China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)

(Stock code: 00570)

ANNUAL REPORT 2016

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WU Xian *(Chairman)*
Mr. YANG Bin *(Managing Director)*
Mr. WANG Xiaochun

Non-executive Directors

Mr. LIU Cunzhou
Mr. DONG Zenghe
Mr. ZHAO Dongji
Ms. HUANG He
Ms. TANG Hua

Independent Non-executive Directors

Mr. ZHOU Bajun
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LO Wing Yat

COMPANY SECRETARY

Ms. LEUNG Suet Lun

AUDIT COMMITTEE

Mr. XIE Rong *(Chairman)*
Mr. ZHOU Bajun
Mr. LO Wing Yat
Ms. HUANG He
Ms. TANG Hua

REMUNERATION COMMITTEE

Mr. ZHOU Bajun *(Chairman)*
Mr. LIU Cunzhou
Mr. XIE Rong
Mr. LO Wing Yat

NOMINATION COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. YANG Bin
Mr. ZHOU Bajun
Mr. XIE Rong
Mr. LO Wing Yat

STRATEGIC COMMITTEE

Mr. LIU Cunzhou *(Chairman)*
Mr. WU Xian
Mr. YANG Bin
Mr. WANG Xiaochun
Mr. ZHOU Bajun
Mr. YU Tze Shan Hailson

REGISTERED OFFICE

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STOCK CODE

The shares of China Traditional Chinese Medicine Holdings Co. Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Industrial and Commercial Bank of China Limited
(Foshan Branch)
China Merchants Bank Co., Ltd. (Foshan Branch)
Guangdong Shunde Rural Commercial Bank Co., Ltd.

WEBSITE

http://www.china-tcm.com.cn

FIVE YEAR FINANCIAL SUMMARY

(Expressed in RMB)

	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000 (Restated)	**2016 RMB'000**	2012-2016 Compound Annual Growth Rate
Results						
Revenue	1,031,766	1,394,613	2,650,454	3,709,406	**6,532,867**	58.63%
Gross profit	564,013	825,779	1,643,389	2,200,673	**3,787,680**	60.98%
Profit from operations	235,795	272,757	551,696	760,978	**1,376,783**	55.45%
Profit before taxation	216,406	237,575	489,119	689,160	**1,303,804**	56.67%
Profit attributable to the shareholders of the Company	168,526	198,463	413,090	625,596	**966,927**	54.77%
Profitability						
Gross profit margin	54.66%	59.21%	62.00%	59.33%	**57.98%**	
Operating profit margin	22.85%	19.56%	20.82%	20.51%	**21.07%**	
Net profit margin	16.77%	14.29%	15.53%	17.36%	**16.63%**	
Earnings per share						
Basic & Diluted	9.45 cents	9.68 cents	16.30 cents	16.97 cents	**21.73 cents**	23.14%
Financial position						
Total assets	1,554,220	5,066,470	5,331,852	19,208,676	**21,036,784**	
Total equity attributable to equity shareholders of the Company	828,454	2,759,853	3,183,756	11,133,372	**11,588,327**	
Total liabilities	708,449	2,231,707	2,074,730	7,068,463	**8,280,922**	
Cash and cash equivalents	46,258	345,411	439,416	2,101,856	**2,373,356**	
Debt asset ratio	45.58%	44.05%	38.91%	36.80%	**39.36%**	

FIVE YEAR FINANCIAL SUMMARY

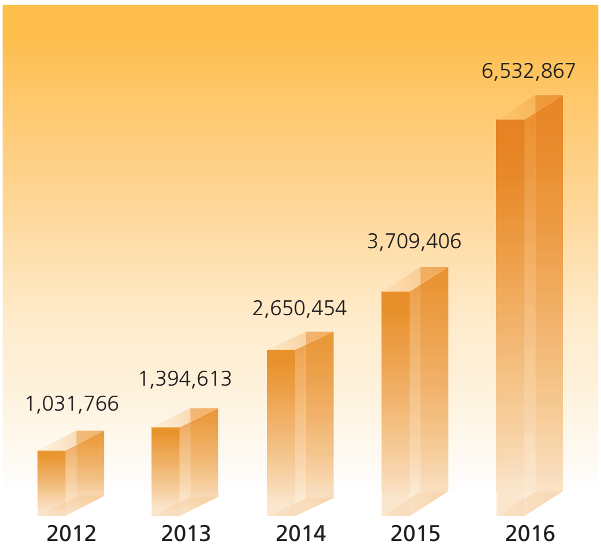
(Expressed in RMB)

REVENUE

RMB'000

Annual Growth of 2015-2016

76.12%

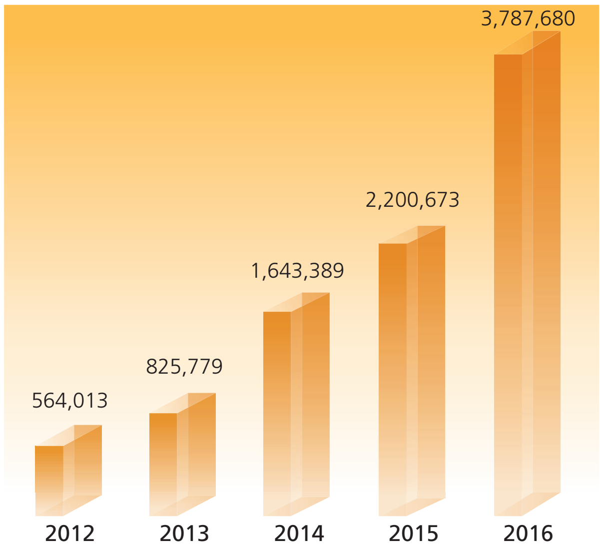


GROSS PROFIT

RMB'000

Annual Growth of 2015-2016

72.11%

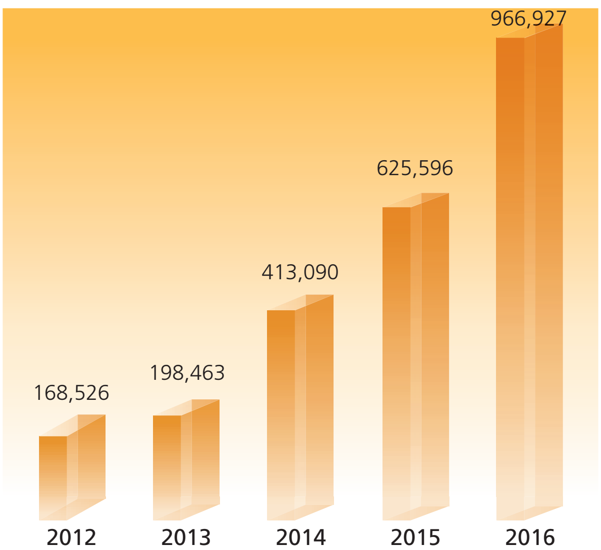


PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

RMB'000

Annual Growth of 2015-2016

54.56%

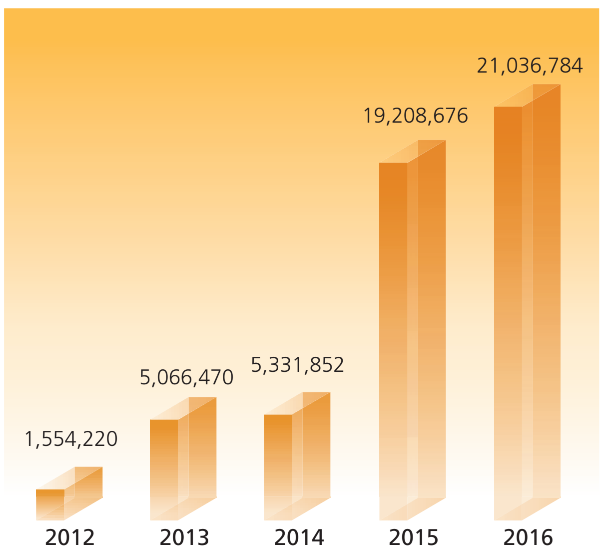


TOTAL ASSETS

RMB'000

Annual Growth of 2015-2016

9.52%



Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholders,

I would like to express my gratitude to our shareholders and other stakeholders for their continued attention and substantial support to China Traditional Chinese Medicine Holdings Co. Limited (the "Company" or "we"). On behalf of the board of directors (the "Board") of the Company, I am pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016 (the "reporting period" or "year under review") with comparative figures for the year ended 31 December 2015 and the Company's consolidated financial statements have been prepared according to the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Financial Reporting Standards ("HKFRS").

2016 was the first complete financial year for the Company to fully consolidate the financial statements of Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Tianjiang Pharmaceutical") and its subsidiaries following the completion of acquisition of 87.3% equity interests of Tianjiang Pharmaceutical. The audited revenue of the Group for the year 2016 was approximately RMB6,532,867,000, representing an increase of 76.1% compared to approximately RMB3,709,406,000 in the previous year. The profit attributable to owners of the company was approximately RMB966,927,000, representing an increase of 54.6% compared to approximately RMB625,596,000 in the previous year. The basic earnings per share increased from RMB16.97 cents last year to RMB21.73 cents in 2016, representing an increase of 28.0%.

REVIEW FOR THE YEAR OF 2016

The regulatory environment for pharmaceutical industry was even more challenging in 2016, a year when the government also promoted the development of Traditional Chinese Medicine ("TCM"). In 2016, in response to the changing TCM finished drugs market, the Group adjusted its strategy, relieved its historical burden, while maintaining the growth pace of our concentrated TCM granules with high technical standards, which further consolidated our leading position in the market.

(I) Continuously optimizing the Group's management with full integration of resources

In order to further facilitate the in-depth integration of internal management and progressively formulating an effective long-term mechanism based on regulated management and scientific development, the Group thoroughly rationalized and adjusted the organization structure and management system of subsidiaries for the purpose of continuous improvement in its management platform.

First, integration of management resources. During the year under review, the Group successfully launched a centralized business information system and mobile operation platform to replace the various information systems operated by its subsidiaries, which helped connect each business segment and manage information and achieved information-sharing across the Group and decision-making based on big data, resulting in better management efficiency and lower management cost.

Second, integration of procurement resources. In order to actively deal with the impact from the different characteristics of Chinese medicinal herbs and their price volatility, further reduce the procurement cost and strengthen our overall bargaining power, the Company established an integrated Chinese medicinal herbs procurement center at the end of April 2016, and the first meeting of suppliers was convened at the end of May 2016, which promoted the integration of procurement system between the Company and its subsidiaries.

Third, integration of production resources. Applying an intensive, energy-saving and environmental friendly development model, the Company put all pre-production process of the subsidiaries in Guangdong Province in the workshop in Gaoming District, Foshan. Through building the Gaoming workshop as the technologically leading pre-production base for extraction of Chinese medicinal herbs across the country in terms of production capacity, intelligent technology, quality control, energy-saving, etc., the Company gained experience for establishing 8 major extraction bases in the PRC in the coming three years.

Fourth, integration of financial resources. In order to further optimize our debt structure, avoid foreign exchange risk, facilitate the matching of investment and financing, the Company successfully issued three-year panda bonds in an amount of RMB2,500 million in November 2016, which significantly reduced financing costs and ensured sufficient funding for the Group's future development.

