternity and childcare products sold by the Group, such as Culturelle probiotic series of the USA and Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素), to cater this upgrading trend of consumption structure.

4. *Demand for quality health care products is booming with the trend of health for all*

China takes the health for all as an important strategic investment, therefore, contribution of health industry to the national economy implies unlimited prospects. According to the survey data from China Health Care Association, China's annual sales of health products amounted to about approximately RMB200 billion currently. The Outline for the Development of Food and Nutrition in China (2014-2020) (《中國食物與營養發展綱要(2014-2020年)》) mentioned that China plans to actively improve the people's nutrient intake and will list the development of health food and fortified food as one of the development priorities, which will support the development of Chinese health food market.

The improvement of urban healthy lifestyle and health awareness of consumers, population aging, complete introduction of two-child policy as well as other trends all contribute to the vigorous development of health care products market. It is noted that urban women are becoming a strong consumer group of health care products, resulting in continuous expansion of women's health care products market and boosting the demand for quality imported health products.

In addition, high-performance medical equipment was listed as a key area in "Made in China 2025" listed, focusing on improving the ability of medical equipment innovation. With the mobile medical, telemedicine and intelligent medical becoming mainstream, their supporting portable medical electronics, wearable medical devices, home medical equipment and other medical equipment and devices with the characteristics of convenience, light, small become the focus. The equity acquisition of Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin") by the Group for fully expanding the coverage of its health business segment and deployment of global medical and healthcare electronic product market is in line with this market trend.

BUSINESS REVIEW

1. *Seized opportunities of production development to achieve over RMB1 billion of sales for the first time*

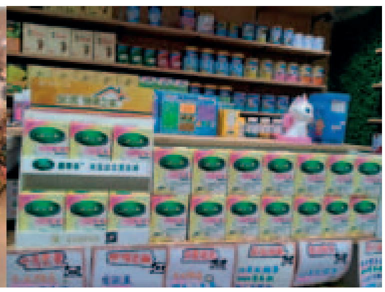
For the year ended 31 December 2016, the Company and its subsidiaries (the "Group") proactively seized the development opportunities of the industry, innovated and upgraded the brand marketing and market distribution strategies, tailored diversified market expansion plans for its core and new health products, effectively consolidated the leading market position of its core product and promoted a fast growth of new product market, driving the Group to reach a total annual revenue of approximately RMB1,053,527,000, officially breaking over RMB1 billion of revenue, the Group has therefore stepped into a rapid development channel.

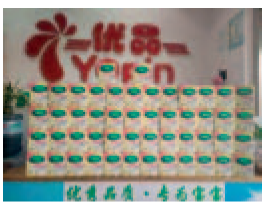
With respect to the core products of the Group, namely Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) series of products, as the new import registration licence of the product has been successful approved, followed by a rapid recovery of overall supply of the product, together with focusing on the product prices at terminals and display maintenance, sales rebate of distributors, integrated marketing among products and kicking off brand promotional campaigns, etc., the Group effectively facilitates the rapid recovery of annual sales of the products. In addition, through operation strategies such as the acceleration of expanding the product's distribution coverage and the price increase on supply side, the Group further realized the new growth of such product. For the year ended 31 December 2016, sales of Nin Jiom Chuan Bei Pei Pa Koa was approximately RMB617,143,000, representing a significant increase by 71.2% when comparing to the same period in 2015.

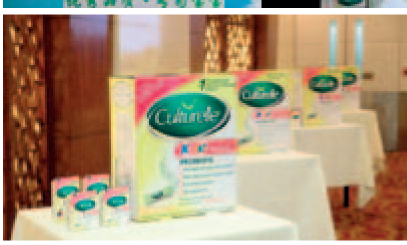
In addition, as the Group continued to facilitate the development of new health care products market in recent years, such products developed rapidly during the year, of which, Culturelle probiotic series product from USA (美國康萃樂益生菌), the typical product for the category of health care products of the Group has become the second major product series of the Group by leveraging its strong market growth momentum. During the Year Under Review, the Group accelerated the extension of market coverage of such product strategically, and carried out a full range of online and offline multi-channel marketing and distribution. With the steady development of Culturelle series product in Hong Kong and Macau offline market and cross-border e-commerce platform, the Group strongly enhanced its promotion and distribution in key regional markets of Mainland China during the Year Under Review.

Management Discussion and Analysis

In terms of network expansion, the Group further enhanced the distribution terminals of Hong Kong and Macau market, covering stores such as Mannings, CRCare, Eugene Baby stores and major chain pharmacies. In addition, with the successful launch of Culturelle powder and chewable tablet product (PRC version) in the offline retail market in China by the Group, the Group selected professional retail stores relating to maternity and babies, chain pharmacies, major General Merchandise Stores (GMSs) and hospitals as key channel terminals for large-scale distribution of key markets. Up to now, Culturelle series product have been successfully distributed to Hong Kong, Macao market, as well as maternal and child stores, pharmacies and high-end GMSs covering more than 341 cities in 32 provincial administrative regions (including Tibet and Xinjiang) in mainland China.







As to branding, according to the market development, the phrased distribution and other factors, the Group has placed the multimedia platform advertisements in Hong Kong, Macau and mainland China, comprehensively improving the exposure and brand recognition of the products in the relevant market. During the year, the Group continued to place advertisements of Culturelle series products in transportation systems including MTR and bus and media platforms including newspapers and televisions in Hong Kong and Macau. In addition, the Group also fully carried out the advertising and promotion in mainland market to cope with such products' expansion on Mainland China market, of which, subway advertisings in six major cities, being Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, and Xi'an were launched on September 2016 simultaneously, forming a significant linkage spread effect. Furthermore, the Group also thoroughly got in touch with the target audience of products through cooperating with famous experts in child health care and medical institutions, participating in and organizing seminars about maternity and childcare health, participating in maternity and childcare professional seminars and all kinds of health exhibitions, expanding the products' brand influence in health segment. In the charitable activities of "Dissemination of Maternity and Childcare and Healthy Growth in China" ("中國母嬰健康成長萬里行"), the Group, together with Culturelle probiotic series product, completed 23 forum on maternity and childcare in 22 cities over the country, covering around 30,000 families and over 12,000,000 attendances, receiving favourable responses in parenting groups and the community.

To sum up, with an intensified network expansion and promotion of Culturelle probiotic series product, as well as continuous improvement of production and supply ability of manufactures, the growth of sales of such products continued to accelerate during the year. For the year ended 31 December 2016, sales of Culturelle probiotic series product from USA reached approximately RMB159,387,000, an increase of 173.3% comparing to the same period of 2015.

In addition, other products of the Group also recorded positive performance, for example, with respect to the Hoe Hin White Flower Embrocation product, the latest oil product for external use introduced the Group, the Group took full advantage of its brand influence in key markets and continued to increase distribution and tap the sales potential. In the meantime, the Group also made full use of its advanced resources of marketing channel and diversified launching and promotion strategies, extending its brand influence from key markets to other markets so as to form a significant sales growth. For the year ended 31 December 2016, sales of Hoe Hin White Flower Embrocation product reached approximately RMB8,526,000, representing an increase of more than seven times comparing to the same period of 2015.

2. *Expanded proactively to achieve outstanding results in Hong Kong and Macau market.*

The Group officially launched new market businesses in Hong Kong, Macau market along with the successful introduction of Culturelle probiotic series product and the official sale in Hong Kong's retail market in October 2014. Over the past two years, through continuously strengthening the promotion of new product series led by Culturelle in Hong Kong and Macau retail shops market, the Group recorded sales of approximately RMB30,291,000 in Hong Kong and Macau retail shops market in 2016, fully reflecting the Group's sales capability and operation level in new markets.

During the year, Culturelle was the top selling probiotics product among the sales of probiotic products in Hong Kong Mannings retail terminal, and was sold out quickly at the HKBPE in August in the meantime, fully reflecting the demands of Hong Kong market and consumer's acceptance of such product. Up to now, products of the Group has successfully covered over 900 retail stores in Hong Kong and Macau regions including Mannings, Watson, CRCare, major department stores as well as pharmacies. Hong Kong and Macau market, as a bridgehead for the introduction of overseas products by the Group, is also a window for the Group's brand export and display of its image. Its continuous expansion and rapid emergence are of great importance to the Group's development.

3. *Accelerated product introduction to deploy health segment in full scale*

During the Year Under Review, the Group actively responded to market challenges while persisting on its product advantages, continued to focus on searching medicines and healthcare products in the world to meet its healthy brand positioning and the consumer demand. The Group also speeded up the introduction of target quality brand products and quickly carried out marketing, promotion and operation on the latest introduced brands for the year.

The Group was successfully granted with the exclusive agency right of Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素) in the Greater China during the year, and tailed corresponding marketing and operation plans for such brand product immediately. During the Year Under Review, by leveraging the Group's mature distribution networks and product operation strategies, such brand product rapidly explored the online market, and its product of DHA fish oil nutrients for kids was successfully launched on offline retail stores in Hong Kong and Macau regions such as Mannings, maternal and child stores and chain pharmacies. In the meantime, the Group also placed a wide range of product advertisements on diversified online and offline platforms, such as crowded subway stations, bus stations, customs clearances, and paper media, maternal and child websites, social media as well as all kinds of forums, which effectively established the brand recognition and laid a significant brand foundation for the market expansion and sales growth of the product, making a good sales start for such product series. In addition, with the increasing demands of Chinese maternity and childcare healthcare market, the Lifeline Care fish oil nutrients from Norway (挪威Lifeline Care魚油營養素) series product, as the top-selling fish oil brand in Norway with standards higher than EU's stringent standards, is expected to become another major new product of the Croup after Culturelle.

In the meantime, other new and quality health products that the Group introduced previously, such as BRAINSTRONG Prenatal DHA (BRAINSTRO孕婦DHA), BLACKMORES fish oil (澳佳寶魚油), FUYUNHON body care products and African Sea-Coconut Lozenges, also achieved positive results during the year.

4. *Built platforms for "Global Slimming" products to foster new tendencies for health management*

In recent years, as increasing number of people suffer from obesity problems and demands on quality and health slimming products also increases, the Group also paid attention to this trend and continuously introduced advanced foreign sliming products into China so as to explain that relevant groups can realize weight management through the healthiest way.

As such, the Group built a brand-new "Global Slimming" platform with diversified health slimming products. After the successful introduction of FATBLASTER slimming coconut water from Australia (澳洲減肥瘦身品牌菲拉思德椰子水), the Group again introduced many natural sliming products from European countries or the United States during the year, such as Tilman herbal tea bags (fat-burning) from Belgium (比利時Tilman植物燃脂茶包), ZUCCARI slimming series (義大利ZUCCARI瘦身系列) from Italy and BMI smart from Germany (德國慧纖), and carried out a series of market expansion and brand promotion campaigns successively. At the International Marathon Shenzhen 2016 and 2016 Guangzhou Marathon in December 2016, the debut of BMI smart angels representing the brand of German BMI smart became a climax and were reported by many media, successfully enhanced the brand attention

5. ***Made persistent efforts to achieve excellent performance in cross-border e-commerce business***

In the information age with high-speed development of "Internet + ", rooted in its advantageous offline channels, the Group also actively promoted the development of online platforms in the meantime. Through continuous expansion of online channels and improvement of custom service system, e-commerce channels have been consolidated, brand awareness has been built, and corporate influence of the Group has been enhanced.

With the extensive quality product mix and the experience of operating and developing e-commerce platform, the Group followed the policies closely, constantly optimised the operation strategies including the tiered management over channels, delivery of diversified products, control and management over online sources and price, and promotion and marketing, and further achieved the strategic cooperation with key e-commerce platform. At present, it has explored integrated e-commerce platforms, including Tmall, JD.com, Suning.com and Vip.com, and also conducted business on several specialized e-commerce platforms, including Beibei.com, Kaola.com, Muyingzhijia, Jumei.com and Shenba.com.

In 2016, the Group focused on the operation development of "Kingworld Health" WeChat shop. By seizing the current WeChat market and the opportunities arising from the rapid growth of mobile platform consumption demand, the Group developed the WeChat shop into one of our major online sales platforms, further achieving the sales strategic layout of full channels. Furthermore, the Group will continue to exert effort in the development of new Qianhai cross-border e-commerce platform and speed up the launching and operation of Qianhai e-commerce platform of Kingworld Health Family product.

For the year ended 31 December 2016, the sales of cross-border e-commerce business reached approximately RMB124,504,000, a significant increase of 115.3% as compared with the same period of 2015.

6. ***Profitability of investment projects was further enhanced to provide a promising prospect***

Various investment projects of the Group all achieved positive returns in 2016 with the Group's capital operation becoming more effective.

Regarding the project of acquiring Dong Di Xin, the Group continued to deepen the synergy and integration of resources in terms of corporate operation, business development and other aspects. In the broader context of the continuous growth in medical device market and the export industry having benefited from the exchange rate changes during the year, with its outstanding research and development, manufacturing and sales capabilities, corporate businesses and revenue of Dong Di Xin continued to grow steadily during the year. For the year ended 31 December 2016, Dong Di Xin recorded revenue of approximately RMB187,112,000, representing an increase of 32.6% as compared with the same period of 2015; its net profit amounted to approximately RMB43,240,000, representing an increase of 153.1% as compared with the same period of 2015.

During the year, other investment projects of the Group were also operated smoothly. the Group acquired 15% equity interest of Dong Hua Tong Investments Limited (東華通投資有限公司) in 2015 to hold indirect interest in Miquel Alimentació (a leading corporate in Spain engaging in food distribution and wholesale, brand operation and management of supply chain) and Manassen Foods Australia (a large food company). As at 31 December 2016, the Group had invested over HK$50,000,000 with respect to such project. Such project was operated smoothly during the year, which brought a positive dividend for the Group. Furthermore, the Group subscribed for 2,302,000 shares of and allotted by Chuangmei Pharmaceutical Co., Ltd. (stock code: 2289 HK) at the offer price of HK$8.6 per share at a consideration of approximately HK$20,000,000. The company has achieved steady growth in business and performance in 2016, providing a promising prospect.

In addition, on 14 May 2016, Shenzhen Kingworld, a wholly-owned subsidiary of the Company, entered into a cooperation agreement with Shenzhen Shanghenggang in relation to the establishment of a project company for the land parcel at Baolong Industrial Zone, Longgang District, Shenzhen City, the PRC. Pursuant to the cooperation agreement, Shenzhen Kingworld paid RMB18,988,000 to Shenzhen Shanghenggang and made capital contribution to project company by way of cash injection of RMB25,920,000 to own 90% equity of such company. Hence, the Group will make full use of such land parcel to build its own logistic center and ancillary facilities, combining with its self-operated business and resource allocation to further enhance the standard of strategic development.

7. *Intensified strategic cooperation to improve industry influence*

During the year, the Group and its strategic cooperation partner, Sinopharm Capital Management Company Limited (國藥資本管理有限公司) ("Sinopharm Capital") continued to carry out in-depth integration work in terms of product resources, channel expansion, terminal distribution, capital operation and other aspects. In addition, the Group also issued a supplemental deed in relation to the issuance of convertible bonds for an aggregate principal amount of HK$133,837,500 (convertible into approximately 62,250,000 shares), pursuant to which the conversion period is extended from 18 months from the issue date to 36 months from the issue date.

In the future, the Group will enhance its capital interaction and further intensify the strategic cooperation relationship with Sinopharm Capital on the basis of continuous business and industrial cooperation with Sinopharm Captial so as to improve the brand influence in pharmaceutical industry in China.

MANAGEMENT REVIEW

1. *Improved performance appraisal and incentive mechanism to bring staff's subjective initiative into play*

In 2016, the Group formulated a talent introduction plan and appraisal and incentive mechanism according to its strategies to improve the organization efficiency and per capital performance. During the year, the Group provided special awards for those marketing positions, including sales representatives, supervisor, officers and managers who over-fulfilled their tasks, as well as award and incentive policies based on different levels and excessive completion of business. In addition, the Group also introduced the competition mechanism of the survival of the fittest, in which the staff and management personnel with the worst performance will be eliminated. After smooth implementation of appraisal and incentive and competition mechanism, the initiative and subjective initiative of the Group's sales personnel have been fully played and thereby boost the growth of sales business of the Group directly.

2. *Improved data platform to start the corporation systematic operation at full speed*

In respect of information management, the Group cooperated with the international leading providers of SAP of corporate management software and technology solutions and upgraded the overall level of informatization in order to be on par with the advanced level of international peers. During the year, the Group's BI data system and SAP ERP data management center were officially put into operation, which enables comprehensive data management for financial accounting, business management, master data management and human resources management, effectively indicating that the Group Management Center is able to access sales data, distributor information and network distribution and operation of products in each area in a timely manner, and therefore formulate effective and accurate operation and management strategies to ensure an accurate and orderly operation of the Group's businesses.

During the year, the Group made a full usage of the data management of SAP, regularly examined the budget execution in each department and each region, and accounted the regional performance contribution. In the meantime, it also intensified the team building of SAP ERP internal consultants and optimised the job division of information system. In addition, the Group started the preparation for SAP Hybris e-commerce project for integrating management platforms of e-commerce supply chains and realising order consolidation and automatic financial approval. In the meantime, the Group also launched the new business data base, accumulated information for model building, which promotes data sharing and can be extensively applied in marketing examination.

3. *Formulated reasonable financial planning to effectively reduce the risks of exchange rate fluctuations*

In view of continuous fluctuation of exchange rate of Renminbi, in November 2016 and as disclosed in the announcement of the Company dated 18 November 2016, the Group entered into the Master Foreign Exchange Swap Agreement with CITIC Shenzhen Branch to purchase HKD for RMB, which is effective for five years. As at the date of such announcement and as at 31 December 2016, the Group has purchased a total sum of HKD199 million for the RMB/HKD foreign exchange swap service under the Master Foreign Exchange Swap Agreement.

Entering into such agreement indicates that the Group is able to avoid the risks of exchange rate fluctuations and quantify the exposure as a fixed cost of the transaction which is conducive to reasonable control over currency risks.

HONOR

During the Year Under Review, the Group had received the following honors and achievements:

In January 2016, the Group won the "Most Investment Value Award";

In March 2016, the Group acted as the supporting unit to provide Flying Eagle Wood Lok Medicated Oil, Imada Red Flower Oil applying service at six checkpoints alongside the racetrack at the Mofang Shenzhen 100KM with 100,000 participants, receiving a favorable response;

In April 2016, the Group was awarded as the "Most Socially Responsible Pharmaceutical Enterprise in 2015";

In June 2016, the Group was declared as the Guangdong Province Enterprise of Observing Contract and Valuing Credit;

In June 2016, the Group received title as "The Credible Benchmarking Enterprise Trusted by Consumer" at the China (Guangzhou) International Health Industry Expo Welcome Dinner Party and Oscar Award Ceremony;

In December 2016, the Group won the "Best Strategic Cooperation Partnership" award by Er Tian Tang (二天堂); and acted as the authorised sponsor of medicated oil for external use and service provider of medical stations for 2016 Guangzhou Marathon, International Marathon Shenzhen 2016 and Shantou International Half Marathon.

Management Discussion and Analysis

During the Year Under Review, the Kingworld Care and Health Foundation also actively fulfilled its social responsibility according to the Group's arrangement and received favourable responses:

In February 2016, it cooperated with China Charity Federation and Qinghai Charity Federation to donate Kyushin worth of RMB5,600,000 to aged persons in poverty-stricken minority areas suffering from heart disease;

In May 2016, it cooperated with Shenzhen Civilisation Office, Health and Family Planning Commission of Shenzhen Municipality, Shenzhen Project Care Committee and Foundation, Shenzhen Health Education and Promotion Center and Shenzhen Evening News to initiate the launch ceremony of the Action of Developing a Healthy Lifestyle of "Do A Good Deed Everyday" ("日行一善") and jointly organized a series of public welfare events such as the Caring our Candidates community event, the Tender Hand (溫柔之手) caring event and Pathways to Health (溫柔之手) caring event;

In September 2016, it attended the 5th China Charity Fair and held the opening ceremony of Kingworld Care and Health Foundation;

In October 2016, the Group supported the charitable project of "Pangolin Protection" Funny Run Campaign sponsored by TNC as a co-organizer;

In September 2016, the Group signed the donation agreement with Hong Kong University of Science and Technology (HKUST), pursuant to which, the Group donated HK$3,500,000 in support of the HKUST's Chinese Medicine R&D and student exchange activities. As a return, HKUST named a tiered classroom of the Lee Shau Kee Business Building after the company as the "Kingworld Medicines Group Classroom", which was officially opened in January 2017.

FINANCIAL REVIEW

1. *Revenue*

Revenue of the Group for the Year Under Review was approximately RMB1,053,527,000, representing an increase of approximately RMB339,979,000, or 47.6% compared to approximately 713,548,000 for the year ended 31 December 2015. The increase was mainly as a result of the increased revenue consolidated from Dong Di Xin, the increase in revenue of Culturelle and Nin Jiom Chuan Bei Pei Pa Koa.