(II) Proactively prepared for the rapid development of the concentrated TCM granules segment

In 2016, the "Regulations on the Administration of Concentrated TCM Granules (Draft for Comments)" (《中藥配方顆粒管理辦法(徵求意見稿)》) drafted by China Food and Drug Administration and the "Technical Requirements on Quality Control and Standards Establishment for Concentrated TCM Granules (Draft for Comments)" (《中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿)》) drafted by China Pharmacopoeia Commission were issued to solicit public opinions. It is expected that these two documents will be officially issued in 2017. At such time, there will be unified production and quality standards for the concentrated TCM granules and decoction pieces sectors and the market will gradually open, leading to more healthy development of the industry.

As such, the Company decided to put in all its efforts of the Group and centralise its strengths and resources to grasp such historic opportunity to achieve rapid expansion in the concentrated TCM granules business.

Under the coordination and support of the Group, the relevant procedures of optimizing management structure and integrating resources of Tianjiang Pharmaceutical were actively commenced, which allowed Tianjiang Pharmaceutical to quickly integrate into the Group's management and operation platform to achieve a year-on-year growth target of 20% in revenue.

The Group built a scientific research team comprising nearly 100 members and focused on the research and establishment of the quality standards in concentrated TCM granules. By consolidating our knowledges in research, production and procurement, together with external experts, the Group further strengthened its market leader position with high technical standards.

The Group has formulated a layout plan for concentrated TCM granule production and decoction piece processing base, involving for the construction of 8 major Chinese medicinal herb extraction bases and concentrated TCM granule production bases across various provinces, which is expected to be completed within three years. The targeted production capacity for extraction and concentrated TCM granules are 3 times and 2.5 times of existing production capacity respectively. Annual production value will exceed RMB20 billion at full product capacity. Such plan has started to implement.

(III) Adjusting the strategy for TCM finished drugs segment to reduce burden

2016 was a difficult year for TCM finished drugs segment, the implemention of "two-invoice system" in the pharmaceutical distribution sector, secondary price negotiation, control on the proportion of drug sales in the revenue of hospitals, and zero mark-up policy, etc., brought tremendous impact to both the TCM and western drug markets. As such, the Company promptly adjusted strategy to stabilize the terminal sales and kept exploring new sources of profit growth at the same time.

First, in order to adapt promptly to the new policy and market environment, the Company promoted the destocking process in the distribution channels across the country, actively reduced shipment to distributors and accelerated the elimination of inventory in distribution channels, and initial results were achieved. The sales are likely to return to normal in 2017. Meanwhile, the Company established responsible person and partnership scheme as well as effectively integrated and carefully invested its sales resources so as to lay a solid foundation for long-term and sustainable development.

Second, the Company has completed the merger and acquisition of Huayi Pharmaceutical Company Limited ("Huayi Pharmaceutical") and its subsidiary, Jilin Baiqi Pharmaceutical Co., Ltd. With Qili Capsule produced by Huayi Pharmaceutical, the number of our exclusive EDL products has increased to eight. The Company continued to promote Blockbusters Development Program with numerous inputs in evidence-based clinical research and continuously increased product value. Academic promotion and marketing strategy supported by our evidence-based clinical research has achieved initial success, which will have positive impact on product sales in the next few years.

Third, the Company increased prices of certain OTC products (OTC drugs) and rebuilt their market value, and remarkable results were seen in market expansion. For example, sales volume of a Tibetan formula Chongcao Qingfei Capsule (蟲草清肺膠囊), a key OTC variety and of superstore program, experienced a year-on-year growth exceeding 80% after its introduction, which will become a new core product in 2017. Another examples are traditional minor varieties, such as Po Chai Pill (保濟丸), Snake Bile Chuan Bei Powder (蛇胆川貝散), Snake Bile Chenpi Powder (蛇胆陳皮散), Angong Niuhuang Honeyed Bolus (安宮牛黃丸), Yao Shen Herbal Paste (腰腎膏), Renshenzaizao Honeyed Bolus (人參再造丸), Dahuoluo Honeyed Bolus (大活絡丸), etc, which, through innovative promotion and marketing, including changing sales mode, cultivating the consumer base of the younger generation, have been progressively becoming a new source of growth.

Fourth, the Company continuously enhanced the professional training of sales team and built up expert networks in orthopedics, dermatology, otolaryngology, paediatrics, respiration, and rheumatology, etc, in order to adapt to the New Normal for sales under the continued healthcare reform.

(IV) Creating a complete value chain for TCM, achieving inter-segment interaction and synergized development

As a traditional segment in TCM business, decoction pieces segment has been enjoying strong support from the government policy. In 2016, the market size of decoction piece business exceeded RMB200 billion. As the only listing TCM platform of China National Pharmaceutical Group Corporation ("CNPGC"), it is our mission to strengthen the decoction pieces business.

Through accelerating the development in TCM decoction pieces business, the Company is able to improve the source reliability tracking process and quality control on the upstream raw materials for concentrated TCM granules and TCM finished drugs segments on one hand, and develop TCM decoction business and penetrate into more hospitals on the other, which will provide better support to the expansion of sales channel for the concentrated TCM granules and achieve satisfactory results in both the decoction pieces and the concentrated TCM granules segments.

Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices") and Foshan TCM Hospital have jointly established a "TCM Decoction Center", which provides decoction services for the TCM prescribed by the hospital doctors and the decocted medicine is delivered directly to the patient's address by courier. There is considerable market demand for TCM decoction business in Guangzhou and Foshan, which is now in a benign development stage. In November 2016 and December 2016 respectively, the merger and acquisition of Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal") (貴州同濟堂中藥飲片有限公司) (「同濟堂中藥飲片」) and Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang") (上海同濟堂藥業有限公司) (「上海同濟堂」) was completed, which represented a breakthrough in the development of decoction pieces business in Guizhou and Shanghai. Leveraging on the years of business experience in upstream Chinese medicinal herbs of CNPGC, the Company cooperated with local plantation bases in various production regions, continued upholding of operation strategy focusing on key varieties of local Chinese medicinal herbs and expanded the scale of certain local Chinese medicinal herbs plantation bases, which laid a solid foundation for the source tracking of TCM products as well as meeting the quality requirement of Chinese medicinal herbs in future.

Business of Sinopharm Group Foshan Feng Liao Xing Medical Complex Co., Ltd. ("TCM healthcare complex") (國藥集團佛山馮了性國醫館有限公司) , which commenced operation at the end of 2015, was in good shape, providing outpatient and physiotherapy services to nearly 30,000 customers in the first year of operation. In January 2017, the Company completed the acquisition of 60% registered capital of Guizhou Tongjitang Pharmacy Chain Co. Ltd. and its TCM clinics in order to continue exploring and promoting the brand new business model of TCM healthcare complex.

PROSPECTS AND OUTLOOK FOR 2017

2017 will be an important year for the TCM industry. "TCM Development Strategy Plan Summary (2016-2030)"(《中醫藥發展戰略規劃綱要(2016-2030年)》) outlines a promising future for the development of TCM business. Traditional Chinese Medicine Act (《中醫藥法》), which has been proposed for many years, has finally been introduced, which further strengthened the position of TCM in China's development strategy. The white paper on Traditional Chinese Medicine (《中國的中醫藥》) further promotes the TCM business and Chinese medicine culture to the world.

Recently, the Ministry of Human Resources and Social Security of the People's Republic of China has promulgated the "2017 National Drugs List for Basic Medical Insurance". 15 products of the Company are new additions to the list, of which Yao Shen Herbal Paste (腰腎膏), Chaishi Tuire Granule (柴石退熱顆粒) and Liuwei Dingxiang Pill (六味丁香片) are exclusive products. Also, 282 products of the Company are listed on the new drugs list for basic medical insurance, 26 of which are exclusive products. Those products listed on the reimbursement drug list are valuable assets of the Company as well as the growth driver in finished products in future. Besides, the extensive product mix and exclusive products significantly enhance the Company's risk resistance ability.

With the deregulation of the industry and progressive implementation of relevant ancillary policies, the Company expects that the concentrated TCM granules market will experience an explosive growth in the coming 5-10 years. To cope with challenges from the new comers and grasp the historic opportunity for the development of the industry, the Group will put in considerable efforts and core resources to continuously consolidate Tianjiang Pharmaceutical's leading position in the concentrated TCM granules industry and maintain our advantages.

(I) Promoting the expansion of production capacity and setting up standards of concentrated TCM granules to consolidate our leading position

The government policy concerning concentrated TCM granules industry may soon to be introduced, which may lead to a disruptive growth of the market and more intensive market competition. The Company will concentrate in expansion of production capacity and setting up standards to capitalize on the window period of the favourable policy and first-mover advantage to consolidate our position as the market leader and to be the pioneer in capturing the development opportunity so as to realize robust development in the concentrated TCM granules business.

(II) Accelerating the construction of extraction bases, guaranteeing the planning and development of TCM industry

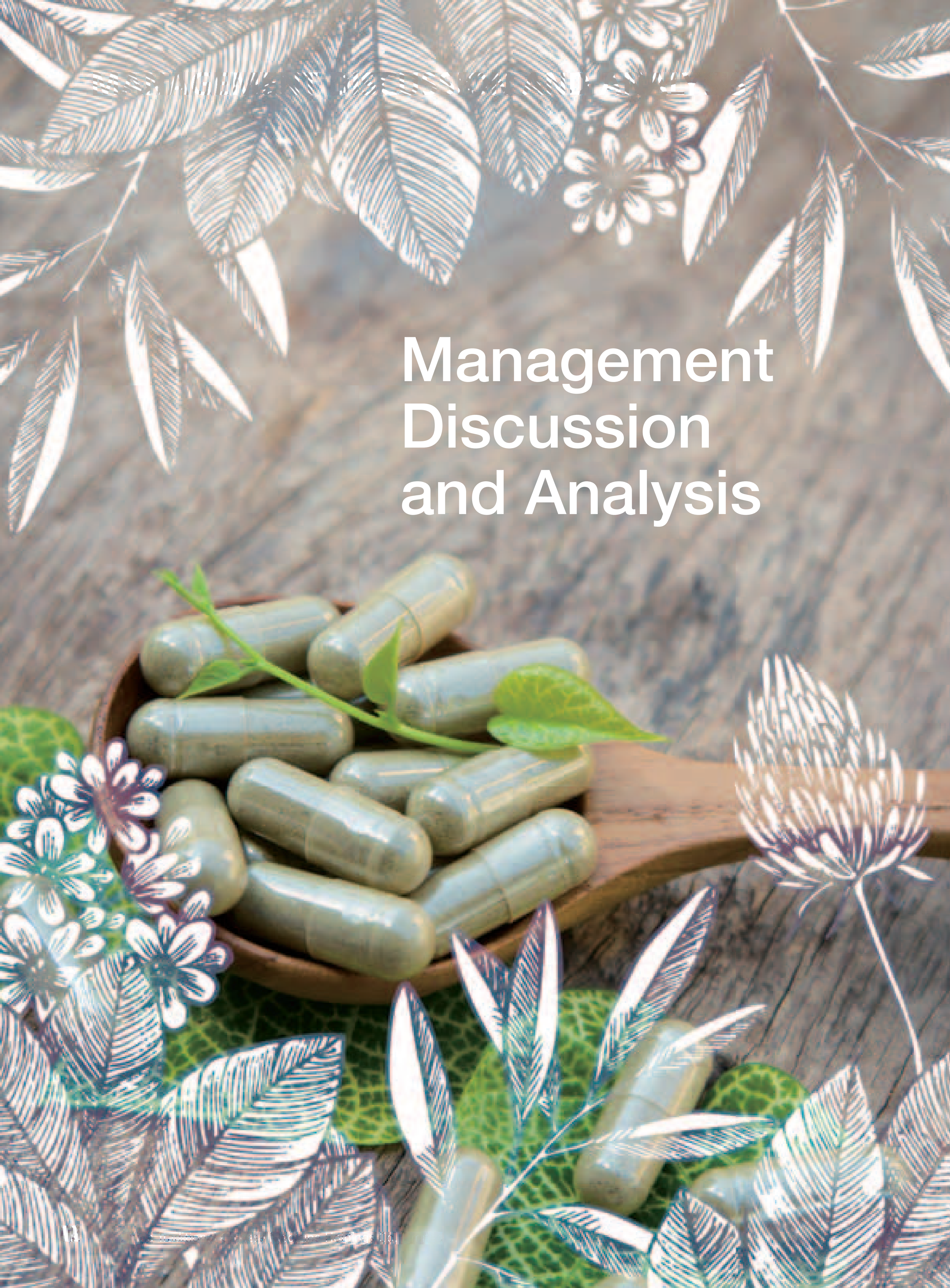
After fully considering the aggregation, optimization and centralized allocation of internal resources, the Company makes forward looking deployment based on the demand of planning and development of the concentrated TCM granules as well as the TCM finished drugs. Also, with our existing bases, the Company will accelerate the construction of extraction bases through various methods, including investing in new construction, technology modification, etc., so as to guarantee the pre-processing capability for planning and development of modern TCM manufacturing.

(III) Commencing construction of initial processing bases in production regions, realizing TCM source tracking

Based on the demand for the production of concentrated TCM granules and TCM finished drugs, the Company will accelerate the extension of upstream business in the industrial chain. The Company will adopt innovative cooperation model and commence construction of initial processing bases in key production regions of local Chinese medicinal herbs by cooperating with selected partners, which is systemically linked to the Chinese medicinal herb procurement platform and leads to more health development of the industry.

As the flagship of TCM segment of CNPGC, the Group will firmly grasp the great opportunity in the thriving development of TCM industry. With the concentrated TCM granules and finished drug segment as its base, the Company will achieve its rapid expansion covering the whole-industry chain with the plantation of Chinese medicinal herbs, processing of decoction pieces and healthcare services to set for a stunning growth in scale and profits.

Management Discussion and Analysis



MANAGEMENT DISCUSSION AND ANALYSIS

GROUP OVERVIEW

The Group is a leading TCM manufacturer in China. Its products include concentrated TCM granules, TCM finished drugs, TCM decoction pieces and healthcare products. Currently, TCM finished drugs and concentrated TCM granules are two major segments of the Company. The Group has over 700 concentrated TCM granules products and 979 finished drugs, of which 282 finished drugs listed on 2017 National Drugs List for Basic Medical Insurance (15 more as compared to the 2009 version), including 26 exclusive products (3 more as compared to the 2009 version), of which Xianling Gubao Capsule and Tablet, Yu Ping Feng Granule, Bi Yan Kang Tablet, Jingshu Granules, Moisturizing and Anti-Itching Capsules, Fengshi Gutong Capsules, Zaoren Anshen Capsules and Qili Capsule are exclusive products on the National Essential Drug List.

Currently, the Group has accumulated extensive technical experience in extraction of Chinese medicinal herbs, preparation of traditional and modern Chinese medicine and sustained or controlled release preparation. The Group has manufacturing facilities in Foshan of Guangdong Province, Guiyang of Guizhou Province, Jiangyin of Jiangsu Province, Xuancheng and Bozhou of Anhui Province, Jining and Linyi of Shandong Province, Longxi of Gansu Province, Mianyang of Sichuan Province and Xining of Qinghai Province. All production lines are certified with GMP as required by law. 48,000 tonnes of Chinese medicinal herbs can be preprocessed and extracted annually. The annual production capacity is 8,000 tonnes of concentrated TCM granules, 7,000 tonnes of TCM decoction pieces, 10.2 billion packs of TCM finished granules, 5.65 billion tablets and 3.65 billion capsules.

INDUSTRY ENVIRONMENT

With the deepening reform in pharmaceutical industry, more and more industry policies were launched in 2016, which has posed unprecedented challenges to the pharmaceutical industry. Under the impact of various policies, including lower drug tender prices, cost control on medical insurance reimbursement, "two-invoice system", and removal of the drug price markups in public hospitals, etc, the growth of pharmaceutical industry has been markedly slowing down. According to the statistics of the Ministry of Industry and Information Technology of the People's Republic of China, sales revenue of pharmaceutical industry for the year 2016 recorded a year-on-year growth of 6.5%, showing a significant decline as compared to 9.5% and 10.14% in 2015 and the first half of 2016 respectively. This indicated that the industry still suffered from the impact from the adjusted policies, and there are increasing pressure on the growth rate of the industry. However, in the long-term, given the continuous development of the economy and the aging population, the demand for pharmaceutical products and services in the PRC maintains an uptrend. The central government has been implementing various policies to promote the modernization and standardization of TCM production as well as the sound development of TCM healthcare services. The Company believes that there are new opportunities arising within the challenging industrial environment. We will grasp these opportunities to expand market and strengthen management, which ensure the sustainable growth of revenue and profit.

BUSINESS REVIEW

During the reporting period, the Group's revenue were approximately RMB6,532,867,000, representing an increase of 76.1% from approximately RMB3,709,406,000 in last year, which was mainly due to the fact that 2016 was the first whole financial year following the acquisition of Tianjiang Pharmaceutical. Among these, the revenue from concentrated TCM granules business amounted to RMB4,358,546,000, accounting for 66.7% of total revenue. Finished drug business achieved revenue of RMB2,174,321,000, representing 33.3% of total revenue.

Profit for the year and profit attributable to owners of the Company was approximately RMB1,086,540,000 and RMB966,927,000 respectively, representing an increase of 68.7% and 54.6% as compared with the same period of last year respectively.

The Group's net cash inflow from operating activities for the year was RMB1,464,640,000, representing an increase of 182.4% compared to last year of RMB518,701,000.

Audited earnings per share for the reporting period increased by 28.0% to RMB21.73 cents from RMB16.97 cents for 2015.

The Board has recommended the distribution of a final dividend of HK3.59 cents per share (approximately RMB3.19 cents) for the year ended 31 December 2016. The Company has paid an interim dividend of HK6.44 cents per share (approximately RMB5.54 cents), and the total dividends for the year amounted to HK10.03 cents per share (approximately RMB8.73 cents).

Concentrated TCM granule business

Table 1: Main Financial Indicators for the Concentrated TCM Granules Business (the comparative figures for the same period of 2015 were prepared based on the assumption that the Group had consolidated Tianjiang Pharmaceutical on 1 January 2015, which have not been audited by the auditors)

	Twelve months ended 31 December		
	2016	2015	Changes
	RMB'000	RMB'000	
Turnover	**4,358,546**	3,579,502	21.8%
Cost of sales	**1,762,653**	1,591,404	10.8%
Gross profit	**2,595,893**	1,988,098	30.6%
Profit before taxation	**1,007,650**	786,152	28.2%
Profit for the year	**854,043**	653,804	30.6%
Gross profit margin	**59.6%**	55.5%	4.1ppt
Net profit margin	**19.6%**	18.3%	1.3ppt

Note: All figures in this table deducted the additional depreciation and amortisation arising from the fair value assessment of identifiable assets acquired as a result of the acquisition of Tianjiang Pharmaceutical.

During the reporting period, the concentrated TCM granules business recorded satisfactory results, with turnover reaching approximately RMB4,358,546,000, representing an increase of 21.8% from RMB3,579,502,000 for the same period of last year. Tianjiang Pharmaceutical achieved a healthy growth in turnover, mainly attributable to the following:

(1) Concentrated TCM granules inheritage the TCM theory of "treatment based on syndrome differentiation and modification based on symptoms", ensure the quality of TCM drugs, and are aligning with the trend of Chinese medicine modernisation. Concentrated TCM granules have been accepted by more doctors and patients, and maintained a continuous growth in market demand;

(2) Development of TCM industry is supported by national policies. The regulations on the administration of concentrated TCM granules refer to those for TCM decoction pieces. Coverage of local medical insurance has extended and public hospitals retain the mark-up policy for the sales of concentrated TCM granules;

(3) Tianjiang Pharmaceutical has rapidly expanded its market presence with two models, i.e., direct sales and agency sales, effectively controls its sales terminals, maintains the sales and marketing network, and has formed extensive sales coverage in each province of China;

(4) Tianjiang Pharmaceutical has improved the products' added-value through academic promotion and strengthened service quality, which further polished its leading brand image of "Tianjiang" and "Yifang", in concentrated TCM granules business and distinguished itself from competitors;

(5) The number of medicine dispensing machines provided by Tianjiang Pharmaceutical to the hospitals has recorded a significant increase, which significantly boosted the clinical usage volume of concentrated TCM granules and improved operating efficiency.

Revenue analysis by regions

(in RMB million)

Regions	**2016**	**Proportion**	2015	Proportion	Growth amount	Growth rate
East China	**1,553**	**36%**	1,241	35%	312	25%
South China	**795**	**18%**	608	17%	187	31%
North China	**560**	**13%**	470	13%	90	19%
Central China	**546**	**13%**	414	12%	132	32%
Northwest China	**304**	**7%**	239	7%	65	27%
Northeast China	**286**	**6%**	376	11%	(90)	(24%)
Southwest China	**221**	**5%**	158	4%	63	40%
Other	**94**	**2%**	74	2%	20	27%
Total	**4,359**	**100%**	3,580	100%	779	22%

East China, South China, North China and Central China contributed 80% of total concentrated TCM granule revenue, higher concentration compared to that of the 77% in last year. Leading by Southwest China's outstanding growth of 40%, other regions also achieved a growth rate exceeding 25%, except for Northeast China and North China.

Notes:

East China (including Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong);
South China (including Guangdong, Guangxi and Hainan);
North China (including Beijing, Tianjin, Shanxi, Hebei and Inner Mongolia);
Central China (including Henan, Hubei and Hunan);
Northwest China (including Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang);
Northeast China (including Heilongjiang, Jilin and Liaoning);
Southwest China (including Sichuan, Guizhou, Yunnan, Chongqing and Tibet)

Revenue analysis by terminal channels

(in RMB million)

Sectors	**2016**	**Proportion**	2015	Proportion	Growth amount	Growth rate
Class III hospitals	**1,515**	**35%**	1,251	35%	264	21%
of which: TCM hospitals	**1,133**	**75%**	963	77%	170	18%
Class II hospitals	**1,259**	**29%**	955	27%	304	32%
of which: TCM hospitals	**758**	**60%**	586	61%	172	29%
Primary health care institutions	**493**	**11%**	372	10%	121	33%
of which: TCM hospitals	**88**	**18%**	82	22%	6	7%
Sales through agents	**1,092**	**25%**	1,002	28%	90	9%
Total	**4,359**	**100%**	3,580	100%	779	22%

Each class of hospitals has experienced strong growth, Class II hospital and primary health care institutions, especially, witnessed a significant growth rate of exceeding 30%. The proportion of sales through agents decreased to 25% from 28% in 2015.