2. *Cost of sales*

For the Year Under Review, cost of sales for the Group amounted to approximately RMB729,955,000, representing an increase of approximately RMB243,184,000 or 50.0% when compared to that of approximately RMB486,771,000 for the year ended 31 December 2015. The increase in cost of sales was due to the increase in revenue. Gross profit margin decreased slightly from 31.8% for the year ended 31 December 2015 to 30.7% for the year ended 31 December 2016 as a result of the increase in revenue of the lower margin products such as Nin Jiom Chuan Bei Pei Pa Koa during the Year Under Review.

3. *Other income*

Other income mainly included promotional service income, rental income, government grant, interest income, dividend income, exchange loss, change in fair value of other financial assets and change in fair value of other liability. For the Year Under Review, other income amounted to approximately RMB15,401,000, representing an increase of approximately RMB16,917,000 when compared to other loss of approximately RMB1,516,000 for the year ended 31 December 2015. This increase was mainly due to the increase in promotional service income of approximately RMB3,807,000, government grant of approximately RMB902,000 and the decrease in foreign exchange loss of approximately RMB7,283,000 respectively which was partially off-set by the decrease in bank interest income of approximately RMB3,716,000.

4. *Selling and distribution costs*

For the Year Under Review, selling and distribution costs amounted to approximately RMB149,129,000, which had increased by approximately RMB47,656,000 or 47.0% when compared to that of approximately RMB101,473,000 for the year ended 31 December 2015. This increase was primarily attributable to an increase in advertising expenses of approximately RMB39,997,000, transportation cost of approximately RMB4,627,000 and staff costs of approximately RMB1,818,000.

5. *Administrative expenses*

For the Year Under Review, administrative expenses amounted to approximately RMB75,543,000, which had increased by approximately RMB6,270,000 or 9.1% when compared to that of approximately RMB69,273,000 for the year ended 31 December 2015. For the Year Under Review, rental expenses was approximately RMB3,665,000, administrative staff costs was approximately RMB10,380,000 and legal and professional fees was approximately RMB5,759,000, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees, and provision for obsolete stock was approximately RMB3,096,000 (2015: rental expenses was approximately RMB3,117,000, administrative staff costs was approximately RMB11,412,000, legal and professional fees was approximately RMB4,018,000, and provision for obsolete stock was RMB nil).

6. *Profit from operations*

For the Year Under Review, profit from operations for the Group amounted to approximately RMB95,720,000, which had increased by approximately RMB46,567,000 or 94.7% when compared to that of approximately RMB49,153,000 for the year ended 31 December 2015. Increase in profit from operations was mainly due to the increase in gross profit and decrease in foreign exchange loss for the Year Under Review.

7. *Finance costs*

For the Year Under Review, finance costs amounted to approximately RMB12,969,000, representing a decrease of approximately RMB2,769,000 or 17.6% when compared to that of approximately RMB15,738,000 for the year ended 31 December 2015. The decrease was mainly due to the decrease in interest charged on bank loans and convertible bonds.

8. Profit before taxation

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB89,044,000, which had increased by approximately RMB37,722,000 or 73.5% when compared to that of approximately RMB51,322,000 for the year ended 31 December 2015. Increase in profit before taxation was mainly due to the increase in profit from operation and decrease in finance costs for the Year Under Review.

9. Income tax

For the Year Under Review, profit tax expenses for the Group amounted to approximately RMB21,638,000, which had increased by approximately RMB9,703,000 or 81.3% when compared to that of approximately RMB11,935,000 for the year ended 31 December 2015. This increase was mainly due to the increase in profit before tax. The effective tax rate for the Year Under Review was 24.3% when compared to 23.3% for the year ended 31 December 2015.

10. Profit for the year

For the Year Under Review, profit for the year of the Group amounted to approximately RMB67,406,000, which increased by approximately RMB28,019,000 or 71.1% when compared to that of approximately RMB39,387,000 for the year ended 31 December 2015. Increase in profit for the year was mainly due to the increase in profit before tax of approximately RMB37,722,000 which was partially off-set by the increase in income tax expenses of approximately RMB9,703,000 for the Year Under Review.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Trade and other receivables

Trade and bills receivables of the Group include credit sales that the Group's distributors should pay for the Group's products. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2016 amounted to RMB437,874,000, which had increased by RMB150,764,000 when compared to trade and other receivables as at 31 December 2015 which amounted to approximately RMB287,110,000. As at 31 December 2016, trade receivables and bills receivables of the Group amounted to approximately RMB105,358,000 and RMB189,875,000 respectively, representing an increase of RMB31,558,000 and RMB87,491,000 respectively when compared to trade receivables and bills receivables of approximately RMB73,800,000 and RMB102,384,000 as at 31 December 2015 respectively.

2. Inventories

As at 31 December 2016, inventories owned by the Group amounted to approximately RMB127,633,000, representing an increase of RMB48,628,000 when compared to that of RMB79,005,000 as at 31 December 2015. The main reason of increase in inventories was the increase in finished goods of approximately RMB48,346,000.

3. Properties, plants and equipment

Properties, plants and equipment owned by the Group include leasehold improvements, furniture, fixtures and office equipments, machinery, motor vehicles and construction-in-progress. As at 31 December 2016, the net book value of properties, plants and equipment owned by the Group amounted to approximately RMB22,808,000, showing an increase of RMB6,997,000 when compared to that of approximately RMB15,811,000 as at 31 December 2015. Increase in properties, plants and equipment was mainly due to the addition of fixed assets of approximately RMB11,380,000, which was partially off-set by the depreciation of approximately RMB4,234,000 during the Year Under Review.

4. Trade and other payables

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses.

As at 31 December 2016, trade and other payables owned by the Group amounted to approximately RMB271,689,000, showing an increase of approximately RMB104,942,000 when compared to that of approximately RMB166,747,000 as at 31 December 2015 as a result of an increase in trade payable of approximately RMB113,360,000 which was partially off-set by the decrease in other payable of approximately RMB6,088,000.

CASH FLOW

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal of debts and providing funds for capital expenditures and growth of the Group's operations.

1. *Net cash(used in)/generated from operating activities*

The Group's cash inflow from operations primarily derives from receipts for the sale of the Group's products. For the Year Under Review, the Group's net cash outflow used in operating activities amounted to approximately RMB2,207,000, while the net cash inflow generated from operating activities for the year ended 31 December 2015 was approximately RMB102,790,000. The decrease in net cash inflow was primarily due to an increase in trade and other receivables.

2. *Net cash used in investing activities*

The Group's net cash outflow used in investing activities amounted to approximately RMB19,880,000 for the Year Under Review, while the net cash outflow used in investing activities was approximately RMB168,128,000 for the year ended 31 December 2015. The decrease in net cash outflow was mainly due to the proceeds from disposal of available-for-sales financial assets and there was no net outflow for acquisition of subsidiaries during the Year Under Review.

3. *Net cash generated from/(used in) financing activities*

The Group's net cash inflow generated from financing activities amounted to approximately RMB120,331,000 for the Year Under Review, while the net cash outflow used in financing activities was approximately RMB888,000 for the year ended 31 December 2015. The increase in net cash inflow was mainly due to the decrease in repayment of bank loans during the Year Under Review.

CAPITAL STRUCTURE

1. *Indebtedness*

The total indebtedness of the Group as at 31 December 2016 was approximately RMB311,196,000 (as at 31 December 2015: approximately RMB167,560,000), which will be due within one year. During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. *Asset-liability ratio*

As at 31 December 2016, the Group's asset-liability ratio was approximately 22.3% (as at 31 December 2015: 15.5%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. *Pledge of assets*

As at 31 December 2016, the Group had pledged investment properties to the bank in the total amount of approximately RMB96,000,000. As at 31 December 2015, the Group did not have any assets pledged to the bank.

4. *Capital expenditures*

The capital expenditures of the Group primarily included purchases of plant and equipment and leasehold improvements. The Group's capital expenditures amounted to approximately RMB11,380,000 and RMB6,259,000 for the year ended 31 December 2016 and 2015 respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was 1.8% to 5.2%. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2016, the Group had cash and cash equivalents of approximately RMB239,281,000 (as at 31 December 2015: RMB140,178,000) which was mainly generated from operations of the Group, funds raised from the issue of convertible bond in September 2014 and the listing of the shares of the Company in November 2010.

CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitment of approximately RMB30,661,000 (as at 31 December 2015: RMB23,800,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2016, the Group had not made any material acquisition and disposal.

LITIGATION

As disclosed in the 2015 Annual Report, the 2016 Interim Report and the announcements of the Company dated 24 October 2016 and 31 October 2016, a claim was filed by the former Chief Executive Officer of Dong Di Xin (the "Plaintiff") against the substantial shareholder of Dong Di Xin (the "Substantial Shareholder") and Dong Di Xin. An appeal was lodged by Dong Di Xin (the "Appeal") to Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the "Court") against the judgment handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) ordering: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin.

As disclosed in the announcement of the Company dated 24 October 2016, the Judgement will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin.

The Appeal had been heard on 21 February 2017, and as at the date of this report the Appeal has not yet to be decided by the Court. The Company will keep the Shareholders of the Company and the public informed of any material progress on the Appeal by way of further announcement(s) as and when appropriate.

FUTURE OUTLOOK

1. *Implementing the "fourth five-year strategy" to enhance its industrial layout*

2017 mark the first year of the implementation of the Group's "fourth five-year strategy". The Group will stick to the mission "to serve the community and to heal the souls" and the vision of becoming a "globally leading and renowned health services provider", so as to continue to adopt the core value of "Everything is possible with the spirit" and to fully implement the spirit of the four five-year strategy.

In the future, under the guidance of the new "fourth five-year strategy", the Group will further enhance its industrial layout, build three product sources of the introduction of new products, investments by mergers and acquisitions, and industrial production through positioning as a health industry, build four platforms of traditional business, new business, investment management, and e-commerce platform business to foster intensive growth and launch integrated strategies, in order to speed up the pace of internationalization and accelerate the establishment of management system, and enhance the core competitiveness.

2. Improving the KA system of the pharmaceutical line and exploring the KA system of maternity and childcare

In 2016, the Group furthered the KA chain cooperation with key terminals, and has successfully established cooperation with the top 100 enterprises in the industry and the head offices of chains ranking top 30 in regional markets, increasing the annual growth rate in KA sales to 30% or above.

In the future, the Group will continue to improve the KA system of the pharmaceutical line and actively explore the KA system of maternity and childcare in the Greater China to speed up the layout of diverse terminals while simultaneously and continuously strengthening the cooperation with key pharmaceutical chains. By means of speeding up the opening of stores, optimizing promotion schemes, promoting the point of sales, and building model stores, the Group will enhance the sales and maintenance at personal care chain stores, such as Watsons and Mannings, speed up the pace of the exploration of the large maternity and childcare chain network throughout the nation, and strengthen the terminal network and sales regulation.

3. Speeding up the omni-channel layout and sales of new products of the Culturelle probiotic series

In 2017, the Group will continue to actively expand the distribution from cross-border e-business and self-operated platforms covered in Culturelle probiotic series products. Meanwhile, the Group will further expand the retail outlet network of the Kids Probiotics as a core product in the Hong Kong and Macau markets to reach 1,000 terminals covered in the products and take further advantage of the brand's market competitiveness. In the Mainland China market, through strengthening the process of paving the way for products at terminals, such as KA chains in key markets and the maternity and childcare chains, the Group will accelerate the omni-channel layout of the Culturelle probiotic series in the Mainland market.

In addition, the Group will continue to introduce new products of the Culturelle probiotic series and effectively control the transportation costs occurred by the Culturelle through reasonably planned logistics and warehouse management to maximize profitability.

4. Facilitating the rapid development of the family of "Global Sliming"

The Group will strive to portray "Global Sliming" as a fashionable platform of fitness. Through the joint introduction and synergy effect of various brands and products, the Group aims at building a health slimming concept from all aspects and thereby actively seize shares of Hong Kong-Macau-Mainland China slimming market.

The Group will continue to enrich the product mix of the family of the "Global Sliming" in 2017 and select best-selling and quality fitness products without toxic side effects from around the world. While maintaining the good sales operation of the FATBLASTER slimming coconut water from Australia, the Group will reinforce the marketing and brand promotion planning of new products, such as the BMI smart from Germany (德國慧纖), Tilman herbal tea bags (fat-burning) from

Belgium (比利時Tilman植物燃脂茶包), ZUCCARI slimming series (義大利ZUCCARI瘦身系列) from Italy and VL slimming gel from Japan (日本VL瘦身霜系列). Through intensifying the cooperation with existing major e-business platforms and distribution channels, establishing a cooperative mechanism with new major channels, such as Netease Kaola and VIP shop to become a strategic client of their fitness product mix, and establishing cooperation with the T-mall platform for Kingworld's family of "Global Sliming" as well as operation strategies, the Group will build a comprehensive platform of weight and health management that sets quality brand management, sales, and customer services as a whole.

5. *Improving the incentive and award policies to optimize management mechanism*

In the future, through continuing to improve and implement a combination of various incentive and award policies, the Group will fundamentally enhance the proactivity of sales staff. In terms of remuneration, adjustments in the remuneration structure for staffs will be made to update the annual salary system for sales management staff, fundamentally resolve motivation problems of staff, and increase incentive as internal fairness in basic salary as well as efficiency are valued while profit share is in line with area performance. The Group will continue to optimize assessment schemes, promote the scientific, systematic and targeted assessment system, and highlight the orientation of objectives to reorganize the KPI indicators among departments, simplify the performance assessment indicators for employees, and enhance assessment efficiency.

In addition, the Group will implement the shift duties for the Vice President of Sales from 2017 to closely follow up the arrangements, assessment, incentives, duty report, and evaluation of staff on shifts and continuously revise and improve shift management schemes for relevant positions to ensure that the objectives of increasing performance and selecting outstanding management personnel are reached.

6. *Building a base in the Greater China to consolidate the leading position as a brand-named health agency*

As a leading brand-named health agency in the nation, the Group has the exclusive rights to sell various quality overseas health products in the Greater China and enjoys significant advantages of its operation experience and resources in the industry. In the future, the Group will speed up the pace of internationalization, consolidate the Hong Kong and Macau markets, explore Asia markets, and launch investigation and research in the Taiwan region and key markets in the Southeast Asia to explore the feasibility of introducing its products into wider markets.

The Group will build a comprehensive product introduction system to put forward the establishment of systems, such as the category management of product introduction, market observation, dynamic analysis, target progress, and nurturing internal talents, and leveraging original momentum. Meanwhile, the Group will take advantage of multi-channel resources to speed up the introduction of a diversity of products, such as drugs, health products, health food, slimming products, beauty care, and medical devices, and aim at portraying its products as leader brands in their respective segmentation systems to consolidate its leading position in the industry as a brand-named agency in the health segment.

7. *Optimizing the capital operation system to establish financial mechanism for risk coping*

In the future, the Group will continue to upgrade the layout of the health segment, reasonably utilize diverse capital tools, and adopt investment strategies of market differentiation to actively and orderly promote the capital operation of the Group. The Group will continuously explore the core competitiveness of channel resources while fully utilizing its capital strengths to speed up the integration of industrial chains, reasonably layout the health market, input original momentum for main operations, and to enhance the capital expandability of the Group.

In addition, with the product mix of introduced overseas products increasing and the RMB exchange rate continuing to fluctuate, the Group will establish a financial system that is set to adapt to fluctuating exchange rate, establish a streamlined and standardized budget system and accounting system to promote independent accounting of different sectors, regions and departments. In 2017, the Group will evaluate the risk in exchange rate from time to time, adopt measures, such as forward transaction of foreign exchange, for hedging against exchange rates fluctuation, and establish a sound financial mechanism for risk coping.

HUMAN RESOURCES AND TRAINING

As of 31 December 2016, the Group had a total of 986 employees, of which 127 worked at the Group's headquarter in Shenzhen, and 386 stationed in 34 regions with main responsibility of sales and marketing; 473 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB84,446,000 (2015: RMB66,547,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). The management team is responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

During the Year Under Review, the Group adopted a "people-oriented" management concept to have its staffs closely involved in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and adopted a number of incentive mechanisms to enhance the productivity of its employees. The Group conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly. In addition, the Group has established a business college and has cooperated with higher education institutions for introducing teachers from EMBA and EDP courses from higher education institutions.

The Company also operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group, including eligible employees of the Group. Details of such share option scheme are set out under the paragraph headed "Share Option Scheme" in this report.

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend for the Year Under Review of HK2.95 cents per share to shareholders whose names appear on the register of members of the Company on Wednesday, 7 June 2017, amounting to approximately HK$18,364,000, subject to the approval in the Company's forthcoming annual general meeting to be held on Friday, 26 May 2017. Total dividend payout ratio is 35.0% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2017.

Directors' and Senior Management's Biographies

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 58, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 21 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("SZ Industry") in 1994 and the general manager and chairman of Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao has been a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯)第五屆理事會) in 2005. In 2008, he was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organizations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) and in 2009, the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會). Currently he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San.

Ms. Chan Lok San (陳樂燊), aged 53, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 21 years of experience in the pharmaceutical industry as well as over 11 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006 respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao Li Sheng.

Mr. Zhou Xuhua (周旭華), aged 50, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 19 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yi (張翼), aged 41, has 17 years of experience in the area of operational management, business development and equity investment in pharmaceutical and health industry. He is currently a founding partner and managing director of Sinopharm Capital Management Company Limited. Mr. Zhang completed a 7-year clinical professional graduate programme jointly organised by Fudan University and Shanghai University of Traditional Chinese Medicine, receiving a Master degree in clinical study in July 1999. Mr. Zhang previously worked in Sanofi-Aventis as a marketing manager from June 2003 to July 2007. He served as the senior investment manager in Greater China for Burrill & Company from August 2007 to February 2009. Mr. Zhang also worked for 建銀國際醫療產業股權投資有限公司(CCB International Medical Industry Equity Investment Limited Company) and served successively as deputy director, director and head of the Investment Department from March 2009 to March 2012. He was appointed as a non-executive Director of the Company on 17 December 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 51, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 26 years of experience in the pharmaceutical industry. Mr. Duan received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989, and was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. Mr. Duan served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司, stock code : 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. From April 2008 to April 2011, he was an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange. Since February 2013, he has been appointed as an independent non-executive Director of Yan He Medicines Company Limited (仁和药業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Directors' and Senior Management's Biographies

Mr. Wong Cheuk Lam (黃焯琳), aged 48, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 21 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master degree in business from Victoria University of Technology, Australia in 1997. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a Certified Taxpay Strategist (PRC). From 1994 to 2003, Mr. Wong worked in accounting positions for Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. From 2003 to January 2013, he worked as a company secretary at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange and worked as a chief financial officer from July 2005 to January 2013 and was also a financial controller during the period from October 2007 to July 2010 of the same company. Form February 2015 to May 2015, Mr. Wong worked for Genvon Group Limited (currently named Beijing Enterprises Medical and Health Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2389), as financial controller and deputy company secretary. From May 2015 to June 2016, Mr. Wong was the CFO and company secretary of ASR Logistics Holdings Limited (currently named Beijing Sports and Entertainment Industry Group Limited), a company listed on the Main Board of the Stock Exchange (Stock code: 1803).

Mr. Zhang Jianbin (張建斌), aged 56, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 24 years of experience of teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. Mr. Zhang completed a USA MBA program (organized by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. Mr. Zhang was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005. Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993 to 1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 56, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. Mr. Chan has over 31 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008 respectively. Mr. Chan received a bachelor degree in economics from Macquarie University Australia in 1986. In 2005, he received a master degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 51, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. Ms. Fang has approximately 26 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. Ms. Fang completed a course in accounting from Wuhan University (武漢大學) in 1991.

Mr. Liu Yibing (劉亦兵), aged 58, is the assistant of the General Manager of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. Mr. Liu has approximately 14 years of experience in the administrative field. He worked in the cadre training center at the human resources department of Foxconn International Group between 1995 and 1998. Mr. Liu received a bachelor degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Mr. Ceng Yun (曾涢), aged 46, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has approximately 18 years of experience as a sales manager in the pharmaceutical industry. Mr. Ceng completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Ms. Liang Caiyun (梁彩雲), aged 48, is the customer services manager of SZ Kingworld. Ms. Liang is primarily responsible for the implementation of SZ Kingworld's overall customer service strategies including but not limited to the delivery of the products and the review of purchase agreements. Ms. Liang has over 26 years of experience in the sales and strategic planning fields. Before joining SZ Kingworld in 1999, she worked in the Aviation Industry Corporation of China ZhongHang Electronic Measuring Instruments Co. Ltd. (中國航空工業總公司中航電測儀器股份有限公司) in 1988 and later worked as a planning and statistics officer of Chiaphua Appliance (Shenzhen) Company Limited in 1997. Ms. Liang completed her tertiary education in the area of industrial enterprises management at 012 Base Vocational School (012基地職工學院) in 1988, and received the qualification certificate of specialty and technology for the intermediate level in statistics from the National Bureau of Statistics of China (國家統計局) in 1996.

Ms. Zhang Dan (張丹), aged 52, is the marketing director of SZ Kingworld. Ms. Zhang is primarily responsible for the formulation and implementation of SZ Kingworld's overall marketing strategies for the Group's products, especially Nin Jiom Pei Pa Koa, Taiko Seirogan, Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil. Ms. Zhang has approximately 16 years of experience in the sales and marketing areas. She received a bachelor degree in medical treatment from Yunyang Medical College of Tongji Medical University (同濟醫科大學鄖陽醫學院) in 1986, and was a lecturer at the Hubei Province Wuhan Health School between 1986 and 1995. Ms. Zhang joined SZ Kingworld in 1996.