TCM hospital contributed the most of our sales and non-TCM health care institutions recorded the highest growth rate in the sales volume, which illustrated that the policy of mark-up can only be retained by selling TCM decoction pieces and concentrated TCM granules has started showing impact on the profit structure of western medical hospitals.

Revenue Analysis by sales methods

(in RMB million)

Sales method	2016	Proportion	2015	Proportion	Growth amount	Growth rate
Medicine dispensing machine	**1,305**	**30%**	689	19%	616	89%
Individual package	**3,054**	**70%**	2,891	81%	163	6%
Total	**4,359**	**100%**	3,580	100%	779	22%

Medicine dispensing machine is an important means for promoting sales volume of concentrated TCM granules. In 2016, 30% of total sales of concentrated TCM granules was generated by medicine dispensing machines, representing a significant increase from 19% in 2015; Tianjiang Pharmaceutical has established a comprehensive system for the usage, management and maintenance of medicine dispening machines in order to boost the sales volume of concentrated TCM granules in hospitals.

Finished drug business

Table 2: Key financial indicators for continuing operations of finished drug business

	Twelve months ended 31 December		
	2016	2015	Changes
	RMB'000	RMB'000	
Turnover	**2,174,321**	2,730,514	-20.4%
Cost of sales	**982,534**	1,079,016	-8.9%
Gross profit	**1,191,787**	1,651,498	-27.8%
Profit before taxation	**296,154**	491,018	-39.7%
Profit for the year	**232,497**	402,205	-42.2%
Gross profit margin	**54.8%**	60.5%	-5.7ppt
Net profit margin	**10.7%**	14.7%	-4.0ppt

During the reporting period, the continuing operations of finished drug business achieved sales revenue of approximately RMB2,174,321,000, representing a decrease of 20.4% from approximately RMB2,730,514,000 for the same period of last year, which was mainly due to:

(1) the impact of cost control on medical insurance payment and the "two-invoice system", which forced distributors reduced the inventory. As such, the Group adapted to the new normal of the industry with active destocking activities throughout the supply chain and reduced the volume of products delivered to the distributors;

(2) the tender prices of certain drugs sold to hospitals declined slightly, and the implementation of "secondary price negotiation" in Anhui Province, Ningbo City, Zhejiang Province and Northern Jiangsu district during last year led to the withdrawal of tenders in these regions, which affected the sales of this year.

The Group digested the pressure on the finished drug sector exerted by industry policies through adjusting the pace of the production and sales of finished drugs and reforming the marketing and sales models to lay a solid foundation for a long-term and sustainable development. Such adjustment to the pace of the production and sales of finished drugs resulted in fluctuating sales revenue in the short-term.

Given the impact of "two-invoice system", our distributor network tends to be flattened, coupled with obvious change in the number of distributors. It is expected that with the implementation of "two-invoice system" and consolidation of pharmaceutical distribution industry, the large pharmaceutical distributors will gradually capture an increasing market share. The number of secondary and lower-tier distributors will continue to decrease. At the end of 2016, the Group had 1,821 tier-one distributors, 62 more as compared to 1,759 at the end of 2015; while the number of tier-two and grassroots distributors decreased by 319 from 1,313 at the end of 2015 to 994. In the short-term, "two-invoice system" brings pressure for companies engaging in pharmaceutical distribution business as well as challenges for pharmaceutical manufacturers in channel management. However, in the long-term, flattened sales channel makes pharmaceutical distribution business more transparent and convenient for management. It also helps to save distribution cost and strengthens our control over sales channel and terminals.

In the beginning of 2016, the Company introduced the "system of responsible persons/partners" for sales team, which specifies the rights and responsibilities of each responsible person in each sales frontline. It gave more reasonable and effective authorization to them in human, financial and material resources, which improved the team efficiency and fully motivated the front-line management and sales staff. In the second half of the year, the Company further optimized the sales system and the management system in order to improve our team efficiency, which achieved a continuous growth in terminal sales.

Research and Development ("R&D")

Concentrated TCM granules

During the reporting period, the R&D departments of the Group continued to advance on various concentrated TCM granules research projects. The Group conducted 60 research projects focusing on the production and quality control of concentrated TCM granules, 8 on the development of health products, and 1 on clinical development phase. It has obtained 8 utility model patents, 3 invention patents and made 38 new patent applications.

R&D on national standards for concentrated TCM granules has fully commenced. In accordance with "Technical Requirements on Quality Control and Standards Establishment for Concentrated TCM Granules (Draft for Comments)" （《中藥配方顆粒質量控制與標準制定技術要求（徵求意見稿）》） issued by the Chinese Pharmacopoeia Commission on 5 August 2016, the Company, by aggregating the R&D capacity of Jiangyin Tianjiang, GD Yifang and finished drugs R&D center, established the concentrated TCM granule standard R&D team to start the R&D on setting up national quality standards for concentrated TCM granules. At the end of 2016, the Company set up the team and acquired sufficient equipment and made steady progress on the preparation of developing national quality standards for concentrated TCM granules. Currently, the regulations for concentrated TCM granules are still subject to revision. However, the concentrated TCM granules industry will be liberalized along with unified national standards eventually. The Company will continue to pay attention to the national policy trends and get well-prepared for the release of regulations on unifying national standards for concentrated TCM granules.

(1) Persistently focusing on the researches of key technical platforms and key varieties to improve the core competitiveness of concentrated TCM granules. Emphasis was put on the research of key technologies for improving product quality, improving production efficiency and reducing production cost, and has made significant progresses in extraction, solid-liquid seperation and granulation. It also conducted researches on key TCM medicinal herbs from the selection, processing, production technologies, quality standard and quality control.

(2) Study on improving the internal quality control standard of concentrated TCM granules. Based on the Chinese Pharmacopoeia (2015 edition) and the research results of Tianjiang Pharmaceutical on the quality of medicinal herbs, decoction pieces, extracts and finished products, the internal quality control standards of the Company were revised. Further studies were made to improve TLC (Thin-layer Chromatography) identification, content determination and other qualitative and quantitative methods. The verification on the HPLC (High Performance Liquid Chromatography) characteristics of medicinal herbs and finished products continued. So far, it has identified HPLC characteristics of over 150 concentrated TCM granules. The study is particularly important in improving the quality control of concentrated TCM granules.

(3) In order to maintain the competitiveness of concentrated TCM granules in the future, the Group formed a dedicated research team and initiated the study on unifying internal standards for concentrated TCM granules and has achieved unification for some of the key varieties in the following aspects: (1) unified place of origin and production base of medicinal herbs, achieving the unification of basic standards of raw materials; (2) unified preparation yield and specification yield, achieving the unification of key parameters in preparation standards; and (3) unified nominal equivalent weight, specification, content of the index ingredients, amount of extract and identification methods, achieving the unification of basic standards of finished products.

Finished drugs

The Group currently has 3 TCM new drugs and 5 chemical generic drugs under preclinical research and 4 TCM new drugs under clinical research. During the reporting period, the Group has been awarded 9 invention patents and 18 utility model patents and 15 design patents. It also applied for 43 invention patents, 21 utility model patents and 2 design patents.

The Group has initiated the quality consistency evaluation for some of the generic drugs. It is conducting the overall pharmaceutical research on Nifedipine Sustained-release Tablets (I) (硝苯地平緩釋片(I)), Nifedipine Sustained-release Tablets (III) (硝苯地平緩釋片(III)) and Acetaminophen Tablets (對乙酰氨基酚片).

The projects of TCM standardization for Yu Ping Feng Granules (玉屏風顆粒) and Xianling Gubao Capsule (仙靈骨葆膠囊) have been approved by the State Administration of Traditional Chinese Medicine. The projects of TCM standardization is jointly organized and implemented by NDRC and State Administration of Traditional Chinese Medicine, aiming at promoting the technical optimization of TCM industry, increasing the core competitiveness of TCM industry and practically improving the quality of TCM products.

In order to comply with the requirements on the adoption of clinical pathways in public hospitals promoted by the regulatory authorities, the Group has been gradually conducting large evidence-based clinical researches to enhance the influence of the Company in the academic world since the end of 2015. Large RCTs (Randomized Control Trials) were conducted on Yu Ping Feng Granules (玉屏風顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊) and Jingshu Granules (頸舒顆粒).

During the reporting period, clinical trials on Yu Ping Feng Granules for the treatment of COPD (chronic obstructive pulmonary disease) and RRTI (recurrent respiratory tract infection) entered the stage of data processing and follow-up visits. Currently, the initial results are encouraging. The trials on Jingshu Granules and Moisturising & Anti-Itching Capsule have been under the process of recruiting patients since March 2016 and are in steady and orderly progress. On such basis, we also initiated clinical researches on Zaoren Anshen Capsule (棗仁安神膠囊) and Fengshi Gutong Capsule (風濕骨痛膠囊). So far, the clinical researches on all key products have been initiated.

In addition, as the regulatory authorities attaches importance not only to the efficacy but also the economics of the EDL products. During the reporting period, the Group also initiated the pharmacoeconomics researches on its major EDL products, which can prove the cost effectiveness of products. As at the end of June 2016, the researches on Xianling Gubao Capsule (仙靈骨葆膠囊) and Yu Ping Feng Granules (玉屏風顆粒) have obtained initial results; the researches on Jingshu Granules (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊) and Zaoren Anshen Capsule (棗仁安神膠囊) were also in progress. All projects under progress are conducted under the cooperation with top experts in the corresponding fields, which will significantly improve the influence of the Group in the industry. It also demonstrates the Group's efforts in the academic promotion of pharmaceuticals. We will continue to focus on academic researches to improve the brand recognition of the products and support sales volume growth.

Investment Projects

Huayi Pharmaceutical

During the reporting period, Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), an indirectly wholly-owned subsidiary of the Company, completed the acquisition of 100% equity interests in Huayi Pharmaceutical and related shareholder's loan through the tender with RMB83,500,000 (equivalent to approximately HK$100,200,000) on 6 April 2016. Seven products of Huayi Pharmaceutical are listed on the latest National Drugs List for Basic Medical Insurance (2017), including 2 exclusive products, namely Weimaining Capsule (威麥寧膠囊), an anti-tumour prescription medicine and Qili Capsule (七厘膠囊), a bone-setting prescription medicine in national essential drug list.

For details of the acquisition, please refer to the announcements of the Company dated 26 February 2016 and 6 April 2016.

Shanghai Tongjitang (上海同濟堂) and Tongjitang Herbal (同濟堂中藥飲片)

During the reporting period, Feng Liao Xing Material & Slices, a wholly-owned subsidiary of the Group, completed the acquisition of 100% equity interests in Tongjitang Herbal with RMB60,900,000 (equivalent to approximately HK$70,600,000) on 14 November 2016, and completed the acquisition of 100% equity interests in Shanghai Tongjitang with RMB510,000,000 (equivalent to approximately HK$591,600,000) on 7 December 2016. The acquisition helps the Group to accelerate the planning and layout of TCM decoction pieces business, consolidate upstream resources and the coverage of its industrial chain. Tongjitang Herbal and Shanghai Tongjitang strategically operates in Southwest and East China respectively, which can provide stable supply of raw materials for manufacturing the Group's downstream products with lower costs, and facilitate the Group to plan the development of each segment simultaneously with more effective internal synergy, and better product quality.

For details of the acquisition, please refer to the announcements of the Company dated 27 September 2016 and 24 October 2016.

Guizhou Tongjitang Pharmacy Chain Co. Ltd. (貴州同濟堂藥房連鎖有限公司)

Sinopharm Group Guangdong Medi-World, an indirectly wholly-owned subsidiary of the Company, completed the acquisition of 60% equity interests in Guizhou Tongjitang Pharmacy Chain Co. Ltd. ("Tongjitang Pharmacy Chain") with RMB87,720,000 (equivalent to approximately HK$101,800,000) on 3 January 2017. Tongjitang Pharmacy Chain is principally engaged in the operation of chain pharmacies and TCM clinics in Guizhou Province. The acquisition facilitates the Group to continuously explore and promote TCM healthcare complex business, representing an effective channel for promoting the brands and products of the Group and will create synergies with the Group by sharing operating costs and distribution network. Based on cost control and profit-driven principle, the Group will steadily develop TCM healthcare complex business through self-construction and acquisition, and progressively establish network layout in major cities of the country.

For details of the acquisition, please refer to the announcement of the Company dated 29 September 2016.

Construction of headquarters

The Company has been cooperating with an independent third party to build a headquarters building, R&D center and ancillary facilities in Chancheng district, Foshan. The construction of the project started in 2015 and it is expected to be completed in 2017 and commence operation in 2018.

FINANCIAL REVIEW

The Group completed the acquisition of 87.3% equity interest of Tianjiang Pharmaceutical and began to consolidate the financial statements of Tianjiang Pharmaceutical in October 2015.

During the year under review, the Group completed the acquisition of 100% equity interest of Huayi Pharmaceutical, Tongjitang Herbal and Shanghai Tongjitang, respectively, in May 2016, November 2016 and December 2016, respectively, and began to consolidate the financial statements of the above three companies into finished drug business of the Group.

Continuing Operations

Revenue

During the year under review, the Group's revenue amounted to approximately RMB6,532,867,000, representing an increase of 76.1% from approximately RMB3,709,406,000 of last year. The growth of revenue was mainly attributable to full consolidation of the financial statements of Tianjiang Pharmaceutical and its subsidiaries and the growth of revenue of newly acquired concentrated TCM granules business after the acquisition of Tianjiang Pharmaceutical. Of which, the revenue of finished drug business was approximately RMB2,174,321,000, representing a decrease of 20.4% compared to approximately RMB2,730,514,000 of last year. It is mainly due to (1) a slight decrease in tender prices and the cancellation of tenders in some regions due to secondary price negotiation, and (2) a decrease in inventory demand from the secondary distributors impacted by the business environment. The concentrated TCM granules business contributed revenue of approximately RMB4,358,546,000, representing an increase of RMB3,379,654,000 as compared with last year.

Cost of sales and gross profit margin

During the year under review, the Group's cost of sales was approximately RMB2,745,187,000, representing an increase of 82.0% as compared to approximately RMB1,508,733,000 for last year. Gross profit for the year was approximately RMB3,787,680,000, representing an increase of 72.1% from RMB2,200,673,000 of last year. Gross profit margin was 58.0%, representing a fall of 1.3 percentage points as compared to 59.3% of last year. The decrease in gross profit margin is mainly attributable to a decrease in gross profit margin of finished drug business as compared to last year and the gross profit margin for the concentrated TCM granules business was less than that of the finished drug business for last year.

During the year under review, the cost of sales for the finished drug business was approximately RMB982,534,000, representing a decrease of 8.9% as compared with RMB1,079,016,000 of last year. Gross profit amounted to approximately RMB1,191,787,000, representing a decrease of 27.8% from RMB1,651,498,000 of last year. Gross profit margin was 54.8%, representing a fall of 5.7 percentage points as compared to 60.5% of last year. The decrease in gross profit margin is mainly attributable to a decrease in tender prices of certain products and a decrease in revenue due to adjustment of sales strategy. Affected by the changes in sales volume, production volume has experienced a decline with higher fixed unit production cost, which led to a decrease in gross profit.

During the year under review, the cost of sales of the concentrated TCM granules business was approximately RMB1,762,653,000, including the amount of approximately RMB102,526,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical, which was allocated to the cost of sales in the consolidated statements. Gross profit amounted to approximately RMB2,595,893,000 and the gross profit margin was 59.6%, representing an increase of 3.5 percentage points from 56.1% of last year.

Other income

During the year under review, the Group's other income was RMB82,363,000, representing a decrease of 35.9% compared to approximately RMB128,428,000 for last year.

Finished drug business:

	2016 **RMB'000**	2015 RMB'000	Change
Interest income	**9,690**	92,639	-89.5%
Government grants	**34,262**	31,013	10.5%
Rental income	**880**	866	1.6%
Total	**44,832**	124,518	-64.0%

Interest income decreased was due to the interest income from new share placement in 2015 was discontinued as at the end of 2015.

Concentrated TCM granules business:

	2016 RMB'000	2015 RMB'000	Change
Interest income	**4,900**	3,659	33.9%
Government grants	**32,631**	251	12,900.4%
Total	**37,531**	3,910	859.9%

Other gains and losses

During the year under review, the Group's other losses was approximately RMB8,010,000 (2015: other gains was approximately RMB12,426,000). For finished drug business, other gains increased to RMB37,657,000 from RMB13,369,000 for last year, mainly due to net exchange gain of approximately RMB13,257,000 resulting from changes in foreign exchange from Renminbi to Hong Kong Dollar during the year and gain on fair value changes on the HK$1.44 billion foreign exchange forward contracts of approximately RMB32,224,000. During the year, other losses of concentrated TCM granules business was approximately RMB45,667,000 and other losses was approximately RMB943,000 for last year.

Selling and distribution costs

During the year under review, the Group's sales and distribution costs amounted to approximately RMB1,968,432,000 (2015: RMB1,195,636,000).

Finished Drug Business:

	2016 RMB'000	2015 RMB'000	Change
Advertising, promotion and travelling expenses	**323,121**	483,529	-33.2%
Salary expenses of sales and marketing staff	**288,694**	335,095	-13.8%
Distribution costs	**16,550**	26,930	-38.5%
Other selling and distribution costs	**103,984**	115,183	-9.7%
Total	**732,349**	960,737	-23.8%

Selling and distribution costs decreased by 23.8% as compared to that of last year, which was mainly due to a decrease in revenue. During the year under review, selling and distribution costs as a percentage to the revenue of finished drugs was 33.7%, as compared to 35.2% for last year.

Concentrated TCM granules business:

	2016 RMB'000	2015 RMB'000	Change
Advertising, promotion and travelling expenses	**598,351**	137,826	334.1%
Salary expenses of sales and marketing staff	**78,439**	14,395	444.9%
Distribution costs	**53,638**	9,018	494.8%
Other selling and distribution costs	**505,655**	73,660	586.5%
Total	**1,236,083**	234,899	426.2%

The amount of approximately RMB718,000 resulted from the profit and loss effect of fair value adjustment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical was allocated to the selling and distribution costs in the consolidated statements. The selling and distribution costs of concentrated TCM granules business in the consolidated financial statements accounted for 28.4% of its revenue, representing an increase from 24.0% for last year, which were mainly due to an increase in marketing and promotion expenses in line with business development.

Research and development expenses and administrative expenses

During the year under review, the Group's research and development expenses and administrative expenses amounted to approximately RMB516,818,000 (2015: RMB384,914,000).

Finished drug business:

	2016 RMB'000	2015 RMB'000	Change
Staff salary	**74,401**	68,893	8.0%
Depreciation and amortisation	**19,177**	15,600	22.9%
Office rental cost and other expenses	**68,250**	101,335	-32.6%
Subtotal	**161,828**	185,828	-12.9%
Research and development expenses	**45,338**	79,985	-43.3%
Total	**207,166**	265,813	-22.1%

Research and development expenses and administrative expenses decreased by 22.1% as compared to that of last year, which was mainly due to a decrease in revenue and the expenses such as professional service fee related to the acquisition of Tianjiang Pharmaceutical of RMB10,849,000 for the same period of last year, such expenses were periodic expenses, while such expenses did not occur in 2016. During the period under review, the research and development expenses and administrative expenses as a percentage to the revenue of finished drug business was 9.5%, representing a decrease of 0.2 percentage point from 9.7% for last year.

Concentrated TCM granules business:

	2016 **RMB'000**	2015 RMB'000	Change
Staff salary	**77,609**	22,549	244.2%
Depreciation and amortisation	**13,573**	3,843	253.2%
Office rental cost and other expenses	**76,976**	60,370	27.5%
Subtotal	**168,158**	86,762	93.8%
Research and development expenses	**141,494**	32,339	337.5%
Total	**309,652**	119,101	160.0%

The amount of approximately RMB1,287,000, resulted from the profit and loss effect of fair value adjustment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical was allocated to the administrative expenses in the consolidated statements. The research and development expenses and administrative expenses of the concentrated TCM granules business accounted for 7.1% of its revenue, representing a decrease of 5.1 percentage points from 12.2% for last year.

Profit from operations

During the year under review, the profit from operations of the Group was RMB1,376,783,000, representing an increase by 80.9% from RMB760,977,000 for last year, while operating profit margin (defined as profit from operations divided by revenue) was 21.1%, representing an increase from 20.5% for last year. The increase in operating profit margin was mainly due to the selling and distribution costs and administrative expenses of the Group did not experience a significant increase given the effective cost control of the Group.

Regarding the finished drug business, the profit from operations was approximately RMB334,761,000, representing a decrease of 40.5% as compared to RMB562,835,000 for last year. The operating profit margin decreased from 20.6% for last year to 15.4% for the year under review. Regarding the concentrated TCM granules business, the profit from operations was approximately RMB1,042,022,000 (after deducting depreciation and amortisation of approximately RMB104,531,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical in the consolidated statements). The operating profit margin was increased to 23.9% from 20.2% for last year.

Finance costs

During the year under review, the Group's finance costs amounted to approximately RMB73,423,000 (2015: RMB70,180,000). The increase as compared to last year was mainly due to the issue of corporate bonds with nominal value of RMB2.5 billion in November 2016. As at 31 December 2016, the bank and other loans held by the Group was approximately RMB1,424,339,000 and the corporate bond was approximately RMB2,485,604,000. During the year under review, the effective interest rate of the Group was 2.34% (2015: 3.91%). The Group will continue to pay attention to the changes in market interest rates and adjust the borrowings and fund raising mechanism on a timely basis. The Group has successively repaid some of bank loans and issued corporate bonds with a rate lower than the bank loan benchmark interest rate (the effective interest rate was approximately 3.62%) to meet the financial needs of Company and reduce the cost of capital use.

Income from investment in associate

During the year under review, the Group shared income from its associate companies, Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries, Foshan Shunde Cili Biological Technology Company Limited and its subsidiaries of approximately RMB444,000, while there was an investment loss of approximately RMB1,637,000 for last year.

Earnings per share

During the year under review, basic earnings per share of continuing and discontinued operation was RMB21.73 cents, representing an increase of 28.0% as compared to RMB16.97 cents for last year. Basic earnings per share increased was due to profit attributable to equity shareholders of the Company for the year increased by 54.6% to approximately RMB966,927,000 (2015: RMB625,596,000). During the year under review, the Company repurchased and cancelled 52,242,000 ordinary shares, so that the number of issued ordinary shares was reduced to 4,431,505,000 shares. The weighted average number of issued ordinary shares for the year was approximately 4,450,435,000 shares as compared with approximately 3,686,873,000 shares for last year.