Ms. Tian Yongli (田永莉), aged 54, is the audit and control manager of SZ Kingworld. Ms. Tian is primarily responsible for the formulation, implementation and review of SZ Kingworld's accounting policies and internal control. Ms. Tian has approximately 23 years of experience in the auditing and accounting fields. She worked as an accounting officer for Electronic Industry Bureau of Wuhan City (武漢市電子工業局) in 1992. Ms. Tian received the junior accountant qualification from Finance Department of the PRC (中華人民共和國財政部) in 1999, and received a professional diploma in industrial enterprises' operation and management from Wu Han Radio and TV University (武漢市廣播電視大學) in 1986. Ms. Tian joined SZ Kingworld in 2005.

Mr. Huang Ruozhong (黃若忠), aged 54, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 21 years of experience in handling securities and finance related matters. Mr. Huang worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. Mr. Huang worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, Mr. Huang has been the executive directors of 23 subsidiaries and served as a director of Zhuhai Jinming since 2006. In 2001, Mr. Huang was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People's Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People's Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. Mr. Huang joined SZ Kingworld in 2003.

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Year Under Review, the Company complied with the code provisions as set out in the CG Code, other than code provision A.2.1 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Zhao Li Sheng is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Zhao to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his/her compliance with the Model Code during the Year Under Review. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished inside information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the Year Under Review.

BOARD OF DIRECTORS

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management. Since the day-to-day running of the Company has been delegated by the Board to the senior management, the senior management is responsible for the implementation of the policies resolved. In general, the responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed and final annual budgets of the Company, assessing the performance of the Company and overseeing the work of senior management.

As at 31 December 2016, the Board comprises a total of seven Directors, being three executive Directors (the"Executive Directors"), one non-executive Director (the "Non-executive Director") and three independent non-executive Directors (the "Independent Non-executive Directors"). Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Zhou Xuhua served as Executive Directors, Mr. Zhang Yi served as Non-executive Director and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its shareholders. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' and Senior Management's Biographies" of this report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the Year Under Review, four Board meetings were held and attendance of each Director at the Board meetings is set out in the paragraph headed "Board/Committee Meetings and Individual Attendance" of this report.

All members of the Board fully understand their collective and individual responsibility for the Shareholders, and will try their best to carry out their duties to make contributions to the Group's results.

Throughout the Year Under Review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) and 3.10A of the Listing Rules and has appointed three Independent Non-executive Directors, representing more than one-third of the number of Directors at the Board, with at least one Independent Non-executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management.

Pursuant to the Articles of Association of the Company, one third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Zhou Xuhua , Mr. Zhang Jianbin and Mr. Wong Cheuk Lam shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All committees have been formed with specific written terms of reference in compliance with the Listing Rules which deal with their respective authorities and duties.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

Members, duties and responsibilities of the committees are as follows:

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Audit Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Wong has been appointed as the chairman of the Audit Committee.

The primary duties of the Audit Committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls and risk management systems of the Group and to ensure the external auditor are independent and the audit process is effective. The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The Audit Committee also serves as a channel of communication between the Board and the external auditor. External auditor and the Directors are invited to attend the committee meetings as and when necessary.

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2015, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2016 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

The Audit Committee also carried out corporate governance functions during the Year Under Review, including developing and reviewing the Company's policies and practices on corporate governance and other duties prescribed under code provision D.3.1 of the CG Code.

The Audit Committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the year of 2016, and agreed with the accounting treatment adopted by the Group.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee (the "Remuneration Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Remuneration Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Zhang has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to review and approve the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meeting. The work performed by the Remuneration Committee during the Year Under Review included considering the policy for the remuneration of executive directors, the performance of executive directors, and the terms of executive directors' service contracts.

The Remuneration Committee adopted the approach under Code Provision B.1.2(c) (ii) of the CG Code to make recommendation to the Board on the remuneration packages of the individual executive Directors and senior management of the Company.

NOMINATION COMMITTEE

The Company established a Nomination Committee (the "Nomination Committee") on 5 November 2010 and has formulated its written terms of reference, which was amended and adopted by the Board on 26 August 2013 and the contents of which are in compliance with the provisions of the CG Code. The Nomination Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam. Mr. Duan has been appointed as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are (among other things): reviewing the structure, size and diversity of the Board, making recommendations to the Board on appointment of Directors and succession planning for Directors and assessing the independence of Independent Non-executive Directors.

To comply with the new provisions in the CG Code on board diversity which became effective on 1 September 2013, the Nomination Committee has adopted a policy concerning diversity of Board members (the "Board Diversity Policy"), which is achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service in related business areas of the Board members and will make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee will review the Policy on a regular basis and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The work performed by the Nomination Committee during the Year Under Review included reviewing the established policy and procedure for the nomination and appointment of new Directors, reviewing the Board Diversity Policy and the measurable objectives that the Board has set for implementing such policy and assessing the independence of the Independent Non-executive Directors. The Nomination Committee, having reviewed the structure, size, composition and diversity of the Board including the gender, age, culture and educational background, professional experience and industry experience of each Director vis-a-vis the Group's business strategy as well as the structure for the rotation of Directors, considered that the existing arrangements were appropriate.

BOARD/COMMITTEE MEETINGS AND INDIVIDUAL ATTENDANCE

It is proposed to hold Board meetings at least four times a year regularly. Notice is given to Directors at least fourteen days before a regular Board meeting. Directors will be given reasonable and practicable notification under relevant circumstance for any special Board meeting called.

Before each Board meeting, the Directors are provided with a detailed agenda and sufficient relevant information, so as to enable the Directors to make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If any Director or any of his/her associates has material interests in any resolution of the Board meeting, such Director must abstain from voting and should not be counted in the quorum of the meeting.

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2016 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhao Li Sheng *(Chairman)*	4/4	—	—	—	1/1
Ms. Chan Lok San	4/4	—	—	—	1/1
Mr. Zhou Xuhua	4/4	—	—	—	1/1
Non-executive Directors					
Mr. Zhang Yi	4/4	—	—	—	1/1
Independent Non-executive Directors					
Mr. Duan Jidong	4/4	2/2	2/2	2/2	1/1
Mr. Wong Cheuk Lam	4/4	2/2	2/2	2/2	1/1
Mr. Zhang Jianbin	4/4	2/2	2/2	2/2	1/1

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with Code Provision A.6.5 of the CG Code on Directors' training and have provided a record of the training they received to the Company. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

Name of Directors	Training received
Mr. Zhao Li Sheng	— Reading materials/attending external and in house seminars and programmes
Ms. Chan Lok San	— Reading materials/attending external and in house seminars and programmes
Mr. Zhou Xuhua	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Yi	— Reading materials/attending external and in house seminars and programmes
Mr. Duan Jidong	— Reading materials/attending external and in house seminars and programmes
Mr. Wong Cheuk Lam	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Jianbin	— Reading materials/attending external and in house seminars and programmes

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the financial statements of the Group in accordance with the relevant laws and disclosure stipulations of the Listing Rules and ensuring that these financial statements give a true and fair view of the state of affairs of the Group, its results and cash flows for the relevant period. The Board also ensures the timely publication of the financial statements of the Group. The Board confirms that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern.

The responsibilities of the external auditors are to express an independent opinion on the financial statements prepared by the Directors based on their audit and to report their opinion solely to all the Shareholders, and for no other purpose. The statement of external auditor of the Company, Crowe Horwath (HK) CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" of this report.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2016, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB1,386,000 (equivalent to approximately HK$1,600,000).

For the year ended 31 December 2016, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB1,011,000 (equivalent to approximately HK$1,167,000).

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL COMPLIANCE GUIDELINES

The Board has to be fully responsible for the stability and effectiveness of the systems of internal control and risk management of the Group. Such systems were set up by the Group to fulfill specific needs of the Group and the risks that its management faces. The Group has set up rigorous procedures to avoid unauthorised use or disposal of the Group's assets, ensure proper maintenance of accounting records, and provide reliable financial information for internal and external uses.

The Board has assigned internal audit department to conduct a review on the internal control system, work flow and risk management system of the Group. The result was satisfactory. Such systems and work flow are compliant with the internal compliance guidelines of the Group.

For the year ended 31 December 2016, through reviews conducted by the Audit Committee and study results from internal audit department, the Board has conducted a review on the effectiveness of internal control system, the risk management system and the internal compliance guidelines, and has come to the conclusion that such systems and guidelines have been effectively and adequately executed and followed.

CORPORATE GOVERNANCE MEASURES

During the Year Under Review, since no new opportunities relating to the Restricted Activity (as defined in the Company's prospectus dated 12 November 2010, the "Prospectus") were referred to the Group, the Independent Non-executive Directors had not reviewed any decision in relation to new opportunities referred to the Group.

The Independent Non-executive Directors had, however, reviewed the compliance with the non-competition undertaking entered into by Golden Land International Limited ("Golden Land"), Mr. Zhao Li Sheng ("Mr. Zhao"), Golden Morning International Limited ("Golden Morning") and Ms. Chan Lok San ("Ms. Chan"), the controlling shareholders of the Company (the "Controlling Shareholders"), in favour of the Company under the Deed of Non-Competition (as defined in the Prospectus), the options, pre-emptive rights or first rights of refusals, if any, provided by the Controlling Shareholders on its existing or future competing businesses. The Independent Non-executive Directors confirmed that the terms of the Deed of Non-Competition were complied with by the Controlling Shareholders during the Year Under Review. The Independent Non-executive Directors are not aware of any breach of the terms of the Deed of Non-Competition by the Controlling Shareholders and therefore, no enforcement action was taken against the Controlling Shareholders by the Company during the Year Under Review.

Each of the Controlling Shareholders has confirmed that he/she/it has, during the Year Under Review, complied with the non-competition undertaking under the Deed of Non-Competition.

DIRECTORS' INSURANCE

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

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the company secretary of the Company on 25 June 2009. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant requirement under Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training. His biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene and putting forward proposals at an extraordinary general meeting

Extraordinary general meetings shall be convened on the written requisition of any one or more Shareholder(s) 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. Such requisition shall be made in writing to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the company secretary by mail to Rooms 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, or by e-mail to kingw@kingworld.com.cn.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investors is crucial so as to let them have a deeper understanding of the Company's business and its development. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the Company has formulated investor relations policies for the purpose of letting investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.kingworld.com.cn to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 28 March 2017

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in (i) distribution of imported branded pharmaceutical and healthcare products in the PRC, and (ii) maunfacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices. As at 31 December 2016, the Group managed a portfolio of eleven categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from fourteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. Many of the products distributed by the Group are established brand names including Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil, Kyushin Pill and Mentholatum Product Series. Amongst these brands, "Nin Jiom" has always been the best-seller of the Group. Nin Jiom Chuan Bei Pei Pa Koa is also the best-selling Chinese medical cough relieving product in the PRC, which is the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 71 to 169.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2016 of HK2.95 cents per share to Shareholders whose names appear on the register of members of the Company on Wednesday, 7 June 2017, amounting to approximately HK$18,364,000, subject to the approval from the Company's forthcoming annual general meeting to be held on Friday, 26 May 2017. Total dividend payout ratio is 35.0% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2017.

CLOSURE OF THE REGISTER OF MEMBERS

To be eligible to attend and vote in the forthcoming annual general meeting

The register of members of the Company will be closed from Tuesday, 23 May 2017 to Friday, 26 May 2017 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 22 May 2017.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Monday, 5 June 2017 to Wednesday, 7 June 2017 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 2 June 2017.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 10 to 29. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Summary" on page 170. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus our Group provides competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Our Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between our Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

The principal business of the Group has used RMB and HK$ as the functional and operational currencies. The Group faces foreign exchange risk arising from RMB and HK$. The Group has no major risks in changes in other currency exchange rates.

Liquidity Risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

LITIGATION AND CONTINGENT LIABILITIES

As disclosed on page 26 of this report, a claim was filed by the Plaintiff against the Substantial Shareholder and Dong Di Xin. The Appeal was lodged by Dong Di Xin to the Court against the judgment handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) ordering: (1) the Equity Transfer; (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin.

As disclosed in the announcement of the Company dated 24 October 2016, the Judgement will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin.

The Appeal had been heard on 21 February 2017, and as at the date of this report the Appeal has not yet to be decided by the Court. The Company will keep the Shareholders of the Company and the public informed of any material progress on the Appeal by way of further announcement(s) as and when appropriate.

Save as disclosed, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings as of 31 December 2016.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 31 December 2016, the Group had used net proceeds of approximately RMB134,920,000, of which RMB4,000,000 had been applied for upgrading the transportation and delivery services to customers, RMB15,760,000 had been applied for expanding the product display booth scheme, approximately RMB20,600,000 as working capital and approximately RMB94,560,000 has been applied for acquisition of Dong Di Xin. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The Share Option Scheme was conditionally approved by a written resolution of the shareholders of the Company dated 5 November 2010. Details of the Share Option Scheme are set out in the Prospectus.

The principal terms of the Share Option Scheme are summarised as follows:

(a) The maximum number of the Company's shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not exceed 10% of the nominal amount of all issued shares of the Company as at the Listing Date (i.e. 25 November 2010, the "Listing Date") (which were 600,000,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

    As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 60,000,000 shares, which represents 10% of the issued shares as at the Listing Date and approximately 9.64% of the issued shares of the Company as at the date of this report.

(b) The total number of shares issued and to be issued upon the exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

(c) The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to the relevant participant and shall be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's shares on the date of grant of the option.

(d) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

(e) An offer for the grant of options must be accepted within 7 days inclusive of the day on which such offer was made and must be accepted in its entirety and any number of shares which is less than what has been offered under any circumstances shall not be accepted. The amount payable by the grantee of an option to the Company on acceptance for the grant of an option is HK$1.

(f) Any grant of an option to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the option).

(g) The Share Option Scheme shall be valid and effective commencing on the date of adoption of the Share Option Scheme, (i.e. 5 November 2010), and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof.

A summary of share options granted under the Share Option Scheme of the Company during the year ended 31 December 2016 is as follows:

					Number of Share Options					
Grantees	Position held with the Group and/or relationship with the Group	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Outstanding as at 1 January 2016	Granted during the Period	Cancelled during the Period	Lapsed during the Period	Outstanding as at 31 December 2016	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Chairman/Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	520,000	–	–	–	520,000	0.08%
Ms. Chan Lok San (Note 2)	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	468,000	–	–	–	468,000	0.08%
Zhou Xuhua	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	468,000	–	–	–	468,000	0.08%
DuanJidong	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	–	412,000	0.07%
Zhang Jianbin	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	–	412,000	0.07%
Wong Cheuk Lam	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	–	412,000	0.07%
Zhang Yi	Non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	–	412,000	0.07%
Sub-total of Share Options granted to Directors					3,104,000	–			3,104,000	0.49%
57 Employees	Employees of the Group	1 June 2015	1 June 2015 to 31 May 2019	2.54	13,236,000	–	–	–	13,236,000	2.13%
Sub-total of Share Options granted to Directors and Employees					16,340,000	–			16,340,000	2.62%
5 Consultants	Consultants of the Group	1 June 2015	1 June 2015 to 31 May 2017	2.54	300,000	–	–	–	300,000	0.05%
Hong Kong Zhixin Financial News Agency Ltd. (香港智信財經通訊社有限公司) ("Hong Kong Zhixin") (Note 5)	Consultant of the Group	9 October 2015	9 October 2015 to 8 October 2018	2.54	6,200,000	–	–	–	6,200,000	0.99%
Total					**22,840,000**	**–**	**–**	**–**	**22,840,000**	**3.66%**

Note 1: Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial Interest, interests of spouse and controlled corporation.

Note 2: Ms. Chan Lok San (being the spouse of Zhao Li Sheng) is also a substantial shareholderof the Company through interests of spouse and controlled corporation.

Note 3: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.The value of the Share Options granted during the period ended 31 December 2016 was zero as such performance target(s) and terms set for the Share Options had not been achieved by the end of the Year Under Review.

Note 4: The closing price of the Share on the date of grant of Share Options on 1 June 2015 was HK$2.45.

Note 5: On 9 October 2015, the Company entered into the Service Contract with Hong Kong Zhixin pursuant to which the Company has agreed to appoint Hong Kong Zhixin as a public relations consultant of the Company in Hong Kong and Mainland China for the provision of the services for a term of three years. In consideration of the provision of the services by Hong Kong Zhixin, the Company has agreed to (i) pay HK$30,000 per month to Hong Kong Zhixin during the term of the service, and (ii) grant Share Options to Hong Kong Zhixin or its nominees to subscribe for an aggregate of 6,200,000 new Shares under the Share Option Scheme at the exercise price of HK$2.54 per share.

BORROWINGS

Details of the Group's borrowings as at 31 December 2016 are set out in note 27 to the Financial Statements.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year Under Review or subsisted at the end of the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, the Company's subsidiaries or holding companies, or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the Year Under Review.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association of the Company, each Director or other officers of the Company shall be indemnified out of the assets and profits of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

GOING CONCERN

Based on the current financial position and the available financing facilities, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a "going concern" basis.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the Year Under Review and up to the date of this report, at least 25% of the issued shares of the Company was held by public shareholders.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 31 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 75 of the Consolidated Statement of Changes in Equity and note 31 to the Financial Statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2016, the aggregate amount of reserves available for distribution to owners of the Company was RMB168,527,000 (as at 31 December 2015: RMB198,281,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK2.95 cents (equivalent to RMB2.64 cents) (2015: HK1.53 cents, equivalent to RMB1.28 cents) per share amounting to RMB16,434,000 (2015: RMB7,968,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB7,205,000 (2015: RMB875,000).

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group are set out in note 13 to the Financial Statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2016. Increase in fair value of investment properties due to revaluation amounted to approximately RMB250,000, which has been included in the Consolidated Statement of Profit or Loss. Details of changes in the Group's investment properties for the year ended 31 December 2016 are set out in note 14 of the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the terms of the Company's Articles of Association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2016 are set out in note 17 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2016 and up to the date of this report have been:

Executive Directors

Mr. Zhao Li Sheng *(Chairman)*
Ms. Chan Lok San
Mr. Zhou Xuhua

Non-executive Directors

Mr. Zhang Yi

Independent Non-executive Directors

Mr. Duan Jidong
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 30 to 34 under the section headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that it has received from each Independent Non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers, based on the confirmations received, the Independent Non-executive Directors remain independent.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions and positions held with the Company. Details of the remuneration of the Directors are set out in note 11 to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 3 (2015 : 4) Directors. Details of the five highest paid individuals are set out in note 12 to the Financial Statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the service contract had been renewed until being terminated pursuant to the terms of the service contract.

For the Year Under Review, the annual remuneration payable to each of the executive Directors was as follows:

	RMB'000
Mr. Zhao Li Sheng	1,289
Ms. Chan Lok San	1,070
Mr. Zhou Xuhua	1,437

Under their respective service contracts, each of the Executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Remuneration Committee and approved by the Board.

Each of the Executive Directors will also be entitled to reimbursement of reasonable expenses including traveling, hotel, entertainment and other expenses properly incurred in the performance of his or her duties under the relevant service contract.

Non-executive Directors

Mr. Zhang Yi has entered into a letter of appointment with the Company for a term of three years commencing from 17 December 2014, subject to the requirements for retirement by rotation and re-election in accordance with the Company's articles of association. The letter of appointment may be terminated by three months' prior notice in writing served by either party to the other. Under the letter of appointment, Mr. Zhang is currently entitled to an annual basic salary of HK$176,400 (which will be pro-rated to the period of services in the year of his appointment). Mr. Zhang will also be entitled to reimbursement of reasonable expenses including travelling, hotel and other expenses properly incurred in the performance of his duties under the letter of appointment.

For the Year Under Review, the annual remuneration payable to the Non-executive Director was as follows:

	RMB'000
Mr. Zhang Yi	—

Independent Non-executive Directors

Each of the Independent Non-executive Directors (other than Mr. Zhang Jianbin) has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the letter of appointment had been renewed until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the letter of appointment can be renewed until being terminated pursuant to the terms of the letter of appointment.

For the Year Under Review, the annual remuneration payable to each of the Independent Non-executive Directors was as follows:

	RMB'000
Mr. Duan Jidong	150
Mr. Wong Cheuk Lam	158
Mr. Zhang Jianbin	150

Each of the Independent Non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his/her duties under the relevant appointment letter.

Save as disclosed above, none of the Directors has entered or is proposed to enter into any service agreements with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", during the year ended 31 December 2016, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2016, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Beneficial owner	9,392,000	1.51%
	Interest of spouse	90,000,000	14.46%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Interest of spouse	307,204,250	49.35%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua (Note 3)	Interest of spouse	3,800,000	0.61%
Zhang Yi (Note 4)	Interest of a controlled corporation	62,250,000	10.00%

Notes:

1. In addition to 9,392,000 shares which are beneficially owned by Mr. Zhao Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 387,812,250 shares in the Company. These shares are held in the following capacities:

   (a) 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

   (b) 90,000,000 shares are held by Golden Morning. Ms. Chan Lok San, the spouse of Mr. Zhao, is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 90,000,000 shares held by Golden Morning.