Liquidity and financial resources

As at 31 December 2016, the Group's current assets amounted to RMB8,070,408,000 (31 December 2015: RMB6,877,672,000), which included cash, cash equivalents and deposits with banks of RMB3,425,582,000 (31 December 2015: RMB2,137,886,000), among which the carrying amount pledged bank deposits amounted to approximately RMB2,226,000 (31 December 2015: RMB36,030,000). Those pledged bank deposits were mainly pledged as securities for gas facilities and others. Trade and other receivables of RMB2,716,250,000 (31 December 2015: RMB3,398,227,000). Current liabilities amounted to RMB3,506,824,000 (31 December 2015: RMB4,485,029,000). Net current assets aggregated to approximately RMB4,563,584,000 (31 December 2015: RMB2,392,643,000). The Group's current ratio was 2.3 (31 December 2015: 1.5). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to owner of the Company) increased to 34% from 22% as at 31 December 2015. Gearing ratio increased as the issue of corporate bond with nominal value of RMB2.5 billion during the year resulting in the bank and other loans and bonds payable increased to approximately RMB3,909,943,000 from approximately RMB2,450,359,000 as at 31 December 2015.

Bank and other loans and pledge of assets

As at 31 December 2016, the balance of the Group's bank and other loans was approximately RMB1,424,339,000 (31 December 2015: RMB2,450,359,000), of which RMB144,479,000 (31 December 2015: RMB462,080,000) was secured by the Group's assets with book value of approximately RMB39,028,000 (31 December 2015: RMB346,279,000) in total. Bank loans decreased was mainly due to the Group, in view of changes in market interest rates, chose to issue corporate bonds with the balance of approximately RMB2,485,604,000, a low-cost financing method, during the year. The balance of the bank and other loans includes RMB1,001,392,000 and RMB422,947,000, which are required to be paid within 1 year and 1 to 3 years respectively (31 December 2015: RMB1,600,059,000 and RMB850,300,000 respectively).

Capital source

The Group satisfies its operating capital needs mainly through operating business and external financing. During the year under review, the net cash inflow generated from the operating business of the Group was approximately RMB1,464,640,000, representing an increase of 182.4% as compared with that of approximately RMB518,701,000 in 2015, mainly due to the increase in profit from operation of the year; the net cash outflow generated from the investing activities was RMB2,500,259,000, representing a decrease of approximately RMB4,657,642,000 as compared with that of approximately RMB7,157,901,000 in 2015, mainly due to the payment of consideration for acquisition of Tianjiang Pharmaceutical in last year, the total cash outflow net of cash acquired was approximately RMB7,451,568,000; the net cash inflow generated from financing activities was approximately RMB1,127,931,000, representing a decrease of approximately RMB7,201,735,000 as compared with that of approximately RMB8,329,666,000 in 2015, mainly due to the net cash outflow generated from a decrease in bank and other loans of approximately RMB664,117,000, the cash inflow generated from issuance of corporate bonds of approximately RMB2,485,000,000 in the year, the cash inflow generated from additional placing of new shares of RMB7,199,974,000 and the net cash inflow generated from additional bank and other loans of approximately RMB1,202,178,000 in last year. The outstanding bank facilities of the Group were approximately RMB561,005,000. The Group has sufficient working capital and its financial position is healthy.

Financing capacity

As at 31 December 2016, the capital commitments which the Group has entered into but outstanding and not provided for in the financial statements were approximately RMB966,992,000 (31 December 2015: approximately RMB237,225,000). Such capital commitments was mainly used in the construction of plants, acquisition of facilities and investment payment. The Group believes that, with the available cash balances, steady cash flow from operating activities, the undrawn bank facilities already granted by the bank and the remaining amount of corporate bonds not yet issued (the registered amount of corporate bond is RMB 4.5billion which RMB 2.5billion has been issued), as well as the fact that it has been well recognized and supported by the major financial institutions, the Group will be capable of fully satisfying the liquidity needs and the above mentioned funding needs.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2016 (31 December 2015: nil).

Financial risks

The Group mainly operates in mainland China with most of the transactions originally denominated and settled in RMB, of which foreign exchange risk is considered insignificant. However, as the loan of the Company denominated in Hong Kong dollar due to the acquisition of Tianjiang Pharmaceutical last year, any exchange rate fluctuation of RMB against Hong Kong dollar will expose the Group to foreign exchange risk. During the year, the Group executed a forward foreign exchange purchasing contract amounting to approximately HK$1.44 billion to mitigate the impact of fluctuations in RMB exchange rate on repayment of the Company's borrowings in HK$. On 31 December 2016, a forward foreign exchange contract amounting to HK$1.17 billion has not yet expired. In future, the Group will continue to perform regular reviews on its net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by taking appropriate measures on a timely basis.

Employee and remuneration policies

As at 31 December 2016, the Group had a total of 9,539 (31 December 2015: 9,420) employees (including directors of the Company), of which the number of sales staff, manufacturing staff and those engaged in R&D, administration and senior management were 3,716, 3,768 and 2,055 respectively. Remuneration packages are mainly comprised of salary and discretionary bonus based on individual performance. The Group's total remuneration amount during the year under review was RMB734,939,000 (2015: RMB569,970,000).

SUBSEQUENT EVENTS

Since 31 December 2016 to the date of this report, there was no important event affecting the Group.

FINAL DIVIDEND

The Board recommended a final dividend of HK3.59 cents (approximately RMB3.19 cents) per share for the year ended 31 December 2016 (2015: Nil). The final dividend is expected to be payable on 28 June 2017 to the shareholders on the register of members of the Company on 19 June 2017.

The Directors are pleased to present the annual report together with the audited financial statements of the Group for the year ended 31 December 2016.

CHANGE OF COMPANY NAME

The name of the Company was changed from "CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED 中國中藥有限公司" to "CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED 中國中藥控股有限公司" with effect from 22 July 2016. Further details are set out in the announcement of the Company dated 26 July 2016.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2016, and an indication of likely future development in the Group's business, can be found in the "Five Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Financial Statements" sections of this report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" section of this report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 72 to 176 of this report.

An interim dividend of HK6.44 cents (approximately RMB5.54 cents) per share for the six months ended 30 June 2015 was paid on 7 October 2016 (six months ended 30 June 2015: Nil).

The Board recommended a final dividend of HK3.59 cents (approximately RMB3.19 cents) per share for the year ended 31 December 2016 (2015: Nil). The total distribution for year ended 31 December 2016 is HK10.03 cents per share (approximately RMB8.73 cents) (2015: Nil).

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB966,927,000 (2015: RMB625,596,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements.

INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

Details of movements in investment property, other property, plant and equipment and leasehold land during the year are set out in notes 19 and 20 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in notes 37 and 47 and the Consolidated Statement of Changes in Equity in the financial statements, respectively.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in note 35 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 3 to 4 of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2016 are set out in note 46 to the financial statements.

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

During the year ended 31 December 2016, the Company bought back 52,242,000 shares on the Stock Exchange for an aggregate amount (excluding expenses) of HK$188,150,160. Details of the buy-backs are for the following:

Month of buy-back	**No. of shares bought back**	**Highest price paid per share**	**Lowest price paid per share**	**Aggregate amount paid (excluding expenses)**
		HK$	HK$	HK$
March 2016	15,206,000	3.80	3.44	53,692,760
April 2016	19,728,000	3.80	3.56	72,412,680
May 2016	17,308,000	3.65	3.50	62,044,720
	52,242,000			188,150,160

All 52,242,000 shares bought back were cancelled on delivery of the share certificates during the year. The aggregate amount of HK$188,150,160 was paid out from the Company's retained profits.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

DIRECTORS

The Board comprises the following Directors during the reporting period and up to the date of this report:

Executive Directors

Mr. WU Xian	*Chairman*
Mr. YANG Bin	*Managing Director*
Mr. WANG Xiaochun	

Non-executive Directors

Mr. LIU Cunzhou	
Mr. ZHANG Jianhui	*(resigned on 18 July 2016)*
Mr. DONG Zenghe	
Mr. ZHAO Dongji	
Ms. HUANG He	*(appointed on 23 August 2016)*
Ms. TANG Hua	*(appointed on 20 October 2016)*

Independent Non-executive Directors

Mr. ZHOU Bajun
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LO Wing Yat

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and the Company considers all the independent non-executive Directors to be independent.

All the Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with Article 92 of the Company's Articles of Association, Ms. TANG Hua shall hold office only until the annual general meeting of the Company (the "AGM") and, shall then be eligible of re-election.

In accordance with Article 101 of the Company's Articles of Association, Mr. WU Xian, Mr. WANG Xiaochun, Mr. ZHOU Bajun and Mr. LO Wing Yat shall retire by rotation at the AGM and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the existing Directors and senior management as at the date of this report, including the particulars required under paragraph 12 of Appendix 16 to the Listing Rules (if and as applicable and appropriate), are set out on pages 60 to 64 of this report.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. WU Xian entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013. In 2014, Mr. WU Xian entered into an employment agreement with the Company with effect from 22 June 2014 and which shall automatically be effective thereafter until terminated by either party to the service agreement by giving a one month's prior notice. Mr. WU is subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Articles of Association.

Mr. YANG Bin entered into a service agreement with the Company for an initial term of two years commencing from 21 June 2009 which shall automatically be renewed thereafter until terminated by either party to the service agreement by giving a six months' prior notice.

Mr. WANG Xiaochun renewed into an appointment letter with the Company for a term of two years commencing from 23 October 2015.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. LIU Cunzhou and Mr. ZHAO Dongji renewed an appointment letter with the Company for a term of two years commencing from 5 February 2017.

Mr. DONG Zenghe renewed an appointment letter with the Company for a term of two years commencing from 6 March 2017.

Ms. HUANG He entered into an appointment letter with the Company for a term of two years commencing from 23 August 2016.

Ms. TANG Hua entered into an appointment letter with the Company for a term of two years commencing from 20 October 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. ZHOU Bajun and Mr. XIE Rong renewed an appointment letter with the Company for a term of two year commencing from 5 February 2017.

Mr. YU Tze Shan Hailson renewed an appointment letter with the Company for a term of two years commencing from 25 November 2015.

Mr. LO Wing Yat entered into an appointment letter with the Company for a term of two years commencing from 27 January 2017.

MANAGEMENT CONTRACTS

No contract other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year.

DIRECTORS OF SUBSIDIARIES

A list of names of the directors who held office in the Company's subsidiaries during the year and up to the date of this report is available on the Company's website at www.china-tcm.com.cn.

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration committee of the Company (the "Remuneration Committee") and the emoluments of the non-executive Director and independent non-executive Directors are recommended by the Remuneration Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2016, the fee for the eligible executive and independent non-executive Directors were fixed at HK$234,000 and HK$250,000 per annum respectively.

PERMITTED INDEMNITY PROVISION

Article 178 of the Articles of Association of the Company provides that every Director or other officer or auditors shall be indemnified out of assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. Such provisions were in force during the course of the year and remained in force as at the date of this report.

Article 179 of the Articles of Association of the Company provides that every Director and officer shall be entitled to be insured against any liability to the Company, a related company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or a related company. Every Director and officer shall be entitled to be insured against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company. The Company has arranged appropriate liability insurance to indemnify its directors and officers in respect of legal actions against the Directors. The amount of coverage is reviewed on an annual basis.

CHANGES OF DIRECTOR'S INFORMATION UNDER RULES 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company as at the date of 2016 interim report is as follows:

– Mr. ZHANG Jianhui resigned as a non-executive director with effect from 18 July 2016 due to reaching the age of retirement. Mr. ZHANG confirmed that he has no disagreement with the board and there is no matter relating to his resignation that needs to be brought to the attention of and the shareholders of the Company.

– Ms. HUANG He was appointed as a non-executive Director with effect from 23 August 2016.

– Ms. TANG Hua was appointed as a non-executive Director with effect from 20 October 2016.

– Ms. HUANG He and Ms. TANG Hua were appointed as the member of Audit Committee with effect from 20 October 2016.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2016, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
YANG Bin	Interest of controlled corporation	376,735,042 (long position) *(Note 1)*	8.50%
WANG Xiaochun	Interest of controlled corporation	376,735,042 (long position) *(Note 2)*	8.50%

Notes:

1. The 376,735,042 shares are held by Profit Channel Development Limited ("Profit Channel"), which is wholly owned by Mr. YANG Bin.
2. The 376,735,042 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2016, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2016, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Substantial Shareholders	**Capacity**	**Number of Ordinary Shares**	**Approximate Percentage of Total Interests to Issued Share Capital**
Sinopharm Hongkong	Beneficial owner	1, 614,313,642 (long position) *(Note 1)*	36.43%
CNPGC	Interest of controlled corporations	1,614,313,642 (long position) *(Note 1)*	36.43%
Profit Channel	Beneficial owner	376,735,042 (long position)	8.50%
Hanmax	Beneficial owner	376,735,042 (long position)	8.50%
GIC Private Limited	Investment Manager	100,532,000 (long position) *(Note 2)*	2.27%
	Interest of controlled corporations	213,674,000 (long position) *(Note 2)*	4.82%

Notes:

1. The 1,614,313,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by CNPGC.

2. The number of shares held by GIC Private Limited is based on the information of Corporate Substantial Shareholder Notice (Form 2) dated 25 January 2016 which is available on the website of the Stock Exchange.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2016.

CONNECTED TRANSACTIONS

Acquisition of Huayi Pharmaceutical

On 26 February 2016, Guangdong Medi-World, a wholly-owned subsidiary of the Company, has submitted an application to China Beijing Equity Exchange ("CBEX") for the Possible Acquisition of the entire equity interest in Huayi and the Shareholder's Loan from China National Traditional Chinese Medicine Corporation (the "Vendor") through the Tender.

According to the Tender Notice, the bidding floor price is RMB81,500,000 (equivalent to approximately HK$97,800,000). The Shareholder's Loan represents the amount owing by Huayi Pharmaceutical to the Vendor, which amounted to RMB49,500,000 (equivalent to approximately HK$59,400,000) as at the date of this announcement

Guangdong Medi-World was notified by CBEX that Guangdong Medi-World has been confirmed as the purchaser and Guangdong Medi-World entered into the Share Transfer Agreement with the Vendor after the Stock Exchange trading hours on 6 April 2016. The final bidding price is RMB83,500,000 (equivalent to HK$100,200,000).

The Company was owned as to approximately 36.01% by Sinopharm, which is a substantial shareholder of the Company and a direct wholly-owned subsidiary of the Vendor on the date of the announcement. Accordingly, the Vendor is a connected person of the Company and the Acquisition constituted a connected transaction of the Company under the Listing Rules.

The Directors are of the view that the products of the Huayi Pharmaceutical, in particular Qili Capsule (七厘膠囊) (which is listed on the National Essential Drug List (2012 edition) and used for curing bone injuries) and Weimaining Capsule (威麥寧膠囊) (which is listed on the National Drugs List for Basic Medical Insurance and used for curing cancer) are with high growth potential. They believe that the acquisition would enable the Group to integrate the expertise of the Huayi Pharmaceutical and enhance the Group's product offering particularly those exclusive products on the National Essential Drug List. At the same time, the Huayi Pharmaceutical would be able to take advantage of the Group's procurement capability to lower its cost of materials as well as the Group's well-established customer base, sales force and distribution network to market its products. The Directors believe that the Huayi Pharmaceutical is expected to contribute positively to the Group following acquisition.

For details of the connected transaction, please refer to the announcement of the Company dated 26 February 2016 and 6 April 2016.

Acquisition of Shanghai Tongjitang

On 27 September 2016, Feng Liao Xing Material & Slices (a wholly-owned subsidiary of the Company) entered into agreements (the "Shanghai Tongjitang Agreement") with Mr. Hu Yong and Mr. Wang Xiaochun (collectively, the "Shanghai Tongjitang Vendors") and Shanghai Tongjitang respectively.

Pursuant to the Shanghai Tongjitang Agreement, Feng Liao Xing Material & Slices conditionally agreed to acquire, and the Shanghai Tongjitang Vendors conditionally agreed to sell, the entire registered capital of Shanghai Tongjitang. On 27 September 2016, the registered capital of Shanghai Tongjitang is owned as to 50% by Mr. Hu Yong and 50% by Mr. WangXiaochun. Mr. Wang Xiaochun's total investment cost in Shanghai Tongjitang was RMB40 million (equivalent to approximately HK$46.4 million).

The consideration for the Shanghai Tongjitang Acquisition is RMB510 million (equivalent to approximately HK$591.6 million). The Shanghai Tongjitang Vendors guaranteed that the audited net profit after tax (excluding nonrecurring gains and losses) for each of the two years ending 31 December 2016 and 2017 shall be not less than RMB43 million (equivalent to approximately HK$49.9 million) (the "Guaranteed Profits"). In the event that the audited net profit after tax (excluding non-recurring gains and losses) for any of the two years is less than the Guaranteed Profits, the consideration will be adjusted to RMB500 million (equivalent to approximately HK$580 million).

On 27 September 2016, Hanmax Investment Limited (a company wholly owned by Mr. Wang Xiaochun) holds 376,735,042 shares, representing approximately 8.5% of the issued share capital of the Company. Since Mr. Wang Xiaochun being one of the Shanghai Tongjitang Vendors, is an executive Director. He is a connected person and therefore acquisition of Shanghai Tongjitang also constitutes a connected transaction under the Listing Rules.

Shanghai Tongjitang is principally engaged in the manufacture and sale of TCM decoction pieces in Shanghai, the PRC. It also provides TCM dispensation and decoction services. Its products are mainly sold to hospitals. The acquisitions will allow the Group to expand its product mix, consolidate upstream resources and extend its coverage in the industry value chain. Shanghai Tongjitang strategically operates in East China, which can provide stable supply of raw materials for manufacturing the Group's downstream products with lower costs, and facilitate the Group to plan the development of each segment simultaneously with more effective internal synergy, and better product quality.

The Shanghai Tongjitang Agreement were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 11 November 2016. This acquisition transaction was completed on 7 December 2017. For details of this connected transaction, please refer to the announcement and the circular of the Company dated 27 September 2016 and 25 October 2016 respectively.

CONTINUING CONNECTED TRANSACTIONS

New Master Purchase Agreement and New Master Supply Agreement with CNPGC

On 11 December 2013, the Company entered into a Master Purchase Agreement and a Master Supply Agreement with CNPGC for the three financial years ended 31 December 2014, 2015 and 2016.

Pursuant to the Master Purchase Agreement, the Group agreed to purchase and CNPGC and its subsidiaries ("CNPGC Group") conditionally agreed to sell the materials during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the Master Purchase Agreement, the value of the purchase transactions does not exceed the annual cap of RMB35 million, RMB39 million and RMB45 million for each of the three financial years ended 31 December 2014, 2015 and 2016 respectively.

Pursuant to the Master Supply Agreement, the Group agreed to supply and CNPGC Group conditionally agreed to purchase products during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the Master Supply Agreement, the value of the supply transactions does not exceed the annual cap of RMB500 million, RMB610 million and RMB740 million for each of the three financial years ended 31 December 2014, 2015 and 2016 respectively.

CNPGC is beneficially interested in 1,140,179,044 shares and 1,614,313,642 shares as at 11 December 2013 and 31 December 2016, representing approximately 45.00% and 36.43% respectively, of the total issued shares of the Company and is the controlling shareholder and a connected person of the Company under the Listing Rules. The sales and purchases of the products and the materials contemplated under the Master Supply Agreement and the Master Purchase Agreement respectively constituted continuing connected transactions of the Company under Listing Rules respectively.

For details of these continuing connected transactions, please refer to the announcement and the circular of the Company dated 12 December 2013 and 14 December 2013 respectively. The New Master Purchase Agreement, the New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 3 January 2014.

Based on the background of CNPGC and the previous business relationship with CNPGC Group, CNPGC Group is a reliable business partner of the Group who has a strong supply capacity as well as a well-established distribution network. The Master Purchase Agreement enables the Group to source stable and quality materials from CNPGC Group while the Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of CNPGC Group in the PRC. The role of CNPGC Group will be enhanced as a business partner of the Group to distribute the products to hospitals and retail pharmacies.

During the period from 1 January 2016 to 31 December 2016, the actual purchases of materials by the Group from CNPGC Group amounted to RMB8,793,000 (including value added tax) which was below the cap amount of RMB 45,000,000 for the year ended 31 December 2016.

During the period from 1 January 2016 to 31 December 2016, the actual sales of products by the Group to CNPGC Group amounted to RMB300,781,000 (including value added tax) which was below the cap amount of RMB 740,000,000 for the year ended 31 December 2016.

As the Master Purchase Agreement and the Master Supply Agreement and the respective annual caps would expire on 31 December 2016, on 18 November 2016, the Company entered into the agreements to govern the terms of the Purchases and the Sales and to set the annual caps for the three financial years ending 31 December 2017, 2018 and 2019.

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase the Materials supplied by the CNPGC Group during the period from 1 January 2017 to 31 December 2019. The value of the purchases shall not exceed the annual caps of RMB45 million (equivalent to approximately HK$50.9 million) for each of the three financial years ending 31 December 2017, 2018 and 2019.

Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the Products to the CNPGC Group during the period from 1 January 2017 to 31 December 2019.

Pursuant to the New Master Supply Agreement, the value of the sales shall not exceed the annual caps of RMB800 million (equivalent to approximately HK$904 million), RMB900 million (equivalent to approximately HK$1,017 million) and RMB1,000 million (equivalent to approximately HK$1,130 million) for each of the three financial years ending 31 December 2017, 2018 and 2019 respectively.

CNPGC is beneficially interested in 1,614,313,642 shares as at 18 November 2016, representing approximately 36.43%, of the total issued shares of the Company and is the controlling shareholder and a connected person of the Company under the Listing Rules. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively constitute continuing connected transactions of the Company under the Listing Rules.