2. Ms. Chan Lok San is deemed (by virtue of the SFO) to be interested in 397,204,250 shares in the Company. These shares are held in the following capacities:

(a) 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms.Chan is also the sole director of Golden Morning.

(b) 9,392,000 shares are held by Mr. Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 9,392,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

3. Mr. Zhou is deemed (by virtue of the SFO) to be interested in 3,800,000 shares in the Company held by his spouse, Huang Xiaoli.

4. Pursuant to the subscription agreement dated 15 September 2014 (as supplemented by the supplemental agreements dated 9 October 2014 and 15 December 2014), Sinopharm Capital designated Shine Light Investment Fund and Legend Times Corporation Limited as its nominees to hold the convertible bonds in the principal amount of HK$93,686,250 and HK$40,151,250, respectively. The long position represents the interests in the 62,250,000 shares to be allotted and issued upon the full exercise of the conversion rights attached to the convertible bond in the aggregate principal amount of HK$133,837,500 at an initial conversion price of HK$2.15 issued by the Company on 17 December 2014.

   Shine Light Investment Fund is deemed to be interested in 62,250,000 shares/underlying shares of the Company within the meaning of Part XV of the SFO, representing 10% of the issued share capital of the Company, by virtue of a concert party agreement with Legend Times Corporation Limited. Hwabao Trust Co. Ltd* (華寶信託有限責任公司) holds 95,000 non-voting shares in Shine Light Investment Fund, representing approximately 99.89% of the issued share capital of Shine Light Investment Fund, as the trustee of a fixed trust which the beneficiary is Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership)* (上海聖眾投資管理合夥企業). Mr. Zhang Yi controls one-third of the voting power at matters of Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership). Hence, Mr. Zhang Yi is deemed to be interested in 62,250,000 shares/underlying shares of the Company within the meaning of Part XV of the SFO.

(II) Long positions in the underlying shares – share options under share option scheme

				Number of Share Options					
Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Outstanding as at 1 January 2016	Granted during the Period	Cancelled during the Period	Lapsed during the Period	Outstanding as at 31 December 2016	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	1 June 2015	1 June 2015 to 31 May 2019	2.54	520,000	–	–	–	520,000	0.08%
Ms. Chan Lok San (Note 2)	1 June 2015	1 June 2015 to 31 May 2019	2.54	468,000	–	–	–	468,000	0.08%
Zhou Xuhua	1 June 2015	1 June 2015 to 31 May 2019	2.54	468,000	–	–	–	468,000	0.08%
DuanJidong	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	–	412,000	0.07%
Zhang Jianbin	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	–	412,000	0.07%
Wong Cheuk Lam	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	–	412,000	0.07%
Zhang Yi	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	–	412,000	0.07%
Total				**3,104,000**	**–**	**–**	**–**	**3,104,000**	0.49%

Note 1: Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial interest, interests of spouse and controlled corporation.

Note 2: Ms. Chan Lok San (being the spouse of Zhao Li Sheng) is also a substantial shareholder of the Company through interests of spouse and controlled corporation.

Note 3: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant. The value of the Share Options granted during the year ended 31 December 2016 was zero as such performance target(s) and terms set for the Share Options had not been achieved by the end of the Period under review.

Note 4: The closing price of the Share on the date of grant of Share Options on 1 June 2015 was HK$2.45.

(III) Interests in the shares of the associated corporations of the Company

Name of Directors	Name of associated corporations	Capacity/Nature of Interest	Percentage of shareholding
Zhao Li Sheng	Golden Land	Beneficial owner	100%
Chan Lok San	Golden Morning	Beneficial owner	100%
Zhang Yi	Shine Light Investment Fund	Beneficial owner	33.33%

As at 31 December 2016, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2016, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2016, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Golden Land	Beneficial owner	297,812,250	47.84%
Golden Morning	Beneficial owner	90,000,000	14.46%
Zhao Li Sheng (Note 1)	Beneficial owner	9,392,000	1.51%
	Interest of spouse	90,000,000	14.46%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Interest of spouse	307,204,250	49.35%
	Interest of a controlled corporation	90,000,000	14.46%
Sinopharm Healthcare Fund L.P. (Note 3)	Beneficial owner	62,187,750	9.99%
Sinopharm Capital Limited (Note 4)	Interest of a controlled corporation	62,187,750	9.99%
Shine Light Investment Fund (Note 5)	Interest of a party to an agreement to acquire interests	62,250,000	10.00%
Shine Light Fund Management Limited (Note 6)	Interest of a controlled corporation	62,250,000	10.00%
Hwabao Trust Co. Ltd. (Note 7)	Trustee of a trust	62,250,000	10.00%
上海聖眾投資管理合伙企業(有限合伙) Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership) (Note 8)	Beneficiary of a trust (other than a discretionary trust)	62,250,000	10.00%
Zhang Yi (Note 9)	Interest of a controlled corporation	62,250,000	10.00%
Legend Times Corporation Limited (Note 5)	Interest of a party to an agreement to acquire interests	62,250,000	10.00%

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Chief Marine Limited (Note 10)	Interest of a controlled corporation	62,250,000	10.00%
CDBI Parnters Fund I, L.P. (Note 11)	Interest of a controlled corporation	62,250,000	10.00%
CDBI Parnters GP, Ltd (Note 12)	Interest of a controlled corporation	62,250,000	10.00%
Tan Ching (Note 13)	Interest of a controlled corporation	62,250,000	10.00%
Sun Hill Capital Investments Limited (Note 14)	Interest of a controlled corporation	124,437,750	19.99%
Wu Aimin (Note 15)	Interest of a controlled corporation	124,437,750	19.99%

Notes:

1. In addition to 9,392,000 shares which are beneficially owned by Mr. Zhao Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 387,812,250 shares in the Company. These shares are held in the following capacities:

   (a) 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

   (b) 90,000,000 shares are held by Golden Morning. Ms. Chan Lok San, the spouse of Mr. Zhao, is the beneficial owner of the entire Issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 397,204,250 shares in the Company. These shares are held in the following capacities:

   (a) 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.

   (b) 9,392,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 9,392,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

3. Pursuant to the share purchase agreement entered into between Golden Land and Sinopharm Capital dated 16 September 2014 (as supplemented by the supplemental agreements dated 7 November 2014 and 15 December 2014), Sinopharm Capital designated Sinopharm Healthcare Fund L.P. as its nominee to acquire 62,187,750 shares of the Company from Golden Land for a consideration of HK$133,703,662.5.

4. The corporate substantial shareholder notice filed by Sinopharm Capital Limited indicated that it controlled 1.91% interest in Sinopharm Healthcare Fund L.P.

5. Pursuant to the subscription agreement dated 15 September 2014 (as supplemented by the supplemental agreements dated 9 October 2014 and 15 December 2014), Sinopharm Capital designated Shine Light Investment Fund and Legend Times Corporation Limited as its nominees to hold the convertible bond in the principal amount of HK$93,686,250 and HK$40,151,250, respectively. The long position represents the interests in the 62,250,000 shares to be allotted and issued upon the full exercise of the conversion rights attached to the convertible bond in the aggregate principal amount of HK$133,837,500 at an initial conversion price of HK$2.15 issued by the Company on 17 December 2014.

   Shine Light Investment Fund is deemed to be interested in 62,250,000 shares/underlying shares of the Company within the meaning of Part XV of the SFO, representing 10% of the issued share capital of the Company, by virtue of a concert party agreement with Legend Times Corporation Limited.

6. The corporate substantial shareholder notice filed by Shine Light Fund Management Limited indicated that it controlled 0.11% interest in Shine Light Investment Fund.

7. The corporate substantial shareholder notice filed by Hwabao Trust Co. Ltd. indicated that it controlled 99.89% interest in Shine Light Investment Fund and is a trustee of a trust namely 華寶-境外市場投資1號系列2期QDII單一資金信託合同(HwaBao QDII Investment in Overseas Market Contract).

8. The corporate substantial shareholder notice filed by 上海聖眾投資管理合伙企業(有限合伙) Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership) indicated that it is a beneficiary of a trust namely 華寶-境外市場投資1號系列2期QDII單一資金信託合同 (HwaBao QDII Investment in Overseas Market Contract).

9. The director's notice filed by Zhang Yi indicated that he controlled 33.33% interest in Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership).

10. The corporate substantial shareholder notice filed by Chief Marine Limited indicated that it controlled 100% interest in Legend Times Corporation Limited.

11. The corporate substantial shareholder notice filed by CDBI Parnters Fund I, L.P. indicated that it controlled 100% interest in Chief Marine Limited and indirectly controlled 100% interest in Legend Times Corporation Limited.

12. The corporate substantial shareholder notice filed by CDBI Parnters GP, Ltd indicated that it, through CDBI Parnters Fund I, L.P., indirectly controlled 100% interest in Chief Marine Limited and Legend Times Corporation Limited.

13. The individual substantial shareholder notice filed by Tan Ching indicated that he controlled 99% interest in CDBI Parnters GP, Ltd and, indirectly through CDBI Parnters Fund I, L.P., controlled 100% interest in Chief Marine Limited and Legend Times Corporation Limited.

14. The corporate substantial shareholder notice filed by Sun Hill Capital Investments Limited indicated that it controlled 100% interest in Sinopharm Capital Limited and indirectly controlled 1.91% interest in Sinopharm Healthcare Fund L.P., 100% interest in Shine Light Fund Management Limited and 0.11% interest in Shine Light Investment Fund.

15. The individual substantial shareholder notice filed by Wu Aimin indicated that he controlled 70% interest in Sun Hill Capital Investments Limited and, indirectly controlled 100% interest in Sinopharm Capital Limited, 1.91% interest in Sinopharm Healthcare Fund L.P., 100% interest in Shine Light Fund Management Limited and 0.11% interest in Shine Light Investment Fund.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2016, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

Save as disclosed in the paragraph headed "Share Option Scheme" in this report, at no time during the Year Under Review, the Company or any of its subsidiaries had no arrangements to enable the Directors or executives (including their spouse and children under 18 years of age) of the Company to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2016 and during any time for the year ended 31 December 2016, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2016 and during any time for the year ended 31 December 2016, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2016 and during any time for the year ended 31 December 2016, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance entered into or proposed to be entered into with the Company in relation to the Company's business.

CONNECTED TRANSACTION

On 24 June 2015, the Company through Kingworld Medicines Health Management Limited (金活醫藥健康管理有限公司), a wholly-owned subsidiary of the Company, entered into the Partnership Agreement with Sinopharm Capital Limited (as a general partner of Sinopharm Fund).

Pursuant to the Partnership Agreement, the Group has committed to invest US$5 million(equivalent to approximately HK$38.9 million) to subscribe approximately 3.89% of the aggregate initial limited partners' interest of Sinopharm Fund.

Sinopharm Fund has been established in the Cayman Islands as an exempted limited partnership with the primary objective of investing in public and private companies in the healthcare industry, including but not limited to pharmaceutical manufacturing, medical equipment, medical research, healthcare service, medical service and healthcare, that are organized and/or operating in Greater China, or with a significant nexus to Greater China.

As at the date of this report, Sinopharm Fund holds approximately 9.99% of the total issued share capital of the Company. Although Sinopharm Fund is not a substantial shareholder of the Company under the Listing Rules, given its relationship with the Company, the Company is willing to follow the relevant connected transaction requirements pursuant to Chapter 14A of the Listing Rules.

For details, please refer to the announcement of the Company dated 24 June 2015.

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year Under Review.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2016, the Group had entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in note 36 to the Financial Statements.

The recurring related party transactions set out in note 36 to the Financial Statements fall within the definition of "continuing connected transaction" under Chapter 14A of the Listing Rules while the key management remuneration set out in note 12 to the Financial Statements do not fall within the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules. The Company has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

As disclosed in the announcement of the Company dated 20 November 2015 (the "Announcement"), on 20 November 2015, the Company entered into two new master distribution agreements with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳市金活利生藥業有限公司) ("SZ Kingworld Lifeshine") and Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("Yuen Tai") respectively (collectively, the "New Master Distribution Agreements").

Unless otherwise defined herein, terms used in the following section headed "New master distribution agreements for the year ending 31 December 2016" shall have the same meanings as defined in the Announcement.

New Master Distribution Agreements for the year ending 31 December 2016

Transaction	**Member of the Group**	**Connected person**	**Actual transaction amounts for the year ended 31 December 2016 RMB'000**	**Approximate annual cap for the year ended 31 December 2016 RMB'000**
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	—	24,340
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	SZ Kingworld	Yuen Tai	—	2,260

Principal terms of the New Master Distribution Agreements are as follows:

2016 SZ Kingworld Lifeshine Master Distribution Agreement

SZ Kingworld Lifeshine is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San (both being the Executive Directors of the Company).

On 20 November 2015, SZ Kingworld Lifeshine and the Company entered into the SZ Kingworld Lifeshine Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of one year commencing from 1 January 2016 and ending on 31 December 2016 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advance by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

2016 Yuen Tai Master Distribution Agreement

Yuen Tai is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San.

On 20 November 2015, Yuen Tai and the Company entered into the Yuen Tai Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of one year commencing from 1 January 2016 and ending on 31 December 2016 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advance by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has issued a letter to the Board confirming that the above continuing connected transactions:

(i) have received the approval of the Board;

(ii) did not involve the provision of goods or services by the Group;

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) did not exceed the respective annual caps as disclosed in the Announcement.

PLEDGE OF ASSETS

As at 31 December 2016 and 2015, the Group's bank loans were guaranteed by Mr. Zhao Li Sheng, the ultimate controlling party and Director of the Company, Ms. Chau Lok San, the Director of the Company and SZ Kingworld.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was 1.8% to 5.2%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2016, the Group had cash and cash equivalents of RMB239,281,000 (as at 31 December 2015: RMB140,178,000) which was mainly generated from operations of the Group, funds raised from the issue of convertible bond in September 2014 and the listing of the shares of the Company in November 2010.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total revenue of the Group's five largest customers accounted for approximately 10.5% of the Group's revenue, in which revenue from the largest customer of the Group accounted for approximately 2.8% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 87.0% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 62.7% of the total purchase of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital, to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holdings of such securities.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2016 are set out in note 2(w) to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

EVENT AFTER THE REPORTING PERIOD

There is no material event after the reporting period as at the date of this report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by Crowe Horwath (HK) CPA Limited, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 28 March, 2017

Independent Auditor's Report

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF KINGWORLD MEDICINES GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kingworld Medicines Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 169, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

The Key Audit Matter	*How the matter was addressed in our audit*
Impairment of goodwill and intangible assets (Refer to note 18 and 20 to the consolidated financial statements)	
The Group has RMB90,693,000 of goodwill and RMB97,334,000 of intangible assets relating to the acquisition of Dong Di Xin. Their recoverable amount is based on an assessment of the higher of fair value less cost to sell and value in use. Value in use is calculated as the net present value of estimated future cash flows. The Group's assessment of impairment is a judgemental process which requires estimates concerning the estimated future cash flows and associated discount and growth rate based on management's view of future business prospects.	We assessed and challenged the impairment analysis prepared by the management as outlined below: The Group appointed an independent and professional valuer to perform valuation for value in use and made reference to the valuation of the valuer when determined assets impairments. With regard to the overall impairment assessments performed by the management, we evaluated the design of internal controls in place to check that the Group's assets are valued appropriately including those controls in place to determine any asset impairments or impairment reversals. We used valuation experts to assist our evaluation of the appropriateness of the models and key assumptions and estimates used by management and management's valuers to determine the recoverable value of the goodwill and intangible assets. We tested these assumptions by reference to third party documentation where available. We challenged the key assumptions used in each impairment model and performed sensitivity analysis around key drivers of cash flow forecasts, including unit of sales, growth rates, operating costs, and expected life of assets. We challenged the discount rate used to determine the present value by assessing the cost of capital for the Group and comparable organizations and considered them to be reasonable. Furthermore, we obtained evidence to assess adequate historical accuracy in management's forecasting process.

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	*How the matter was addressed in our audit*
Financial instruments (Refer to note 21, 24 and 28 to the consolidated financial statements) As at 31 December 2016, the fair value of available-for-sale financial assets and financial assets at fair value through profit or loss of the Group were RMB84,600,000 and RMB21,632,000 respectively. The valuation of financial instruments held at fair value and the related disclosures require market data and modelling techniques which rely on a range of inputs. Where observable market data are not available, or where instruments are not liquid, estimates must be developed based on the most appropriate source data. These estimates are subject to significant judgement. In addition we have identified the disclosure of financial instruments in the fair value hierarchy as an area of focus. As at 31 December 2016, the carrying amount of the convertible bonds (included equity component and liability component) was RMB121,168,000. The recognition and measurement of convertible bonds involved significant judgement and estimates by management.	For financial instruments held at fair value, we used valuation experts to assist our evaluation of the appropriateness of the models and key assumptions and estimates used by the management and management's valuers. We assessed and challenged management's valuation of financial instruments, in particular where there was no observable market price. We compared model inputs to industry benchmarks and third party data. We assessed whether the disclosure requirements were met. We examined the terms of the convertible bonds and evaluated management's assessment that the convertible bonds meet the "fixed-for-fixed" criteria (i.e. it will or may be settled by exchange of fixed amount of cash or another financial asset for a fixed number of shares) and the resulting treatment of the conversion option as an equity instrument was appropriate. We used valuation experts to assist our evaluation of the appropriateness of the models and key assumptions and estimates used by the management and management's valuers, including the discount rate and share price.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Independent Auditor's Report

The engagement director on the audit resulting in this independent auditor's report is Alvin Yeung Sik Hung.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2017

Alvin Yeung Sik Hung
Practising Certificate Number P05206

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Revenue	4	**1,053,527**	713,548
Cost of sales		**(729,955)**	(486,771)
Gross profit		**323,572**	226,777
Valuation gain on investment properties	14	**250**	11,900
Other income	6	**15,401**	(1,516)
Selling and distribution costs		**(149,129)**	(101,473)
Administrative expenses		**(75,543)**	(69,273)
Amortisation of intangible assets	20	**(18,831)**	(17,262)
Profit from operations		**95,720**	49,153
Finance costs	7 (a)	**(12,969)**	(15,738)
Share of profit of a joint venture		**6,293**	17,907
Profit before taxation	7	**89,044**	51,322
Income tax	8	**(21,638)**	(11,935)
Profit for the year		**67,406**	39,387
Attributable to:			
Owners of the Company		**46,966**	31,205
Non-controlling interests		**20,440**	8,182
Profit for the year		**67,406**	39,387
Earnings per share	10		
Basic (RMB cents)		**7.26**	4.74
Diluted (RMB cents)		**7.26**	4.74

The notes on pages 78 to 169 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016
(Expressed in Renminbi)

	2016 RMB'000	2015 RMB'000
Profit for the year	**67,406**	39,387
Other comprehensive income/(loss) for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**(4,599)**	(2,039)
Available-for-sale investments:		
Change in fair value	**7,969**	1,513
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	**(2,395)**	—
	975	(526)
Total comprehensive income for the year (net of tax)	**68,381**	38,861
Attributable to:		
Owners of the Company	**48,705**	29,601
Non-controlling interests	**19,676**	9,260
Total comprehensive income for the year	**68,381**	38,861

The notes on pages 78 to 169 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	13	**22,808**	15,811
Investment properties	14	**108,130**	107,880
Interest in a joint venture	19	**69,233**	62,940
Deposit paid for property, plant and equipment	15	**75,000**	75,000
Deposit paid for acquisition of land	16	**18,988**	—
Goodwill	18	**90,693**	90,693
Intangible assets	20	**97,334**	116,165
Financial assets at fair value through profit or loss	24	**4,232**	—
Available-for-sale financial assets	21	**19,401**	9,609
		505,819	478,098
Current assets			
Inventories	22	**127,633**	79,005
Trade and other receivables	23	**437,874**	287,110
Available-for-sale financial assets	21	**65,199**	86,296
Other financial asset	30	**533**	4,604
Financial assets at fair value through profit or loss	24	**17,400**	14,040
Cash and bank balances	25	**239,281**	140,178
		887,920	611,233
Current liabilities			
Trade and other payables	26	**271,689**	166,747
Other financial liability	30	**13,623**	16,362
Bank loans	27	**311,196**	167,560
Liability component of mandatorily convertible bonds	28	**—**	4,155
Liability component of convertible bonds	28	**114,909**	—
Current taxation	29(a)	**15,503**	17,059
		726,920	371,883
Net current assets		**161,000**	239,350
Total assets less current liabilities		**666,819**	717,448
Non-current liabilities			
Deferred tax liabilities	29(b)	**28,169**	30,182
		28,169	30,182
NET ASSETS		**638,650**	687,266

The notes on pages 78 to 169 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2016
(Expressed in Renminbi)

	Note	**2016** **RMB'000**	2015 RMB'000
CAPITAL AND RESERVES	31		
Share capital		**53,468**	53,468
Reserves		**470,347**	537,918
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**523,815**	591,386
NON-CONTROLLING INTERESTS		**114,835**	95,880
TOTAL EQUITY		**638,650**	687,266

Approved and authorised for issue by the board of directors on 28 March 2017.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 78 to 169 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(Expressed in Renminbi)

	Attributable to owners of the Company												
	Share capital	Share premium	Statutory and discretionary reserves	Contributed surplus	Convertible bonds equity reserve	Fair value reserve	Other reserve	Exchange reserve	Capital reserve	Retained profits	Total	Non-controlling interests	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 31(a))	(note 31(b))	(note 31(c))	(note 31(d))	(note 31(e))	(note 31(f))	(note 31(i))	(note 31(g))	(note 31(h))				
At 1 January 2016	**53,468**	**152,700**	**34,157**	**29,068**	**94,905**	**435**	**–**	**(16,079)**	**210**	**242,522**	**591,386**	**95,880**	**687,266**
Changes in equity:													
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**46,966**	**46,966**	**20,440**	**67,406**
Other comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exchange difference arising from the translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,599)**	**–**	**–**	**(4,599)**	**–**	**(4,599)**
Fair value change on available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**7,655**	**–**	**–**	**–**	**–**	**7,655**	**314**	**7,969**
Reclassification adjustment upon disposal of available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**(1,317)**	**–**	**–**	**–**	**–**	**(1,317)**	**(1,078)**	**(2,395)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**6,338**	**–**	**(4,599)**	**–**	**46,966**	**48,705**	**19,676**	**68,381**
Appropriation of statutory and discretionary reserves	**–**	**–**	**4,583**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,583)**	**–**	**–**	**–**
Dividends (note 9(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,519)**	**(8,519)**	**(721)**	**(9,240)**
Equity settled share-based transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**543**	**–**	**543**	**–**	**543**
Extinguishment and recognition of convertible bonds (note 28)	**–**	**–**	**–**	**–**	**(88,646)**	**–**	**(19,654)**	**–**	**–**	**–**	**(108,300)**	**–**	**(108,300)**
At 31 December 2016	**53,468**	**152,700**	**38,740**	**29,068**	**6,259**	**6,773**	**(19,654)**	**(20,678)**	**753**	**276,386**	**523,815**	**114,835**	**638,650**
At 1 January 2015	53,468	152,700	33,936	29,068	94,905	–	–	(14,040)	–	220,938	570,975	–	570,975
Changes in equity:													
Profit for the year	–	–	–	–	–	–	–	–	–	31,205	31,205	8,182	39,387
Other comprehensive income/(loss) for the year	–	–	–	–	–	435	–	(2,039)	–	–	(1,604)	1,078	(526)
Total comprehensive income/(loss) for the year	–	–	–	–	–	435	–	(2,039)	–	31,205	29,601	9,260	38,861
Appropriation of statutory and discretionary reserves	–	–	221	–	–	–	–	–	–	(221)	–	–	–
Dividends (note 9(b))	–	–	–	–	–	–	–	–	–	(9,400)	(9,400)	(143)	(9,543)
Equity settled share-based transactions	–	–	–	–	–	–	–	–	210	–	210	–	210
Non-controlling interests arising from acquisition of subsidiaries (note 38)	–	–	–	–	–	–	–	–	–	–	–	86,763	86,763
At 31 December 2015	53,468	152,700	34,157	29,068	94,905	435	–	(16,079)	210	242,522	591,386	95,880	687,266

The notes on pages 78 to 169 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		**89,044**	51,322
Adjustments for:			
Depreciation	7(c)	**4,234**	3,814
Finance costs	7(a)	**12,969**	15,738
Interest income	6	**(597)**	(4,313)
Interest from available-for-sale financial investments	6	**(2,439)**	(4,033)
Loss on disposal of property, plant and equipment	7(c)	**153**	40
Write-off of trade receivable	7(c)	**330**	—
Write-off of other receivables	7(c)	**—**	10
Impairment loss of trade receivables	7(c)	**951**	145
Impairment loss of available-for-sale	7(c)	**4,897**	—
Reversal of impairment loss on other receivables	7(c)	**(3,717)**	—
Change in fair value of financial assets at fair value through profit or loss	6	**(1,566)**	2,634
Change in fair value of other financial asset	6	**4,071**	2,573
Change in fair value of other financial liability	6	**(2,739)**	1,814
Amortisation of intangible assets	7(c)	**18,831**	17,262
Share of profit of a joint venture		**(6,293)**	(17,907)
Valuation gain on investment properties	14	**(250)**	(11,900)
Write-down of inventories	7(c)	**3,096**	—
Changes in working capital			
(Increase)/decrease in inventories		**(51,724)**	479
(Increase)/decrease in trade and other receivables		**(148,326)**	167,631
Increase in deposit for letter of credit		**(1,597)**	(7,700)
Increase/(decrease) in trade and other payables		**104,943**	(99,207)
Cash generated from operations		**24,271**	118,402
Income tax paid		**(26,478)**	(15,612)
Net cash (used in)/generated from operating activities		**(2,207)**	102,790

The notes on pages 78 to 169 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(11,380)**	(6,259)
Payment for the available-for-sale financial assets		**(71,448)**	(35,491)
Payment for the financial assets at fair value through profit or loss		**(5,000)**	(16,753)
Proceeds from disposal of available-for-sales financial assets		**83,900**	—
Deposit paid for leasehold land		**(18,988)**	—
Net outflow for acquisition of subsidiaries		**—**	(147,821)
Decrease in bank deposits with maturity over three months		**—**	29,850
Interest received from available-for-sale financial investments		**2,439**	4,033
Interest received		**597**	4,313
Net cash used in investing activities		**(19,880)**	(168,128)
Financing activities			
Decrease in pledged bank deposits		**—**	84,097
Proceeds from new bank loans		**154,658**	167,560
Repayment of bank loans		**(11,022)**	(228,677)
Finance costs paid		**(14,786)**	(14,468)
Dividend paid		**(8,519)**	(9,400)
Net cash generated from/(used in) financing activities		**120,331**	(888)
Net increase/(decrease) in cash and cash equivalents		**98,244**	(66,226)
Cash and cash equivalents at beginning of year		**132,478**	200,178
Effect of foreign exchange rate changes		**(738)**	(1,474)
Cash and cash equivalents at end of year	25	**229,984**	132,478

The notes on pages 78 to 169 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

Kingworld Medicines Group Limited (the "Company") was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 10 July 2008. The address of the Company's registered office and the principal place of business are disclosed in the corporate information in the annual report.

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in (i) distribution sale of branded imported pharmaceutical and healthcare products, and (ii) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices in the People's Republic of China (the "PRC") and Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting year of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting years reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except when otherwise indicated. The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have adopted Hong Kong dollars ("HK$") as their functional currency. The functional currency of the PRC subsidiaries is RMB. As the Group mainly operates in the Mainland China, RMB is used as the presentation currency of the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair values as explained in the accounting policies set out below:

— investment properties (see note 2(f)); and

— other financial asset

— other financial liabilities

— financial instruments classified as available-for-sale or as trading securities (see note 2(e)).

— financial assets at fair value through profit or loss (see note 2(aa)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 33.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) *Subsidiaries and non-controlling interests*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. 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. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses (see note 2(j)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Joint ventures

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(s) (v) and (iv).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(j)). Dividend income from equity securities is recognised in profit or loss in accordance with the policy set out in note 2(s) (v).

When the investments are derecognised or impaired, the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the consolidated statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(s) (ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(h).

g) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less any accumulated depreciation and any accumulated impairment losses (see note 2(j) (ii)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

—	leasehold improvements	5 years or over the remaining term of the lease, if shorter
—	furniture, fixtures and office equipment	5 to 10 years
—	machinery	10 years
—	motor vehicles	5 years

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

(i) when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

(ii) when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) *Property, plant and equipment* *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Properties, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties, plant and equipment 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.

h) *Leased assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets* ***(Continued)***

i) *Classification of assets leased to the Group*

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(f)); and

— Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

i) *Inventories*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Impairment of assets

i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For interest in a joint venture accounted for under the equity method in the consolidated financial statements (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j) (ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j) (ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets (Continued)*

i) *Impairment of investments in equity securities and trade and other receivables (Continued)*

— For trade and other receivables and other financial assets carried at amortised cost, 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 financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities which are stated at fair value, when a decline in the fair value has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets (Continued)*

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— intangible assets;

— goodwill;

— deposit paid for property, plant and equipment; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing the 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets* (Continued)

ii) *Impairment of other assets (Continued)*

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j) (i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

k) *Trade and other receivables*

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(j) (i)).

l) *Trade and other payables*

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

n) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

o) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevants amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) *Income tax (Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations outside Mainland China are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) *Translation of foreign currencies* *(Continued)*

On the disposal of an operation outside Mainland China, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

s) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) *Sales of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and other sales taxes and is stated after deduction of returns and discounts.

ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iii) *Promotional service income*

Promotional service income is recognised when the services are rendered.

iv) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

v) *Dividends*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Segment reporting*

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's directors, i.e., the chief operating decision-makers, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

u) *Mandatorily convertible bonds and convertible bonds*

Mandatorily convertible bonds or convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. An instrument that is mandatorily convertible into a fixed number of the Company's ordinary shares and the Company does not have contractual obligation to redeem the principal amount is, in substance, a prepaid forward purchase of the Company's equity shares. This component shall be classified as equity of the Group. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed amount of the Company's own equity instruments is classified as an equity instrument. When the instrument carries an obligation for the Company to make fixed interest payments during the life of the mandatorily convertible bonds, the instrument includes a financial liability component. On initial recognition, the fair value of the liability component is determined using prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the instrument and the fair value assigned to the liability component was included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the instrument is carried at amortised cost using the effective interest method. The equity component, representing the mandatory conversion option to convert into a fixed number of ordinary shares of the Company, will remain in reserve as convertible bonds equity reserve until the instrument is mandatorily converted into shares at maturity date or the mandatory conversion option is exercised by the holders, in which case the balance stated in convertible bonds equity reserve will be transferred to share capital and share premium accounts.

Transaction costs that were directly attributable to the issue of the convertible bonds and warrants designated as financial liabilities at fair value through profit or loss were recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) 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 value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Incomes Taxes and HKAS 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 HKFRS 2 Share-based Payment at the acquisition date and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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 amount 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. Other types of non-controlling interests are measured at their fair value.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) *Business combinations* *(Continued)*

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates in with the corresponding gain or loss being recognised in profit or loss.

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.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

ii) *Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business 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 the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) ii) Goodwill *(Continued)*

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is an 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 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). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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.

w) Employee benefits

i) Short term employee benefits and contribution to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contribution to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Defined contribution retirement plan obligation

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

iii) Termination benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) *Employee benefits* (Continued)

iv) *Share-based payments*

Where equity instruments such as share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 39 to the financial statements. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

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

For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

At the time when the share options are exercised, the amount previously recognised in Capital reserve will be transferred to share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in Capital reserve will be transferred to accumulated losses.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

x) Related parties

a) A person, or a close member of that person's family, is related to the Group if that person:

i) has control or joint control over the Group;

ii) has significant influence over the Group; or

iii) is a member of the key management personnel of the Group or the Group's parent.

b) An entity is related to the Group if any of the following conditions applies:

i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

vi) The entity is controlled or jointly controlled by a person identified in (a).

vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

y) *Intangible assets (other than goodwill)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill 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 are reported at cost less accumulated amortisation and accumulated impairment losses.

The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Customer relationship	8 years
– Patents	5 years

Derecognition of intangible assets

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.

z) *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 are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets as a reduction in the depreciation charge of the assets. Grants related to expense items are recognised in the same period as those expenses are charged to the profit or loss and are reported separately as other revenue and other net income in profit or loss.

aa) *Financial assets at fair value through profit or loss*

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" (see note 2(s)).

(Expressed in Renminbi unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

ab) Derivate financial instruments

Derivate financial instruments are recognized initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

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

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. REVENUE

Revenue represents sales of branded imported pharmaceutical and healthcare products, electrotherapeutic and physiotherapeutic devices, and general medical examination devices at net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the year.

	2016	2015
	RMB'000	RMB'000
Sales of		
– pharmaceutical products	**643,933**	444,023
– healthcare products	**222,482**	128,389
– medical devices	**187,112**	141,136
	1,053,527	713,548

5. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's director for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

1. Distribution sales of pharmaceutical and healthcare products: this segment distributes and sells branded imported pharmaceutical and healthcare products primarily in Hong Kong and the PRC.

2. Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices: this segment manufactures and sells electrotherapeutic and physiotherapeutic devices and general medical examination devices. Currently, the Group's activities in this regard are primarily carried out in the PRC.

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's director monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments, trading securities, deferred tax assets and other corporate assets. Segment liabilities include provisions and trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, director is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities* *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's director for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices			
	Hong Kong		PRC		PRC		Total	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Revenue from external customers	**183,754**	99,815	**759,165**	544,670	**187,112**	141,136	**1,130,031**	785,621
Inter-segment revenue	**18,307**	489	**—**	302	**—**	—	**18,307**	791
Reportable segment revenue	**202,061**	100,304	**759,165**	544,972	**187,112**	141,136	**1,148,338**	786,412
Reportable segment profit (adjusted EBITDA)	**32,928**	24,688	**24,259**	41,231	**62,285**	34,822	**119,472**	100,741
Interest income from bank deposits	**11**	5	**332**	1,752	**188**	31	**531**	1,788
Interest expense	**—**	1	**635**	8,146	**—**	—	**635**	8,147
Depreciation and amortisation for the year	**224**	690	**2,184**	1,109	**20,657**	19,277	**23,065**	21,076
Reportable segment assets	**364,492**	186,298	**784,642**	569,161	**204,708**	278,054	**1,353,842**	1,033,513
(including investment in joint venture)	**—**	—	**69,233**	62,940	**—**	—	**69,233**	62,940
Additions to non-current segment assets during the year	**9,433**	90,693	**30,209**	2,567	**2,340**	153,542	**41,982**	246,802
Reportable segment liabilities	**102,076**	40,385	**351,903**	117,677	**20,356**	52,817	**474,335**	210,879

5. SEGMENT REPORTING *(Continued)*

b) *Reconciliations of reportable segment revenues, profit or loss, assets and liabilities*

	2016 **RMB'000**	2015 RMB'000
Revenue		
Reportable segment revenue	**1,148,338**	786,412
Elimination of inter-segment revenue	**(18,307)**	(791)
Elimination of group's share of revenue of joint venture	**(76,504)**	(72,073)
Consolidated revenue (note 4)	**1,053,527**	713,548

	2016 **RMB'000**	2015 RMB'000
Profit		
Reportable segment profit derived from group's external customers and joint venture	**119,472**	100,741
Other income	**15,401**	(1,516)
Depreciation and amortisation	**(23,065)**	(21,076)
Finance costs	**(12,969)**	(15,738)
Unallocated head office and corporate expenses	**(9,795)**	(11,089)
Consolidated profit before taxation	**89,044**	51,322

5. SEGMENT REPORTING *(Continued)*

b) *Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (Continued)*

	2016 RMB'000	2015 RMB'000
Assets		
Reportable segment assets	**1,353,842**	1,033,513
Elimination of inter-segment receivables	**(35,219)**	(33,004)
	1,318,623	1,000,509
Non-current financial assets	**19,401**	9,609
Trading securities	**17,400**	14,040
Unallocated head office and corporate assets	**38,315**	65,173
Consolidated total assets	**1,393,739**	1,089,331

	2016 RMB'000	2015 RMB'000
Liabilities		
Reportable segment liabilities	**474,335**	210,879
Elimination of inter-segment payables	**(39,132)**	(33,004)
	435,203	177,875
Current tax liabilities	**15,503**	17,059
Deferred tax liabilities	**28,169**	30,182
Unallocated head office and corporate liabilities	**276,214**	176,949
Consolidated total liabilities	**755,089**	402,065

5. SEGMENT REPORTING *(Continued)*

c) *Geographic Information*

The following is an analysis of geographical location of (i) the Group's revenue from continuing operations from external customers and (ii) the Group's property, plant and equipment, investment properties, deposit paid for property, plant and equipment, deposit paid for acquisition of land, intangible assets, goodwill and interest in a joint venture. The geographical location of customers is based on to the location at which the goods delivered. The geographical locations of property, plant and equipment and investment properties are based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of the operation to which they are allocated. In the case of interests in joint venture, it is the location of operations of such joint venture.

	Revenues from external customers		**Specified non-current assets**	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**869,773**	613,733	**389,883**	377,630
Hong Kong	**183,754**	99,815	**92,303**	90,859
	1,053,527	713,548	**482,186**	468,489

d) *Information about major customers*

Revenues from customers contributed 10% or more of the total revenue of the group are as follows:

	2016	2015
	RMB'000	RMB'000
Customer A-revenue from trading of healthcare products	**115,099**	–

During the year ended 31 December 2015, there was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

6. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**597**	4,313
Interest from available-for-sale financial investments	**2,439**	4,033
Gross rental income from investment properties	**2,742**	2,740
Promotional service income	**14,437**	10,630
Government grant (note)	**1,368**	466
Dividend income	**2,070**	—
Exchange loss	**(9,972)**	(17,255)
Change in fair value of other financial asset	**(4,071)**	(2,573)
Change in fair value of other financial liability	**2,739**	(1,814)
Change in fair value of financial assets at fair value through profit or loss	**1,566**	(2,634)
Net gain on disposal of available-for-sale investment	**930**	—
Others	**556**	578
	15,401	(1,516)

Note: Government grant is awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the following:

	2016 RMB'000	2015 RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans	**7,205**	14,468
Interest imputed on the liability component of convertible bonds	**5,764**	1,270
	12,969	15,738
b) Staff costs (including directors' and chief executive's remuneration)		
Salaries and other benefits	**75,493**	58,974
Contributions to defined contribution retirement plan	**8,953**	7,573
	84,446	66,547
c) Other items		
Amorisation of intangible assets (note 20)	**18,831**	17,262
Auditor's remuneration		
– audit service	**1,386**	976
– non-audit services	**1,011**	1,274
Cost of inventories (note 22)	**729,955**	486,771
Depreciation (note 13)	**4,234**	3,814
Impairment losses on trade receivables (note 23(c))	**951**	145
Impairment loss on available-for-sale financial asset	**4,897**	—
Reversal of impairment loss on other receivables	**(3,717)**	—
Write-off of other receivables	**—**	10
Write-off of trade receivable	**330**	—
Loss on disposal of property, plant and equipment	**153**	40
Operating lease charges in respect of land and buildings	**8,435**	5,355
Rental income from investment properties less direct outgoings of RMB313,000 (2015: RMB139,000)	**(2,429)**	(2,601)
Research and development cost	**7,813**	7,415

Note:

(i) Cost of inventories includes approximately RMB25,182,000 (2015: RMB:19,915,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

a) *Income tax in the consolidated statement of profit or loss represents:*

	2016 **RMB'000**	2015 RMB'000
Hong Kong Profits tax		
– Current year	**7,308**	5,600
PRC Income tax		
– Current year	**17,614**	6,201
Deferred tax (note 29(b))		
– Origination and reversal of temporary differences	**(3,284)**	134
	21,638	11,935

i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

ii) The provision for Hong Kong Profits Tax for the years ended 31 December 2016 and 31 December 2015 is calculated at 16.5% of the estimated assessable profits for the year.

iii) The PRC income tax charge of the Group during the year ended 31 December 2016 represented mainly the PRC income tax charge from the Group's subsidiary, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") and is based on a statutory rate of 25% (2015: 25%), except for a PRC subsidiary, Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin"), which is based on a preferential income tax rate of 15%.

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

b) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2016 RMB'000	2015 RMB'000
Profit before taxation	**89,044**	51,322
Notional tax on profit before taxation, calculated at the rates applicable in the countries concerned	**27,388**	10,437
Tax effect of non-deductible expenses	**7,492**	5,234
Tax effect of non-taxable income	**(12,904)**	(4,509)
Tax effect of utilised tax losses	**(80)**	—
Tax effect of unrecognised temporary differences	**(434)**	510
Tax effect of unused tax losses not recognised	**176**	263
Actual tax expense	**21,638**	11,935

c) As at 31 December 2016, the undistributed profits of the Group's PRC subsidiaries amounted to RMB291,366,000 (2015: RMB258,200,000) for which the potential deferred tax liabilities of RMB14,568,000 (2015: RMB12,910,000) have not been recognised in these financial statements because 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.

9. DIVIDENDS

a) Dividends payable to owners of the Company attributable to the year

	2016 RMB'000	2015 RMB'000
Final dividend proposed after the end of the reporting period of HK2.95 cents (equivalent to RMB2.64 cents) (2015: HK1.53 cents (equivalent to RMB1.28 cents)) per ordinary share	**16,434**	7,968

The final dividend for the year ended 31 December 2016 proposed after the end of the reporting period is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year

	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.53 cents (equivalent to approximately RMB1.28 cents) (2015: HK1.92 cents (equivalent to approximately RMB1.51 cents))	**8,519**	9,400

10. EARNINGS PER SHARE

a) Basic earnings per share

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

	2016 RMB'000	2015 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**46,966**	31,205
Interest imputed on the liability component of mandatorily convertible bonds	**272**	1,270
Earnings for the purpose of basic earnings per share	**47,238**	32,475

	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of weighted average number of ordinary shares to be issued upon the conversion of mandatorily convertible bonds*	**28,311**	62,250
Weighted average number of ordinary shares for the purpose of basic earnings per share	**650,811**	684,750

* Prior to 15 June 2016, the convertible bonds are mandatorily convertible into ordinary shares of the Company on the maturity date. Shares that are issuable solely after the passage of time are not contingently issuable shares and are included in the calculation of basic earnings per share.

On 15 June 2016, the terms of the convertible bonds were amended pursuant to a supplemental deed entered into between the Company, the holder and the Subscriber on 18 May 2016, of which the convertible bonds are no longer mandatorily convertible into ordinary shares of the Company on maturity date, whereas the intension of convention is subject to the consent from both the Company and the subscriber. Details of the amendments of the convertible bonds are stated in note 28.

b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2016 and 2015 was the same as the basic earnings per share because of the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the period from the date of grant of share options to 31 December 2016. As the conversion or exercise of convertible bonds would have an anti-dilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of convertible bonds.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments are as follows:

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary contributions RMB'000	Retirement bonuses scheme RMB'000	Total RMB'000
2016					
Executive directors:					
Zhao Li Sheng (chief executive officer)	**—**	**1,289**	**—**	**—**	**1,289**
Chan Lok San	**—**	**1,070**	**—**	**—**	**1,070**
Zhou Xuhua	**—**	**891**	**494**	**52**	**1,437**
Independent non-executive directors:					
Duan Jidong	**150**	**—**	**—**	**—**	**150**
Wong Cheuk Lam	**158**	**—**	**—**	**—**	**158**
Zhang Jianbin	**150**	**—**	**—**	**—**	**150**
Non-executive director:					
Zhang Yi	**—**	**—**	**—**	**—**	**—**
	458	**3,250**	**494**	**52**	**4,254**
2015					
Executive directors:					
Zhao Li Sheng (chief executive officer)	—	1,142	—	—	1,142
Chan Lok San	—	956	—	—	956
Lin Yusheng (resigned on 6 July 2015)	—	3,046	—	5	3,051
Zhou Xuhua	—	870	—	52	922
Independent non-executive directors:					
Duan Jidong	130	—	—	—	130
Wong Cheuk Lam	148	—	—	—	148
Zhang Jianbin	130	—	—	—	130
Non-executive director:					
Zhang Yi	—	—	—	—	—
	408	6,014	—	57	6,479

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

During the years ended 31 December 2016 and 2015, no amount was paid or payable to the directors or chief executive or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director or chief executive waived or agreed to waive any remuneration during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 3 (2015: 4) directors during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individual are as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries and other emoluments	**1,419**	911
Retirement scheme contributions	**29**	7
	1,448	918

The emoluments of individuals other than directors with the highest emoluments are within the following band:

	2016	2015
Nil to HK$1,000,000	**2**	1

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost						
At 1 January 2015	1,597	6,294	—	7,510	—	15,401
Exchange adjustments	6	5	—	211	—	222
Acquisition of subsidiaries (note 38)	2,235	3,807	9,566	815	—	16,423
Additions	—	2,927	3,145	187	—	6,259
Disposals	—	(413)	(10)	(112)	—	(535)
At 31 December 2015	3,838	12,620	12,701	8,611	—	37,770
At 1 January 2016	3,838	12,620	12,701	8,611	—	37,770
Exchange adjustments	6	4	—	245	—	255
Additions	67	6,553	1,827	1,665	1,268	11,380
Disposals	—	(148)	(308)	(50)	—	(506)
At 31 December 2016	3,911	19,029	14,220	10,471	1,268	48,899
Accumulated depreciation						
At 1 January 2015	827	3,435	—	6,018	—	10,280
Exchange adjustments	7	4	—	180	—	191
Acquisition of subsidiaries (note 38)	1,557	2,328	4,066	218	—	8,169
Charge for the year	769	1,244	888	913	—	3,814
Disposals	—	(368)	(26)	(101)	—	(495)
At 31 December 2015	3,160	6,643	4,928	7,228	—	21,959
At 1 January 2016	3,160	6,643	4,928	7,228	—	21,959
Exchange adjustments	6	4	—	241	—	251
Charge for the year	277	2,422	1,134	401	—	4,234
Disposals	—	(109)	(194)	(50)	—	(353)
At 31 December 2016	3,443	8,960	5,868	7,820	—	26,091
Carrying amount						
At 31 December 2016	468	10,069	8,352	2,651	1,268	22,808
At 31 December 2015	678	5,977	7,773	1,383	—	15,811

14. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2015	92,420
Acquisition of subsidiaries (note 38)	3,560
Fair value adjustment	11,900
At 31 December 2015 and 1 January 2016	107,880
Fair value adjustment	250
At 31 December 2016	108,130

a) The Group's investment properties were revalued as at 31 December 2016 and 2015 respectively on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets or (ii) net rental income allowing for reversionary income potential. The valuations were carried out by independent firms of valuers, DTZ Debenham Tie Leung Limited and ROMA Appraisals Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

b) The Group's investment properties are held under medium-term lease in the PRC.

c) At 31 December 2016 and 2015, certain of the Group's investment properties with a total fair value of approximately RMB96,000,000 (2015: Nil) were pledged as part of securities to secure bank loans and banking facilities granted to the Group (note 27).

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties*

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2016 categorised into		
	Fair value at 31 December 2016 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**108,130**	—	—	**108,130**

14. INVESTMENT PROPERTIES *(Continued)*

d) Fair value measurement of properties *(Continued)*

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2015 RMB'000	Fair value measurements as at 31 December 2015 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	107,880	—	—	107,880

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

	Valuation techniques		Unobservable input	Range
Investment properties – Commercial – Mainland China	(i)	Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	RMB37,624-RMB41,701 per square meter (2015: RMB34,653 - RMB37,837)
	(ii)	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	4.25%-4.5% (2015: 4.5%)
			Expected market rental growth	4.25%-4.5% (2015: 6%)
			Expected occupancy rate	100% (2015: 100%)

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties (Continued)*

(ii) *Information about Level 3 fair value measurements (Continued)*

The fair value of investment properties located in Mainland China is determined by (i) direct comparison method with reference to the sales evidence of comparable properties (adjusted for difference in the quality and location of the properties) or where appropriate, (ii) discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rate used has been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the sales price of comparable properties, the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	The Group	
	2016	2015
	RMB'000	RMB'000
Investment properties – Commercial – Mainland China		
At 1 January	**107,880**	92,420
Acquisition of subsidiaries	**—**	3,560
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	**250**	11,900
At 31 December	**108,130**	107,880

e) The Group leases out investment properties under operating leases. The leases run for a period for one to two years (2015: two to four years). None of the leases include contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2016	2015
	RMB'000	RMB'000
Within 1 year	**2,386**	1,575
After 1 year but within 5 years	**332**	1,725
	2,718	3,300

f) All properties held under operating lease that would otherwise meet the definition of investment property are classified as investment property.

15. DEPOSIT PAID FOR PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2011, the Group and an independent third party ("the Vendor") entered into an agreement and a supplementary agreement ("the Agreements"), pursuant to which the Group agreed to acquire, and the Vendor agreed to sell certain properties ("the Properties") in Shenzhen, in the PRC. The Properties are to be constructed by the Vendor and should be delivered to the Group after the completion of all the required procedures and used as the Group's office. The proposed consideration is RMB75,000,000 which is subject to adjustment when the details of the Properties are fixed. As at 31 December 2016, the Group paid an aggregate deposit of RMB75,000,000 (2015: RMB75,000,000).

After the end of the reporting period, it is still in the process of completing land use right certificate registration.

16. DEPOSIT PAID FOR ACQUISITION OF LAND

In 2016, the Group applied to the Shenzhen Xinda Shanghenggang Cooperative Stock Company ("Shenzhen Shanghenggang") in relation to the development cooperation right.

During the year, the Group made a successful bid at the Shenzhen Shanghenggang for the development cooperation right in respect of the land parcel currently owned by Shenzhen Shanghenggang through open tender auction organised and held by Dapeng New Area Pubilc Resources Exchange Centre. On 14 May 2016, the Group entered into the Cooperation Agreement with Shenzhen Shanghenggang in respect of the formation of the project company for the project at the consideration of approximately RMB18,988,000 was paid for Lands Acquisition.

The deposit is refundable if the transaction is not completed.

(Expressed in Renminbi unless otherwise indicated)

17. SUBSIDIARIES

The following is a list of principal subsidiaries at 31 December 2016.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares held	Particulars of issued and paid up capital	Principal activities
Kingworld Medicine and Healthcare Group Limited ("BVI Kingworld")	BVI/Hong Kong	100%	Ordinary	111 shares of US$1 each	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100%	Ordinary	195,546,680 shares	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
金活(香港)控股有限公司 Kingworld (Hong Kong) Holdings Limited	Hong Kong	100%	Ordinary	1 share	Investment holding
深圳市金活醫藥有限公司 SZ Kingworld Medicine Company Limited (note (b)) ("SZ Kingworld")	The PRC	100%	Registered	RMB180,900,000	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC
深圳市東迪欣科技有限公司 Shenzhen Dong Di Xin Technology Company Limited (note (c)) ("Dong Di Xin")	The PRC	55%	Registered	RMB2,000,000	Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the PRC

17. SUBSIDIARIES *(Continued)*

Notes:

a) Except for BVI Kingworld which is directly owned by the Company, all other subsidiaries are indirectly owned by the Company.

b) Wholly-foreign owned enterprise established in the PRC.

c) Limited liability company established in the mainland China.

d) The English name of the above PRC subsidiary is for identification purpose only.

The following table lists out the information relating to Dong Di Xin, the only subsidiary of the group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Dong Di Xin	
	2016	2015
	RMB'000	RMB'000
NCI percentage	**45%**	45%
Current assets	**199,774**	141,268
Non-current assets	**114,592**	132,183
Current liabilities	**(45,505)**	(43,820)
Non-current liabilities	**(14,788)**	(17,533)
Net assets	**254,073**	212,098
Carrying amount of NCI	**114,835**	95,444
Revenue	**187,112**	141,136
Profit for the year	**43,240**	17,081
Total comprehensive income	**41,543**	16,860
Profit allocated to NCI	**19,676**	7,587
Dividend paid to NCI	**721**	143
Cash flows from operating activities	**10,002**	2,911
Cash flows from investing activities	**17,059**	(27,420)
Cash flows from financing activities	**2,085**	—

18. GOODWILL

	RMB'000
Cost	
At 1 January 2015	—
Acquisition of subsidiaries (note 38)	90,693
As at 31 December 2015, January 2016 and 31 December 2016	90,693
Accumulated impairment	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	—
Carrying amount	
At 31 December 2016	90,693
At 31 December 2015	90,693

The goodwill arose on acquisition of Dong Di Xin during the year ended 31 December 2015.

The recoverable amount of the cash-generating units ("CGU") has been determined based on a value in use calculation. At 31 December 2016 and 2015, the recoverable amount of the CGU of goodwill is determined taking into account the valuation performed by ROMA Appraisals Limited, independent professional valuer not connected to the Group, based on the cash flows forecasts derived from the most recent financial budgets for the next 4 years (2015: 5 years) approved by the management using the discounted rate of 17.07% per annum (2015: 14.83%) which reflects current market assessments of the time value of money and the risks specific to the CGU. Other key assumptions for the value in use calculations are the budgeted growth rate of 3% (2015: 3%) and budgeted gross margin of 45% (2015: 42%), which are determined based on past performance, management's expectations for the market development and market growth forecasts.

Based on the results of the valuation, the recoverable amount has been assessed as being higher than the carrying amount. Accordingly, no impairment loss (2015: Nil) has been recognised for the year.

The management believes that any reasonably possible change in the key assumptions would not cause the revised carrying amount of the goodwill to exceed its recoverable amount.

19. INTEREST IN A JOINT VENTURE

	2016 RMB'000	2015 RMB'000
Share of net assets	**69,233**	62,940

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of entity	Form of business structure	Place of incorporation and operation	Class of shares held	Particulars of issued and paid up capital	Proportion of ownership interest held by a subsidiary of the Group at effective interest	Principal activities
珠海市金明醫藥有限公司 Zhuhai City Jinming Medicine Company Limited ("Zhuhai Jinming")	Limited liability company	The PRC	Registered	RMB5,000,000	50%	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

Notes:

a) Zhuhai Jinming was established by a subsidiary of the Company with a pharmaceutical and healthcare products distributor in Mainland China, the other investor to this joint venture, to carry out the Group's distribution sales of pharmaceutical and healthcare products in Guangdong province in the PRC.

b) The English name of the above PRC joint venture is for identification purpose only.

Zhuhai Jinming, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

The joint venture is accounted for using equity method in the consolidated financial statements.

19. INTEREST IN A JOINT VENTURE *(Continued)*

Summarised financial information of Zhuhai Jinming and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2016 **RMB'000**	2015 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**61,885**	54,177
Non-current assets	**119,369**	119,575
Current liabilities	**(27,586)**	(32,670)
Non-current liabilities	**(15,202)**	(15,202)
Equity	**138,466**	125,880
Included in the above assets and liabilities:		
Cash and cash equivalents	**5,656**	3,234
Current financial liabilities (excluding trade and other payables)	**(1,005)**	(4,193)
Non-current financial liabilities	**(15,202)**	(15,202)
Revenue	**153,008**	144,146
Profit from continuing operations	**12,586**	35,815
Other comprehensive income	**—**	—
Total comprehensive income	**12,586**	35,815
Included in the above profit:		
Depreciation	**(221)**	(268)
Interest income	**19**	26
Income tax expense	**(3,898)**	(12,645)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**138,466**	125,880
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**69,233**	62,940

(Expressed in Renminbi unless otherwise indicated)

19. INTEREST IN A JOINT VENTURE *(Continued)*

The fair value of Zhuhai Jinming's investment properties as at 31 December 2016 and 31 December 2015 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorized under Level 3 fair value measurements. The valuations at 31 December 2016 and 31 December 2015 were carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	Unobservable input	Range
Investment properties	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	6% (2015: 6%)
Commercial – PRC		Expected market rental growth	6% (2015: 6%)
		Expected occupancy rate	100% (2015: 100%)

The fair value of investment properties of Zhuhai Jinming is determined by discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

20. INTANGIBLE ASSETS

	Customer relationship (note a) RMB'000	Patents (note b) RMB'000	Total RMB'000
Cost			
At 1 January 2015	—	—	—
Acquisition of subsidiaries (note 38)	104,727	28,700	133,427
At 31 December 2015, 1 January 2016 and 31 December 2016	104,727	28,700	133,427
Accumulated amortisation and impairment			
At 1 January 2015	—	—	—
Charge for the year	12,000	5,262	17,262
At 31 December 2015	12,000	5,262	17,262
At 1 January 2016	12,000	5,262	17,262
Charge for the year	13,091	5,740	18,831
At 31 December 2016	25,091	11,002	36,093
Carrying amount			
At 31 December 2016	79,636	17,698	97,334
At 31 December 2015	92,727	23,438	116,165

(a) The customer relationship has a finite useful life and is amortised on a straight-line basis over 8 years.

(b) The patents represent the patent rights and know-how of the Group in relation to the manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices which is amortised on a straight-line basis over 5 years.

The directors of the Company conducted an impairment review of the Group's customer relationship and the patents. The recoverable amount of the customer relationship and patents have been determined taking into account the valuation performed by ROMA Appraisals Limited, independent professional valuer not connected to the Group, based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year to 10-year period according to the remaining contractual lives for the customer relationship and patents, and at a discount rate of 19.43% and 19.90% per annum respectively (2015: 15.83% and 16.83%). Other key assumptions for the value in use calculations are budgeted growth rate of 3% (2015:3%) and budgeted gross margin of 45% (2015: 42%), which are determined based on past performance, management's expectations for the market development and market growth forecasts.

As a result of the impairment review, the recoverable amounts of the customer relationship and the patents have been assessed to be higher than their carrying amounts and accordingly no impairment loss is recogaized for the year (2015: nil).

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	2016 RMB'000	2015 RMB'000
Non-current			
Unlisted Equity Investment, at cost	(a)	**300**	300
Unlisted Equity Investments, at fair value	(b)	**19,101**	9,309
		19,401	9,609
Current			
Bank Wealth Management Products, at fair value	(c)	**65,199**	86,296

Notes:

(a) This available-for-sale investment represents investment in unlisted equity securities which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. As at 31 December 2016 and 2015, the Group's unlisted equity securities were stated at cost less impairment, if any, because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose it in the near future.

(b) Included in unlisted equity investments at 31 December 2016 and 2015 are:

(i) investment in 3.89% interest in the Sinopharm Healthcare Fund L. P. (the "Fund") which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. Pursuant to the Partnership Agreement signed on 24 June 2015, the Group has committed to invest US$5 million (equivalent to approximately RMB33.93 million) to subscribe approximately 3.89% of the aggregate initial Limited Partners' interest of the Fund. At the same date, the Fund holds approximately 9.99% of the total issued share capital of the Company. During 2015 and 2016, the Group has contributed US$1.5 million (equivalent to approximately RMB10.18 million) and US$1 million (equivalent to approximately RMB6.9 million) respectively into the Fund. The fair value is determined taken into account the valuation performed by Roma Appraisals Limited, independent professional valuer not connected to the Group, based on the quoted prices of equity instruments on which the Fund invested in. During the year ended 31 December 2016, due to a significant deline in fair value of such investment below its cost, an impairment loss amounting RMB4,897,000 (2015: nill) has been recognised during the current year which RMB2,069,000 was reclassified from the fair value reserve to profit or loss. As at 31 December 2016, the fair value of the investment is approximately RMB12.8 million (2015: RMB8.2 million). The Group does not intend to dispose it in the near future.

A cross-holding position has been existing between the Fund and the Company. The Group's interest in the Fund is 3.89% and the Fund held in aggregate 9.99% in the issued share capital of the Company.

(ii) investment in 15% interest in the Dong Hua Tong Investments Limited which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. The fair value of the investment was also determined with reference to valuation performed by Roma Appraisals Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount. As at 31 December 2016, the fair value of the investment is approximately RMB6.3 million (2015: RMB1.1 million). The Group does not intend to dispose it in the near future.

(c) The amount represents investments in bank wealth management products issued by banks with expected return range from 3.5% to 3.8% (2015: 3.95% to 5.25%) per annum and will mature within one year. The carrying amount approximated the fair value. The fair values are approximate to their costs plus expected return by reference to valuation performed by ROMA Appraisal Limited, independent professional valuers not connected to the Group.

22. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**4,471**	3,382
Work in progress	**3,422**	3,370
Finished goods	**119,740**	71,394
Goods in transit	**—**	859
	127,633	79,005

The analysis of the amount of inventories recognised as an expense is as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	**726,859**	486,771
Write-down of inventories	**3,096**	—
	729,955	486,771

23. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade and bills receivables	**295,233**	176,184
Less: Allowance for doubtful debts (note (c))	**(5,677)**	(4,726)
	289,556	171,458
Other receivables	**43,802**	27,271
Other loan	**48,521**	45,446
Amount due from a director (note (f))	**1,121**	2,914
Amount due from related parties (note 36)	**40**	—
Loans and receivables	**383,040**	247,089
Prepayments	**19,672**	23,275
Trade and other deposits	**1,191**	964
Trade deposits to related parties (note 36)	**33,971**	15,782
	437,874	287,110

a) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

b) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis based on invoice date, as of the end of the reporting period:

	2016 **RMB'000**	2015 RMB'000
0-90 days	**255,667**	132,703
91-180 days	**22,692**	23,094
181-365 days	**3,788**	15,412
More than 1 year	**7,409**	249
	289,556	171,458

The Group generally granted credit terms ranging from 30 days to 90 days to its customers. Further details on the Group's credit policy are set out in note 32.

c) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

Movements in the allowance for doubtful debts:

	2016 **RMB'000**	2015 RMB'000
At 1 January	**4,726**	4,591
Impairment losses recognised (note 7c)	**951**	145
Uncollectible amount written off	**—**	(10)
Impairment losses reversed (note 7c)	**—**	—
At 31 December	**5,677**	4,726

As at 31 December 2016, the Group's trade and bills receivables of RMB5,677,000 (2015: RMB4,726,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding over a long period and management assessed that receivables are expected to be irrecoverable. Accordingly, specific allowances for doubtful debts of RMB5,677,000 (2015: RMB4,726,000) were recognised as at 31 December 2016. The Group does not hold any collateral over these balances.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

d) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired is as follows:

	2016	2015
	RMB'000	RMB'000
Neither past due nor impaired	**255,667**	132,703
Past due but not impaired		
– 91-180 days	**22,692**	23,094
– 181-365 days	**3,788**	15,412
– More than 1 year	**7,409**	249
	33,889	38,755
	289,556	171,458

Receivables that were neither past due nor impaired relate to a wide range of customers for which there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

e) As at 31 December 2016, bills receivables of RMB nil (2015: nil) were pledged for bank loans and banking facilities granted to the Group (note 27).

(Expressed in Renminbi unless otherwise indicated)

23. TRADE AND OTHER RECEIVABLES *(Continued)*

f)

Name of director	Zhao Li Sheng
Position	Executive director and chief executive officer
Terms of the amount due	
– duration and repayment terms	Repayable on demand
– interest rate	Interest free
– security	None
Balance of the amount due	
– at 1 January 2015	RMB2,853,000
– at 31 December 2015 and 1 January 2016	RMB2,914,000
– at 31 December 2016,	RMB1,121,000
Maximum balance outstanding	
– during 2016	RMB2,914,000
– during 2015	RMB2,914,000

There was no amount due but unpaid, or any provision made against the amount due from a director at 31 December 2016 and 2015.

f) Transfer of financial assets

At 31 December 2016, the Group discounted a bill receivable with a carrying amount of approximately RMBnil (2015: RMB18,447,000) to a bank in the PRC (the "Derecognised Bill") for cash. The Derecognised Bill has a remaining maturity of one month at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC and relevant discounting arrangement with the bank, the holder of the Derecognised Bill has a right of recourse against the Group if the PRC bank and/or the issuers of bills receivables default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bill. Accordingly, it has derecognised the full carrying amount of the Derecognised Bill. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bill and the undiscounted cash flows to repurchase the Derecognised Bill equal to their carrying amount. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bill is not significant since the likelihood that the Bank will default is remote.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bill (2015: nil). No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2016 RMB'000	2015 RMB'000
Non-current			
Unlisted Equity Investments, at fair value	(a)	**4,232**	—
Current			
Listed securities			
– Chuangmei Pharmaceutical Co., Ltd. ("Chuangmei")	(b)	**17,400**	14,040

The above financial assets at 31 December 2016 were upon initial recognition, designated by the Company as at fair value through profit or loss.

(a) The Group have invested in 10% interest in the Shenzhen Qianhai Industry Internet Co., Ltd. The fair value of the investment was determined with reference to valuation performed by Roma Appraisals Limited based on the median of the market multiples of market comparable competes after adjusting for lack of marketability and control discount. As at 31 December 2016, the fair value of the investment is approximately RMB4.2 million. The Group does not intend to dispose it in the near future.

(b) Chuangmei was incorporated in the PRC and the share of which are listed on Main Board of the Hong Kong Stock Exchange. As of 31 December 2016, a total of 2,302,000 ordinary share of Chuangmei are held by the Company, representing 2.13% of Chuangmei's total issued ordinary shares. As at 31 December 2016, the value of Chuangmei ordinary shares was recorded at the closing price on the date of the financial position.

25. CASH AND BANK BALANCES

	2016 RMB'000	2015 RMB'000
Bank balances	**229,575**	132,093
Cash on hand	**409**	385
Cash and cash equivalents in the consolidated statement of cash flows	**229,984**	132,478
Deposit for letter of credit (note a)	**9,297**	7,700
Cash and bank balances in the consolidated statements of financial position	**239,281**	140,178

Cash at bank earns interest at floating rates based on daily bank deposit rates.

a) As at 31 December 2016, the Group's deposit for letter of credit with use restrictions amount to RMB9,297,000 (2015: RMB7,700,000) (Note 26(b)).

26. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables (note (c))	**237,446**	124,086
Accruals	**10,413**	10,314
Other payables	**15,999**	22,087
Financial liabilities measured at amortised cost	**263,858**	156,487
Trade deposits received	**7,831**	10,260
	271,689	166,747

a) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

b) As at 31 December 2016, the security deposit amounted to RMB9,297,000 (2015: RMB7,700,000) was used for the issurance of letter of credit to pay back the trade payables amounted to RMB16,043,000 (2015: RMB7,700,000).

c) Ageing analysis

Included in trade and other payables are trade payables with the following ageing analysis (presented based on invoice date) as of the end of the reporting period. The credit terms granted by the suppliers were generally ranging from 45 days to 90 days.

	2016 RMB'000	2015 RMB'000
0-90 days	**233,757**	124,086
91-180 days	**3,689**	—
	237,446	124,086

27. BANK LOANS

The bank loans are secured and repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year or on demand	**311,196**	167,560

a) All of the bank loans are carried at amortised cost.

b) The range of effective interest rates on the Group's bank loans are as follows:

	2016	2015
Effective interest rates:		
Fixed rate loans	**1.8%-5.22%**	4.2%

c) The bank loans were secured by the following assets of the Group.

	2016 RMB'000	2015 RMB'000
Investment property (note 14(c))	**96,000**	—

The Group's bank loans amounted to RMB107,804,000 as at 31 December 2016 were secured by Group's investment property and guaranteed by Yuen Tai Pharmaceuticals Limited, related party. The Group's bank loans amounted to RMB156,537,000 as at 31 December 2016 were guarantee by Mr. Zhao Li Sheng, the ultimate controlling party and director of the Group, Ms. Chan Lok San, the director of the Group, and SZ Kingworld.

28. CONVERTIBLE BONDS

	2016 RMB'000	2015 RMB'000
Liability component:		
At 31 December	**114,909**	4,155

On 15 September 2014, the Company and 國藥集團資本管理有限公司 (Sinopharm Capital Management Company Limited*) (the "Subscriber") entered into a subscription agreement (as supplemented by a supplemental agreement and second supplemental agreement dated 9 October 2014 and 15 December 2014 respectively), pursuant to which the Subscriber agreed to subscribe and pay for the Company's mandatorily convertible bonds with an aggregate principal amount of HK$133,837,500 (equivalent to RMB105,584,000). On 17 December 2014, the mandatorily convertible bonds were issued to Shine Light Investment Fund and Legend Times Corporation Limited (the "Holders"), as designated by the Subscriber, with net proceeds of RMB105,448,000 after deducting issue expenses. The mandatorily convertible bonds bear interest at 7.4% per annum and will mature on 16 June 2016. The mandatorily convertible bonds entitle the Holders to convert the mandatorily convertible bonds into 62,250,000 ordinary shares of the Company at a conversion price of HK$2.15 at any time on or after 17 December 2014 up to the maturity date, provided that each conversion must be in respect of a minimum aggregate principle amount of HK$13,383,750 (equivalent to RMB10,558,000). Any mandatorily convertible bonds not converted up to the maturity date are mandatory to be converted into ordinary shares of the Company at the maturity date. As at 31 December 2015, the carrying amount of liability component and equity component was RMB4,155,000 and RMB94,905,000 respectively.

On 18 May 2016, the Company entered into a supplemental deed (the "Supplemental Deed") with the subscriber and the Holders pursuant to which the Company, the Subscriber and the Holders agreed to amend certain terms and conditions of the convertible bond in the aggregate principal of HK$133,837,500 issued by the Company to the Holders pursuant to the subscription agreement (as supplemented and amended from time to time) on 15 September 2014 (the "New Convertible Bond") as follows:

1) the maturity date of the New Convertible Bond will be extended for 18 months from 16 June 2016 (the "Original Maturity Date") and the conversion period will accordingly be extended for 18 months to 16 December 2017 (the "New Maturity Date");

2) from the first date after the Original Maturity Date to the New Maturity Date, the New Convertible Bond will bear interest at the rate of 5.0% per annum of the outstanding principal amount of the New Convertible Bond;

28. CONVERTIBLE BONDS *(Continued)*

3) the Company and the Holders under Supplement Deed have to agree in writing to convert the whole of the principal moneys outstanding under the New Convertible Bond into conversion shares on the New Maturity Date ("Full Conversion"). If either the Company or the Holders does not agree the Full Conversion, on the New Maturity Date, the Company shall redeem the principal moneys outstanding under the Convertible Bond together with any unpaid interest accrued up to and including the New Maturity Date (if any); and

4) the Holders and/or their respective connected person(s) (as defined in the Listing Rules) and/or person(s) acting in concert (as defined in the Takeovers Code) shall, at any time during the conversion period, have no right to nominate one non-executive director to the board of director of the Company and/or other positions of the Group (if applicable) when such persons hold in aggregate less than 5% of the total issued share capital of the Company and shall procure the nominated person(s) to resign from the position of non-executive director and other position of the Group (if applicable).

The amendment of terms and conditions as contemplated under the Supplement Deed was duly passed as an ordinary resolution by the independent shareholders at the extraordinary general meeting on 15 June 2016. On this date, the original mandatorily convertible bonds was extinguished, and the New Convertible Bond was recognised. The Subscriber is an interested party of the Company. The loss of RMB19,654,000 was regarded as the deemed distribution to the shareholder included in other reserve. As at 31 December 2016, the carrying amount of the liability component and equity component (after deducting deferred tax liability) of the New Convertible Bond was RMB114,909,000 and RMB6,259,000 respectively.

* The English name of the above PRC incorporated entity is for identification purpose only.

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2015	10,604	94,905	105,508
Imputed interest charged to consolidated statement of profit or loss	1,270	—	1,270
Interest paid	(8,168)	—	(8,168)
Exchange adjustments	449	—	450
At 31 December 2015 and 1 January 2016	4,155	94,905	99,060
Extinguishment of convertible bonds	—	(94,905)	(94,905)
Recognition of new convertible bonds	106,642	6,259	112,901
Imputed interest charged to consolidated statement of profit or loss	5,764	—	5,764
Interest paid	(7,581)	—	(7,581)
Exchange adjustment	5,929	—	5,929
At 31 December 2016	114,909	6,259	121,168

28. CONVERTIBLE BONDS *(Continued)*

At the date of issue of the mandatorily convertible bonds, the fair value of the liability component of the mandatorily convertible bonds was determined based on a valuation performed by ROMA Appraisals Limited, an independent firm of professional valuers with recognised qualifications and experiences using discounted cash flow model. The effective interest rate of the liability component is 12.9% per annum. The liability component represents the fair value of the future interest payable to the Holders up to its maturity date on 16 June 2016. The residual amount was assigned as the equity component of the mandatorily convertible bonds.

At the date of amendment of terms and conditions of the convertible bonds, the fair value of the liability component of the convertible bonds was determined based on a valuation performed by DTZ Cushman & Wakefield Limited, an independent firm of professional valuers with recognized qualification and experiences using discounted cash flow model for an equivalent non-convertible loan. The effective interest rate of the liability component is 9.8% per annum. The residual amount was assigned as the equity component of the convertible bonds.

No new shares of the Company were issued upon exercise of the mandatorily convertible bonds or convertible bonds during the year ended 31 December 2016 and 2015.

29. CURRENT AND DEFERRED TAX

a) *Current taxation in the consolidated statement of financial position represents:*

	2016 **RMB'000**	2015 RMB'000
At 1 January	**17,059**	12,868
Acquisition of subsidiaries (note 38)	**—**	8,002
Provision for the year		
– Hong Kong Profits Tax	**7,308**	5,600
– PRC Income Tax	**17,614**	6,201
	24,922	11,801
Paid during the year	**(26,478)**	(15,612)
At 31 December	**15,503**	17,059
Representing		
– Hong Kong Profits Tax	**823**	6,452
– PRC Income Tax	**14,680**	10,607

29. CURRENT AND DEFERRED TAX *(Continued)*

b) *Deferred tax liabilities recognised*

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Amortisation of intangible assets	Revaluation of investment properties	Revaluation of other property	Convertible bonds	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	—	10,132	172	—	10,304
Acquisition of subsidiaries (note 38)	20,014	(270)	—	—	19,744
(Credited)/charged to consolidated statement of profit or loss (note 8(a))	(2,589)	2,723	—	—	134
At 31 December 2015	17,425	12,585	172	—	30,182
At 1 January 2016	**17,425**	**12,585**	**172**	**—**	**30,182**
Charged to equity	**—**	**—**	**—**	**1,271**	**1,271**
(Credited)/charged to consolidated statement of profit or loss (note 8a)	**(2,824)**	**18**	**—**	**(478)**	**(3,284)**
At 31 December 2016	**14,601**	**12,603**	**172**	**793**	**28,169**

c) *Deferred tax assets and liabilities not recognised*

Save as disclosed in note 8c, there were no significant unrecognised deferred tax assets and liabilities of the Group and the Company as at 31 December 2016 and 2015.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Current:				
Other financial asset (note (a))	**533**	**—**	4,604	—
Other financial liabilities (note (b))	**—**	**13,623**	—	16,362
	533	**13,623**	4,604	16,362

a) *Other financial asset*

The other financial asset of the Group as at 31 December 2015 represented the profit guarantee (the "Profit Guarantee") provided by the vendors to the Group in respect of the acquisition of Dong Di Xin and the asset component of currency swaps (note c). The vendors undertake that the consolidated profit of Dong Di Xin shall not be less than RMB32,047,000, RMB35,252,000 and RMB38,777,000 for the years ended 31 December 2015 and 31 December 2016 and ending 31 December 2017, respectively, and will compensate the Group for any shortfall between the guaranteed profits and the actual profits for the relevant years. Further details of the acquisition of Dong Di Xin are included in note 38 to the financial statements. The Profit Guarantee represents a right to the return of previously transferred consideration for the acquisition of Dong Di Xin when the specified conditions are met and hence constitutes a kind of contingent consideration arrangement to be accounted for as a financial asset at fair value through profit or loss in accordance with HKFRS 3 and HKAS 39. The Profit Guarantee was initially recognised in the consolidated statement of financial position at the acquisition-date fair value of RMB7,177,000, as determined by reference to a valuation performed by ROMA Appraisals Limited, an independent professionally qualified valuer.

The fair value of the Profit Guarantee was determined to be RMB nil by ROMA Appraisals Limited as at 31 December 2016 (2015: RMB4,604,000), and a fair value loss on the other financial asset of RMB4,604,000 was recognised in profit or loss during the year ended 31 December 2016 (2015: RMB2,573,000).

The fair value of the Profit Guarantee as at 31 December 2015 and 2016 were measured using a discounted rate of 14.83% and 14.71% per annum, respectively, under probabilistic model and take into consideration of whether the Profit Guarantee is probable to meet.

The fair value of currency swaps as at 31 December 2016 was determined to be RMB533,000 by ROMA Appraisal Limited.

30. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

b) *Other financial liability*

The other financial liability of the Group as at 31 December 2016 represented the contingent consideration and the liability component of currency swap (note c).

The contingent consideration arose from the possible cash considerations in relation to the acquisition of Dong Di Xin, as further detailed in note 38 to the financial statements ("Contingent Consideration"). Cash of RMB5,000,000, RMB5,000,000 and RMB10,000,000 is to be paid when no payments of tax liabilities related to Caretalk Technology Co., Ltd, a subsidiary of Dong Di Xin, which existed prior to the completion of the acquisition to the State Administration of Taxation of the PRC during the years ended 31 December 2015 and 2016, and ending 31 December 2017, respectively, in accordance with an agreement signed on 30 January 2015.

The Contingent Consideration was initially recognised in the consolidated statement of financial position at the acquisition-date fair value of RMB14,548,000, as determined by reference to a valuation performed by ROMA Appraisals Limited, an independent professionally qualified valuer.

The fair value of the Contingent Consideration as at 31 December 2016 was determined to be RMB13,255,000 (2015: RMB16,362,000) by ROMA Appraisals Limited, and a fair value gain of RMB3,186,000 was recognised in profit or loss for the year ended 31 December 2016 (2015: a fair vale gain of RMB1,814,000) as fair value loss on other financial liability.

The fair value of the Contingent Consideration as at 31 December 2015 and 2016 were measured using a discounted rate of 14.83% and 14.71% per annum, respectively, under discounted cashflow method.

The fair value of currency swap as at 31 December 2016 was determined to be RMB367,000 by ROMA Appraisal Limited.

c) *Currency swaps*

The Group entered into a number of currency swap contracts in which the Group is obligated to exchange certain amount in RMB for the same in US$ at a specified rate (market rate), and use RMB to exchange back the same amount in HKD on a specified date at a specified rate. As at 31 December 2016, the Group had outstanding currency swap contracts to sell RMB for HKD with notional amount of RMB$54,424,000, RMB69,677,400 amd RMB54,234,000 (2015: nil) that will be matured at 23 January, 22 February and 29 March 2017 (2015: nil) respectively. The fair value of currency swaps was included in other financial asset and other financial liability.

31. SHARE CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of the equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Contributed surplus RMB'000 (note d)	Convertible bonds equity reserve RMB'000 (note e)	Other reserve RMB'000 (note i)	Exchange reserve RMB'000 (note g)	Captial reserve RMB'000 (note h)	Retained profits RMB'000	Total RMB'000
At 1 January 2016	**53,468**	**152,700**	**95,863**	**94,905**	**—**	**(21,271)**	**210**	**(50,282)**	**325,593**
Change in equity:									
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(21,235)**	**(21,235)**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**_**	**795**	**—**	**—**	**795**
Total comprehensive (loss)/ income for the year	**—**	**—**	**—**	**—**	**—**	**795**	**—**	**(21,235)**	**(20,440)**
Equity settled share-based transactions	**—**	**—**	**—**	**—**	**—**	**—**	**543**	**—**	**543**
Extinguishment and recognition of convertible bonds (note 28)	**—**	**—**	**—**	**(88,646)**	**(19,654)**	**—**	**—**	**—**	**(108,300)**
Dividends (note 9)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(8,519)**	**(8,519)**
At 31 December 2016	**53,468**	**152,700**	**95,863**	**6,259**	**(19,654)**	**(20,476)**	**753**	**(80,036)**	**188,877**
At 1 January 2015	53,468	152,700	95,863	94,905	—	(28,147)	—	(21,759)	347,030
Change in equity:									
Loss for the year	—	—	—	—	—	—	—	(19,123)	(19,123)
Other comprehensive income for the year	—	—	—	—	—	6,876	—	—	6,876
Total comprehensive income/ (loss) for the year	—	—	—	—	—	6,876	—	(19,123)	(12,247)
Equity settled share-based transactions	—	—	—	—	—	—	210	—	210
Dividends (note 9)	—	—	—	—	—	—	—	(9,400)	(9,400)
At 31 December 2015	53,468	152,700	95,863	94,905	—	(21,271)	210	(50,282)	325,593

31. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1			
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1			
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	622,500	62,250	53,468

b) *Share premium*

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands.

c) *Statutory and discretionary reserves*

The Group's PRC subsidiaries are required to transfer 10% of their net profits as determined in accordance with the PRC regulations to the statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The transfer of net profits to the discretionary reserve of the Group's PRC subsidiaries is determined by the shareholders in general meetings in accordance with the articles of association and the PRC regulations.

The statutory and discretionary reserves are non-distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

31. SHARE CAPITAL AND RESERVES *(Continued)*

d) *Contributed surplus*

The Group's contributed surplus represents the difference between the nominal value of the shares issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired upon a group reorganisation (the "Reorganisation") which was completed on 3 November 2010 in preparation for listing of shares of the Company on the Main Board of the Stock Exchange and rationalising the Group's structure.

The Company's contributed surplus represents the excess of total net assets of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

e) *Convertible bonds equity reserve*

The convertible bonds equity reserve represents the value of the unexercised equity component of the mandatorily convertible bonds or convertible bonds issued by the Group, as set out in note 28, recognised in accordance with the accounting policy adopted for mandatorily convertible bonds or convertible bonds in note 2(u).

f) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 2(e).

g) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's operations outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2(r).

h) *Capital reserve*

The portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(w)(iv).

i) *Other reserve*

Other reserve represents difference between the carrying amount of the equity component of the convertible bonds and the fair value of the financial liability upon reclassification as a result of the amendments of terms and conditions of the convertible bonds.

31. SHARE CAPITAL AND RESERVES *(Continued)*

j) *Distributable reserves*

i) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) At 31 December 2016, the aggregate amount of reserves available for distribution to owners of the Company was RMB168,527,000 (2015: RMB198,281,000). After the end of the reporting period, the directors proposed a final dividend of HK2.95 cents (equivalent to RMB2.64 cents) (2015: HK1.53 cents (equivalent to RMB1.28 cents)) per share amounting to RMB16,434,000 (2015: RMB7,968,000) (note 9). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

k) *Capital management*

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

The Group monitors its capital structure on the basis of net debt to equity ratio. The Group defines net debt as interest-bearing bank loans and liability component of mandatorily convertible bonds, less pledged bank deposits and cash and bank balances. Equity comprises all components of equity.

The Group's net debt to equity ratio at 31 December 2016 and 2015 were as follows:

	2016 **RMB'000**	2015 RMB'000
Bank loans	**311,196**	167,560
Liability component of mandatorily convertible bonds	**—**	4,155
Liability component of convertible bonds	**114,909**	—
Total debt	**426,105**	171,715
Less: Cash and bank balances	**(239,281)**	(140,178)
Adjusted net debt	**186,824**	31,537
Total equity	**638,650**	687,266
Net debt to equity ratio	**29.25%**	4.59%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include cash and bank balances, available-for-sale financial assets, trade and other receivables and payables, financical assets at fair value through profit or loss, pledged bank deposits, other financial asset and liability, and bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) *Credit risk*

i) As at 31 December 2016 and 2015, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any impairment allowance.

ii) In respect of trade receivables, in order to minimise the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Trade receivables are usually due within 30 days to 90 days.

iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had certain concentration of credit risk of 3.47% (2015: 22%) of the total trade receivables due from the Group's largest customer and 12.3% (2015: 33%) of the total trade receivables due from the Group's five largest customers as at 31 December 2016.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 23.

iv) In respect of other receivables and other financial asset, the credit quality of the debtors is assessed by taking into account of their financial position, relationship with the Group, credit history and other factors. Management regularly reviews the recoverability about these other receivables and follow up the amounts overdue, if any. The directors are of the opinion that the probability of default by counterparties is low.

v) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings given by international credit-rating agencies.

vi) With respect to credit risk arising from amounts due from a subsidiary and a director, the Company's exposure to credit risk arising from default of the counterparties is limited as the counterparties have good history of repayment and the Company does not expect to incur a significant loss for uncollected amounts due from a subsidiary and a director.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay:

	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2016			
Non-derivative financial liabilities			
Trade and bills payables	**237,446**	**237,446**	**237,446**
Accruals	**10,413**	**10,413**	**10,413**
Other payables	**15,999**	**15,999**	**15,999**
Bank loans	**313,696**	**313,696**	**311,196**
Liability component of convertible bonds	**125,554**	**125,554**	**114,909**
	703,108	**703,108**	**689,963**
2015			
Non-derivative financial liabilities			
Trade and bills payables	124,086	124,086	124,086
Accruals	10,314	10,314	10,314
Other payables	22,087	22,087	22,087
Bank loans	184,909	184,909	167,560
Liability component of mandatorily convertible bonds	4,411	4,411	4,155
	345,807	345,807	328,202

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk*

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

i) *Interest rate profile*

The following table details the interest rate profile of the Group's bank loans, bank balances and deposits and the Company's bank balances at the end of the reporting period:

	2016		2015	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Bank loans	**1.8%-5.22%**	**311,196**	4.2	167,560
Variable rate borrowings:				
Bank loans	**—**	**—**	—	—
Total borrowings		**311,196**		167,560
Net fixed rate borrowings as a percentage of total borrowings		**100%**		100%

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk* *(Continued)*

ii) *Sensitivity analysis*

All of the bank loans, bank balances and the pledged deposits of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates for bank balances, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB2,393,000 (2015: RMB1,218,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until end of next annual reporting period. The analysis is performed on the same basis for the 2015.

d) *Currency risk*

The Group is exposed to currency risk primarily through purchases which give rise to trade and other payables, cash and bank balances, trade and other receivables and bank loans. The carrying values of these financial assets and liabilities are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, HK$ and EUR$ and RMB to the extent that they are not the functional currency of the operations to which the transactions and balances related. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk (Continued)*

i) *Exposure to currency risk*

	2016 RMB'000	2015 RMB'000
Assets/(Liabilities)		
Cash and bank balances		
US$	**69,647**	23,794
HK$	**90**	82
RMB	**2,952**	1,634
EUR$	**41**	—
Trade and other receivables		
US$	**25,020**	9,742
RMB	**1**	1,050
Trade and other payables		
US$	**(6)**	—
HK$	**(181,485)**	(89,896)
Bank loans		
US$	**(46,855)**	—
HK$	**(156,538)**	—
Total assets		
US$	**94,667**	33,536
HK$	**90**	82
RMB	**2,953**	2,684
EUR$	**41**	—
Total liabilities		
US$	**(46,861)**	—
HK$	**(338,023)**	(89,896)

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk (Continued)*

ii) *Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2016			
US$	**5%**	**2,390**	**—**
	(5%)	**(2,390)**	**—**
HK$	**5%**	**(16,897)**	**—**
	(5%)	**16,897**	**—**
RMB	**5%**	**148**	**—**
	(5%)	**(148)**	**—**
EUR$	**5%**	**2**	
	(5%)	**(2)**	**—**
At 31 December 2015			
US$	5%	1,677	—
	(5%)	(1,677)	—
HK$	5%	(4,491)	—
	(5%)	4,491	—
RMB	5%	134	—
	(5%)	(134)	—

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until end of next annual reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2015.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

e) *Business risk*

The Group has a certain concentration of business risk as 50.5% (2015: 42%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In November 2013, the Group entered into a one-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. The distribution agreement was renewed in December 2016 for one-year period. If there is any change in consumer taste and demand of the product, or the supplier does not further renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *Fair value*

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.

Fair value hierachy

The following table presents the fair value of the Group's financial instruments measured at the end of the Reporting Period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is,unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

The Group uses independent valuers to perform valuations of financial instruments which are categorised into Level 2 and Level 3 of the fair value hierachy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent valuer at each interim and annual reporting date, and are reviewed and approved by the financial controller. Discussion of the valuation process and results with the financial controller is held twice a year to coincide with the reporting dates.

	Fair value at 31 December 2016 RMB'000	Fair value measurements as at 31 December 2016 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Fair value at 31 December 2015 RMB'000	Fair value measurements as at 31 December 2015 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements								
Assets:								
Available-for-sale investments, at fair value								
– Unlisted equity investments	**19,101**	**—**	**12,761**	**6,340**	9,309	—	8,171	1,138
– Bank wealth management products	**65,199**	**—**	**—**	**65,199**	86,296	—	—	86,296
Financial assets at fair value through profit or loss								
– Unlisted equity investments	**4,232**	**—**	**—**	**4,232**	—	—	—	—
– Listed securities	**17,400**	**17,400**	**—**	**—**	14,040	14,040	—	—
Other financial assets	**533**	**—**	**533**	**—**	4,604	—	—	4,604
Liabilities:								
Other financial liability	**13,623**	**—**	**367**	**13,256**	16,362	—	—	16,362

During the year ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the Reporting Period in which they occur.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Note:

1. The valuation techniques and key inputs used of bank wealth management products for level 3 fair value measurement at the end of the reporting period are as follows:

	Valuation technique	**Significant unobservable inputs**	**Range**
Bank wealth management products	Market comparable products	Return of comparable products	3.48% to 3.63% (2015: 4.15% to 4.97%)

   The increase in return of comparable products would result in increase in fair value measurement of bank wealth products. No sensitivity analysis is disclosed for the impact of changes in return of comparable products as the exposure is insignificant to the Group.

2. The valuation techniques and key inputs used of unlisted equity investments for level 2 fair value measurement are as follows:

   The fair value of unlisted equity investments is assessed to approximate the share of net asset values of the Fund, which take into consideration the fair value of the assets held under the investments.

3. For fair value of other financial instruments for level 2 and level 3, the valuation techniques and key inputs used included discount for lack of marketability and change in share price of comparable companies. No sensitivity analysis is disclosed for the impact of changes as the management considers that the exposure is insignificant to the Group.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 31 December 2015.

			Available-for-sale investments		Financial assets at fair value through profit or loss	
	Other financial asset	Other financial liability	Unlisted equity investments	Bank wealth management products	Unlisted equity investments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	—	—	—	—	—	—
Acquisition of subsidiaries (note 38)	7,177	(14,548)	—	58,900	—	51,529
Addition	—	—	10	25,000	—	25,010
Fair value loss recognised in profit or loss	(2,573)	(1,814)	—	—	—	(4,387)
Fair value gain recognised in other comprehensive income	—	—	1,128	2,396	—	3,524
At 31 December 2015	4,604	(16,362)	1,138	86,296	—	75,676
At 1 January 2016	**4,604**	**(16,362)**	**1,138**	**86,296**	**—**	**75,676**
Addition	**—**	**—**	**—**	**64,500**	**5,000**	**69,500**
Redemption	**—**	**—**	**—**	**(86,296)**	**—**	**(86,296)**
Fair value loss recognised in profit or loss	**(4,604)**	**3,106**	**—**	**—**	**(768)**	**(2,266)**
Fair value gain recognised in other comprehensive income	**—**	**—**	**5,202**	**699**	**—**	**5,901**
At 31 December 2016	**—**	**(13,256)**	**6,340**	**65,199**	**4,232**	**62,515**

33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

b) Impairment of assets

If circumstances indicate that carrying value of the Group's property, plant and equipment, deposit paid for property, plant and equipment, intangible assets and available-for-sale financial asset, at cost may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties or the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

d) *Impairment of receivables*

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

e) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) *Income tax*

Determining income tax provision involves judgement on the future tax treatment of certain transactions. The directors carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

g) *Investments in subsidiaries*

Investments in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

h) *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

i) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB90,693,000 (2015: RMB90,693,000). Further details of impairment testing of goodwill are given in note 18 to the financial statements.

j) *Share-based payments*

Share options granted during the year were measured at fair value on the date of grant (note 39). In assessing the fair values of the share options, the generally accepted option pricing models were used to calculate the fair values of the share options. The option pricing models require the input of subjective assumptions, including the expected volatility and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair values of the share options.

k) *Convertible bonds*

The Group's recognition and measurement of convertible bonds involved significant judgement and estimates. The fair value of convertible bonds that are not traded in an active market is determined by using valuation techniques with estimates including expected volatility of share price.

34. COMMITMENTS

a) Commitments under operating lease

The Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**7,596**	4,394
In the second to fifth year inclusive	**9,670**	2,340
	17,266	6,734

The Group leases certain premises for use as its office and warehouse under operating leases arrangements. Leases for properties are negotiated for terms ranging from one to five years (2015: one to five years). None of the leases include contingent rentals.

b) Capital Commitments

Capital commitments of the Group at the end of the reporting period are as follows:

	2016 RMB'000	2015 RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	**20,256**	—
Capital commitment for the investment in 3.89% equity interest in the Sinopharm Healthcare Fund L.P. (note 21(b)(i))	**10,405**	23,800

Apart from the above, the Group did not have other significant capital commitment as at 31 December 2016 and 2015.

35. EMPLOYEE RETIREMENT BENEFITS

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

Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (2015: RMB30,000). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB8,953,000 (2015: RMB7,573,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

36 RELATED PARTY TRANSACTIONS

a) During the year, the directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related parties	**Relationship**
Mr. Zhao Li Sheng ("Mr. Zhao")	The Company's director and the ultimate controlling party of the Group. Mr. Zhao is the sole shareholder of the ultimate holding company of the Company.
Ms. Chan Lok San ("Ms. Chan")	The Company's director and the wife of Mr. Zhao
Morning Gold Medicine Company Limited ("Morning Gold")	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited ("Yuen Tai")	Subsidiary of Morning Gold
深圳金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("SZ Industry")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
Golden Morning International Limited	Shareholder of Kingworld Medicines Group Limited
Golden Land International Limited	Shareholder of Kingworld Medicines Group Limited
Kingworld Bright Future Limited	Common director of Kingworld Medicines Group Limited

Notes:

i) The English names of the above PRC incorporated entities are for identification purpose only.

36. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances

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

	Note	**2016 RMB'000**	2015 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**—**	2,449
		—	2,449
Rental expenses			
SZ Industry	(i)	**—**	624
		—	624

	Note	**2016 RMB'000**	2015 RMB'000
Trade deposits included in trade and other receivables (note 23)			
Yuen Tai	(ii)	**3,008**	2,525
SZ Kingworld Lifeshine	(ii)	**30,963**	13,257
		33,971	15,782
Amount due from a director included in trade and other receivables (note 23)			
Mr. Zhao	(iii)	**1,121**	2,914
Amount due from related parties (note 23)			
Golden Morning International Limited	(iii)	**15**	—
Golden Land International Limited	(iii)	**15**	—
Kingworld Bright Future Limited	(iii)	**10**	—

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related parties transactions were conducted in the ordinary course of business.

ii) The amounts are unsecured and interest-free and will be set-off against the Group's purchases from the respective related parties in next twelve months after the end of the reporting period.

iii) The amount is unsecured, interest-free and repayable on demand.

36. RELATED PARTY TRANSACTIONS *(Continued)*

c) *Key management personnel remuneration:*

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	**5,621**	7,333
Post employment benefits	**81**	64
	5,702	7,397

37. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate holding company of the Group as at 31 December 2016 to be Golden Land International Limited, a company incorporated in the BVI which does not produce financial statements available for public use, and the ultimate controlling party of the Group as at 31 December 2016 to be Zhao Li Sheng, an executive director of the Company.

38. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisition of 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited and its subsidiaries during the year ended 31 December 2015

On 8 May 2014, Kingworld (Hong Kong) Holdings Limited, an indirect wholly-owned subsidiary of the Company, ("HK Holdings Kingworld"), Shenzhen Dong Di Xin Technology Company Limited (深圳市東迪欣科技有限公司*) ("Dong Di Xin"), and its shareholders, Zhao Zhigang and Zhao Wen (the "Vendors"), being independent third parties, entered into a cooperation agreement (as supplemented and amended by a supplemental agreement and further supplemental agreements dated 31 July 2014, 30 September 2014 and 25 November 2014 respectively), pursuant to which HK Holdings Kingworld conditionally agreed to acquire, and the Vendors conditionally agreed to transfer 55% equity interest in Dong Di Xin for an aggregate consideration of RMB189,367,000. Dong Di Xin is engaged in the business of manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices.

The directors of the Company considered that the acquisition of equity interest in Dong Di Xin is benefical to the Group to expand its business into the markets of manufacturing and sales of medical devices and to create a synergy effect with the existing business of the Group.

38. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

Acquisition of 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited and its subsidiaries during the year ended 31 December 2015 (Continued)

On 13 February 2015, the acquisition of 55% equity interest of Dong Di Xin was completed. Upon completion of the acquisition, the equity interest in Dong Di Xin is owned as to 55% by HK Holdings Kingworld, 15% by Zhao Zhigang and 30% by Zhao Wen, and Dong Di Xin has become a 55% indirectly owned subsidiary of the Company and has been consolidated into the financial statements of the Group since the completion date.

* The English name of the above PRC incorporated entity is for identification purpose only

The following summarised the recognised amounts of identifiable assets acquired and liabilities assumed as at 13 February 2015 and goodwill acquired are as follows:

	Notes	Amounts recognised (at fair value) RMB'000
Net assets acquired of		
Property, plant and equipment	13	8,254
Intangible assets	20	133,427
Investment properties	14	3,560
Deferred tax assets	29(b)	270
Cash and cash equivalents		41,546
Available-for-sale financial assets		58,900
Trade and other receivables		24,977
Inventories		9,468
An indemnification asset	(iv)	12,146
Trade and other payables		(71,724)
Income tax payable	29(a)	(8,002)
Deferred tax liabilities	29(b)	(20,014)
Net identifiable assets and liabilities		192,808
Non-controlling interests (45% equity interest)		(86,763)
Goodwill arising on acquisition	18	90,693
Consideration for acquisition		196,738
Satisfied by:		
– Cash		189,367
– Fair value of the contingent consideration as at the completion date	30	14,548
– Fair value of the profit guarantee as at the completion date	30	(7,177)
		196,738
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Dong Di Xin		
Cash consideration paid		(189,367)
Cash and cash equivalent acquired		41,546
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries		(147,821)

38. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(i) Goodwill represents the premium paid for the benefit of expected synergies from the talent and skills of the acquired workforces, future economic benefit resulting from revenue growth and future market development generated from its business activities.

For the period from 14 February 2015 to 31 December 2015, the trading operation contributed revenue of RMB141,136,000 and net profit of RMB31,753,000 respectively to the consolidated turnover and net profit of the Group for the year ended 31 December 2015. Had the acquisition occurred on 1 January 2015, the Group's revenue and consolidated profit for the year ended 31 December 2015 would have been RMB 726,477,000 and RMB51,674,000 respectively.

The above pro forma information on the Group's revenue and results is for illustrative purpose only and is not necessarily indicative of the revenue and results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

(ii) Except for intangible assets and an indemnification asset, the fair value of the identifiable assets acquired and liabilities assumed is approximately the same as their corresponding carrying amount immediately before the acquisition.

(iii) The trade and other receivables in the transaction with a fair value of RMB24,977,000 had an equivalent gross contractual amount. There is no expected uncollectible balance.

(iv) The indemnification asset represented the amount receivable from the Vendors in relation to the acquisition of Dong Di Xin during the year ended 31 December 2015. Pursuant to the relevant sale and purchase agreements, the Vendors agreed to indemnify the Group if the Group has to bear certain liabilities amounted to RMB12,146,000 of a subsidiary of Dong Di Xin. Therefore, the Group recognised the amount of such liabilities indemnifiable by the Vendors upon the completion of the acquisition as an indemnification asset due from the Vendors which is included in other receivables in the consolidated statement of financial position as at 31 December 2015.

(v) Pursuant to the sale and purchase agreement, the Vendors have guaranteed that the consolidated profit of Dong Di Xin shall not be less than RMB32,047,000, RMB35,252,000 and RMB38,777,000 for the years ended 31 December 2015 and ending 31 December 2016 and 31 December 2017 (the "Profit Guarantee"). Details regarding the Profit Guarantee are set out in note 30 to the financial statements.

39. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for shares in the Company to eligible participants ("Eligible Participants"), including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 4 November 2021, after which no further options will be granted.

Options granted on 1 June 2015 to the directors, employees and consultants vest after one to three years from the date of grant and are then exercisable within a period of one year. Of the share option granted on 9 October 2015 to a consultant vest and exercisable from the date of grant after the market conditions are met.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(Expressed in Renminbi unless otherwise indicated)

39. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 1 June 2015	3,572,000	One to three years from the date of grant	4 years
Options granted to employees:			
– on 1 June 2015	13,236,000	One to three years from the date of grant	4 years
Options granted to other eligible participants			
– on 1 June 2015	300,000	One year from the date of grant	2 years
– on 9 October 2015	6,200,000	After the market conditions are met	3 years
Total share options granted	23,308,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	**HK$2.54**	**22,840,000**	—	—
Granted during the period	**—**	**—**	HK$2.54	23,308,000
Lapsed during the period	**—**	**—**	HK$2.54	(468,000)
Outstanding at the end of the period	**HK$2.54**	**22,840,000**	HK$2.54	22,840,000
Exercisable at the end of the period	**HK$2.54**	**300,000**	HK$2.54	—

The share options outstanding at 31 December 2016 had an exercise price of HK$2.54 (2015: HK$2.54) and a weighted average remaining contractual life of 2.28 years (2015: 3.2 years).

(Expressed in Renminbi unless otherwise indicated)

39. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured by reference to valuations performed by DTZ Debenham Tie Leung Limited, independent professional valuer not connected to the Group, based on the Monte Carlo Method and Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions

	On 1 June 2015				On 9 October 2015
Fair value at measurement date	HK$0.770 and HK$0.768	HK$0.781 and HK$0.782	HK$0.839 and HK$0.841	HK$0.768	HK$0.259 and HK$0.230
Share price	HK$2.450	HK$2.450	HK$2.450	HK$2.450	HK$1.360
Exercise price	HK$2.540	HK$2.540	HK$2.540	HK$2.540	HK$2.540
Risk-free interest rate (based on Exchange Fund Notes)	0.438%	0.657%	0.876%	0.438%	0.606%
Expected Life:	2 years	3 years	4 years	2 years	3 years
Expected volatility	63.07%	54.39%	52.13%	63.07%	59.49%
Expected dividends Yield:	1.89%	2.25%	2.34%	1.89%	2.04%
Early Exercise Behavior:	280% and 220%	280% and 220%	280% and 220%	220%	220%
Valuation method used	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model	Monte Carlo Method

The expected volatility of the underlying security of the Share Options was determined with reference to the historical volatility of the Company, as extracted from Bloomberg Terminal; The expected dividend yields of the underlying security of the Share Options was determined by the historical dividend yield of the underlying security of the Company, as extracted from Bloomberg Terminal. Changes in the subjective input assumptions could materially affect the fair value estimate.

The fair value of the share options granted to the consultants are measured at fair values of options granted as these participants are providing services that are similar to those rendered by employees.

40. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with current year’s presentation.

41. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2016 RMB'000	2015 RMB'000
Non-current assets		
Investments in subsidiaries	**216,957**	216,957
Current assets		
Other receivables	**130**	122
Amount due from a subsidiary	**263,700**	240,477
Cash and bank balances	**38,183**	69,664
	302,013	310,263
Current liabilities		
Other payables	**4,768**	5,234
Amounts due to subsidiaries	**53,086**	24,678
Bank loans	**156,537**	167,560
Liability component of mandatorily convertible bonds	**—**	4,155
Liability component of convertible bonds	**114,909**	—
	329,300	201,627
Net current liabilities/assets	**(27,287)**	108,636
Total assets less current liabilities	**189,670**	325,593
Non-current liabilities		
Deferred tax liabilities	**793**	—
NET ASSETS	**188,877**	325,593
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**135,409**	272,125
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**188,877**	325,593

Approved and authorised for issue by the board of directors on 28 March 2017.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

(Expressed in Renminbi unless otherwise indicated)

42. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

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

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2017
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 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Financial Summary

The following table summarizes the consolidated results of the Group for the five years ended 31 December:

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(restated)
Results					
Revenue	**1,053,527**	713,548	660,323	554,763	626,840
Profit before taxation	**89,044**	51,322	48,667	63,214	61,191
Income tax	**(21,638)**	(11,935)	(10,802)	(16,037)	(12,656)
Profit for the year	**67,406**	39,387	37,865	47,177	48,535
Attributable to:					
Owners of the Company	**46,966**	31,205	37,865	47,177	48,535
Asset and Liabilities					
Total assets	**1,393,739**	1,089,331	1,019,489	730,083	640,327
Total liabilities	**755,089**	402,065	448,514	272,659	217,497
Equity attributable to owners of the Company	**638,650**	687,266	570,975	457,424	422,830