The agreements were entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules as well as to capture the opportunities that may be brought about by the CNPGC Group to the Group. CNPGC is a state-owned enterprise in the PRC and is one of the largest state-owned pharmaceutical and healthcare groups administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. Its principal activities are pharmaceutical distribution, pharmaceutical scientific research and manufacture of medical and biotech products. Members of the CNPGC Group have been the suppliers of the materials and customers of the products of the Group since 1998. The CNPGC Group is a reliable business partner of the Group which has a strong supply capacity as well as a well-established distribution network. The New Master Purchase Agreement enables the Group to source stable and quality Materials from the CNPGC Group, while the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. As CNPGC is one of the largest pharmaceutical companies in the PRC and has a long-term relationship with the Group, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the Products to hospitals and retail pharmacies in the PRC.

For details of these renewed continuing connected transactions, please refer to the announcement and the circular of the Company dated 20 November 2016 and 19 December 2016 respectively. The New Master Purchase Agreement, the New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 6 January 2017.

Research and Development Agreements with SIPI and SPERC

On 23 December 2013 and 5 March 2014, Guangdong Medi-World (currently known as "Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd.", "Guangdong Medi-World"), an indirect wholly-owned subsidiary of the Company, entered into research and development agreements (the "R&D Agreements") with SIPI and Shanghai Pharmaceutical Engineering Research Centre Co., Ltd. (上海現代藥物製劑工程研究中心有限公司 or "SPERC") respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements amounts to approximately RMB136,270,000.

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry ("CSIPI"), which is a subsidiary of CNPGC. CNPGC is the ultimate holding company of Sinopharm Hongkong which is in turn the controlling shareholder beneficially interested in 1,139,879,044 shares, 1,121,023,044 shares and 1,614,313,642 shares as at 23 December 2013, 5 March 2014 and 31 December 2015 respectively, representing approximately 44.99%, 44.24% and 36.00% respectively, of the total issued shares of the Company respectively. Accordingly, each of SIPI and SPERC is a connected person of the Company and the transactions contemplated under the R&D Agreements constitute continuing connected transaction of the Company under the Listing Rules.

SIPI is principally engaged in the research of organic synthesized pharmaceuticals, microbiological and biochemical pharmaceuticals, biotechnological drugs, traditional Chinese medicines and novel preparations, pharmaceutical preparations, and new drug delivery systems.

SPERC is principally engaged in the development, consultancy, service and transfer of applied technology on traditional Chinese medicine, chemical drug, healthcare product and medicinal materials, design, analysis and sale of pharmaceutical equipment, research of technical test on medicinal material and packaging material.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the PRC. With the expertise and technical know-how of SIPI and SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development.

For details of the R&D Agreements, please refer to the announcements of the Company dated 23 December 2013 and 5 March 2014.

During the period from 1 January 2016 to 31 December 2016, there is no actual research and development fee payable by the Group to SIPI and SPERC. The sum of such fees payable by the Group to SIPI and SPERC during 2014 to 2016 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

The independent non-executive directors have reviewed the above continuing connected transactions of the Group and have confirmed that the transactions have been entered into:

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

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from Independent third parties; and

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

Review by the Auditors

For the propose to Rule 14A.56 of the Listing Rules, the auditors of the Company has provided a letter to the Board, confirmed that nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with relevant agreements governing the transactions; and

(iv) have exceeded the annual cap.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DEBENTURS ISSUED

For the year ended 31 December 2016, no debenture is issued by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No contracts of significance to which the Company or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company or his connected entity had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 5.4% and 18.6 % of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 3.9% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and five largest suppliers accounted for around 7.0% and 24.3% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 0.4% of the Group's total purchases during the year.

Save as disclosed above, at no time during the year, none of the Directors, their close associates, or any shareholders of the Company (which to the best knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 13 and 38 to the financial statements.

CHANGE OF AUDITOR

KPMG retired as auditor of the Company with effect from the conclusion of the AGM of 2015 and did not seek re-appointment. The Company put forward an ordinary resolution for shareholders' approval to propose the appointment of Deloitte Touche Tohmatsu as the auditor of the Company in place of the retiring auditor, KPMG, to hold office until the conclusion of the next annual general meeting of the Company, and the remuneration of which will be determined by the Board.

After the consideration and approval in the AGM of 2015, the Company appointed Deloitte Touche Tohmatsu as the auditor of the Company. For the details, please refer to the announcement and circular of the Company dated 19 May 2016 and 27 May 2016 respectively published on the website of the Stock Exchange and the website of the Company.

Deloitte Touche Tohmatsu shall retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming AGM. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming AGM.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2016 have been reviewed by the audit committee ("Audit Committee"). Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 44 to 59 of this report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 44 to 59 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

WU Xian
Chairman

Hong Kong, 21 March 2017

CORPORATE GOVERNANCE REPORT

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the corporate governance practices and complied with all of the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2016.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

There is no relationships between members of the Board, in terms of financial, business, family or other significant relationship and the Board comprises the following Directors during the year and up to the date of this report:

Executive Directors:

Mr. WU Xian	*Chairman*
Mr. YANG Bin	*Managing Director*
Mr. WANG Xiaochun	

Non-executive Directors:

Mr. LIU Cunzhou	
Mr. ZHANG Jianhui	*(resigned on 18 July 2016)*
Mr. DONG Zenghe	
Mr. ZHAO Dongji	
Ms. HUANG He	*(appointed on 23 August 2016)*
Ms. TANG Hua	*(appointed on 20 October 2016)*

Independent Non-executive Directors:

Mr. ZHOU Bajun
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LO Wing Yat

As at the date of this report, the Board comprises twelve Directors, including three executive Directors, five non-executive Directors and four independent non-executive Directors. The existing Directors have a mix of core competence and experiences in areas such as pharmaceutical, finance, accounting, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and the relevant committee works. The Company has complied with the requirements of at least three independent non-executive directors in accordance with the requirements of Rule 3.10 (1) and (2) of the Listing Rules and one of the independent non-executive Directors, Mr. Xie Rong, also has the appropriate professional accounting qualification and financial management expertise. In addition, the Company has complied with Rule 3.10A of the Listing Rules, that is, the independent non-executive directors appointed must account for at least one third of the number of members of the Board. The independent non-executive directors have issued an annual confirmation letter on their independence in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are in compliance with the Independent Guidelines set out in Rule 3.13 of the Listing Rules and are independent under the terms of the Guidelines.

The Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company when necessary. New Directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate Directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board schedules four meetings a year at approximately quarterly intervals. Ad-hoc meetings are convened when necessary. The Company Secretary assists the Chairman in setting the agenda of the Board meeting and Directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying board papers are sent to the Directors within reasonable time before the meetings. Draft minutes of Board meetings are circulated to the Directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are open for inspection by Directors.

The Board is charged with providing effective and responsible leaderships for the Company. The matters subject to the Board's review and approval include:

– issue and buy back of shares of the Company;

– setting the Group's overall objectives and strategies;

– approval of annual budgets and business plans;

– evaluating and monitoring operating and financial performance;

– reviewing and monitoring internal control and risk management;

– approval of announcements of financial results;

– declaration and recommendation of the payment of dividend;

– appointment of new directors;

– appointment and dismissal of senior management of the Company.

The Board delegates the authority and responsibility for implementation of the day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board Committees.

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 14 and 15 to the financial statements.

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

Remuneration Band (RMB'000)	**Number of persons**
0 to 500	2
501 to 1,000	2

For the year ended 31 December 2016, the Company had convened four Board meetings, the 2016 annual general meeting (the "2016 AGM") and one extraordinary general meeting (collectively terms as the "General Meetings"). The following table shows the details of Directors' attendance

	Attendance/Number of Meetings		
Directors	**Board Meetings**	**2016 AGM**	**Extra–ordinary General Meetings**
Executive Directors:			
Mr. WU Xian *(Chairman)*	4/4	1/1	1/1
Mr. YANG Bin *(Managing Director)*	4/4	0/1	0/1
Mr. WANG Xiaochun	4/4	1/1	0/1
Non-executive Directors:			
Mr. LIU Cunzhou	4/4	0/1	0/1
Mr. ZHANG Jianhui *(resigned on 18 July 2016)*	0/1	0/1	N/A
Mr. DONG Zenghe	3/4	0/1	0/1
Mr. ZHAO Dongji	4/4	1/1	1/1
Ms. HUANG He *(appointed on 23 August 2016)*	1/1	N/A	0/1
Ms. TANG Hua *(appointed on 20 October 2016)*	N/A	N/A	0/1
Independent Non-executive Directors:			
Mr. ZHOU Bajun	4/4	1/1	0/1
Mr. XIE Rong	4/4	1/1	0/1
Mr. YU Tze Shan Hailson	4/4	1/1	1/1
Mr. LO Wing Yat	2/4	0/1	1/1

Chairman and Managing Director

As at the date of this report, Mr. WU Xian, an executive Director, is the Chairman of the Board, and Mr. YANG Bin, an executive Director, is the Managing Director of the Company.

The Chairman is responsible for the leadership of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner.

Managing Director is responsible for implementing the important policies and development strategies approved by the Board and he has direct management responsibility of the daily operations of the Group.

Appointment and Re-election of Directors

The nomination committee (the "Nomination Committee") is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors of the Company. All the Directors are appointed for a specific term and subject to retirement by rotation once every three years and re-election in accordance with the Articles of Association of the Company.

According to the Articles of Association of the Company, newly appointed Directors are required to offer themselves for re-election at the next following general meeting (in the case of filling a causal vacancy) or at the next following AGM (in the case of an addition to the Board) following their appointment.

Continuous Professional Development of Directors

All Directors receive comprehensive, formal and tailored induction on appointment, so as to ensure understanding of the business and operations of the Group and Directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are continually updated on developments in the statutory and regulatory regime, and the business and market changes to facilitate the discharge of their responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development for Directors will be arranged as necessary.

The training attended by the Directors during the reporting period is summarized as follows:

Directors	Training Types
Executive Directors:	
Mr. WU Xian *(Chairman)*	A, B
Mr. YANG Bin	A, B
Mr. WANG Xiaochun	A, B
Non-executive Directors:	
Mr. LIU Cunzhou	A, B
Mr. ZHANG Jianhui *(resigned on 18 July 2016)*	N/A
Mr. DONG Zenghe	A, B
Mr. ZHAO Dongji	A, B
Ms. HUANG He *(appointed on 23 August 2016)*	A, B
Ms. TANG Hua *(appointed on 20 October 2016)*	A, B
Independent Non-executive Directors:	
Mr. ZHOU Bajun	A, B
Mr. XIE Rong	A, B
Mr. YU Tze Shan Hailson	A, B
Mr. LO Wing Yat	A, B

A: Attending trainings on topics of Corporate Governance, Regulatory Development and Risk Management and Internal Controls
B: Reading materials

Nomination Committee

The Board established the Nomination Committee in 2012. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually, identify individuals suitably qualified to become members of the Board, assess the independence of independent non-executive Directors, develop and formulate the relevant procedures for nomination and appointment of Directors. The written terms of reference which describe the authority and duty of the Nomination Committee are posted on the websites of the Company and the Stock Exchange.

As at the date of this report, the Nomination Committee comprises of two executive Directors and three independent non-executive Directors.

During the year, three Nomination Committee meetings were held and the individual attendance of each member is set out below:

Members of the Nomination Committee	Attendance/Number of Meetings
Executive Directors:	
Mr. WU Xian *(Chairman)*	3/3
Mr. YANG Bin	3/3
Independent Non-executive Directors:	
Mr. ZHOU Bajun	3/3
Mr. XIE Rong	3/3
Mr. LO Wing Yat	1/3

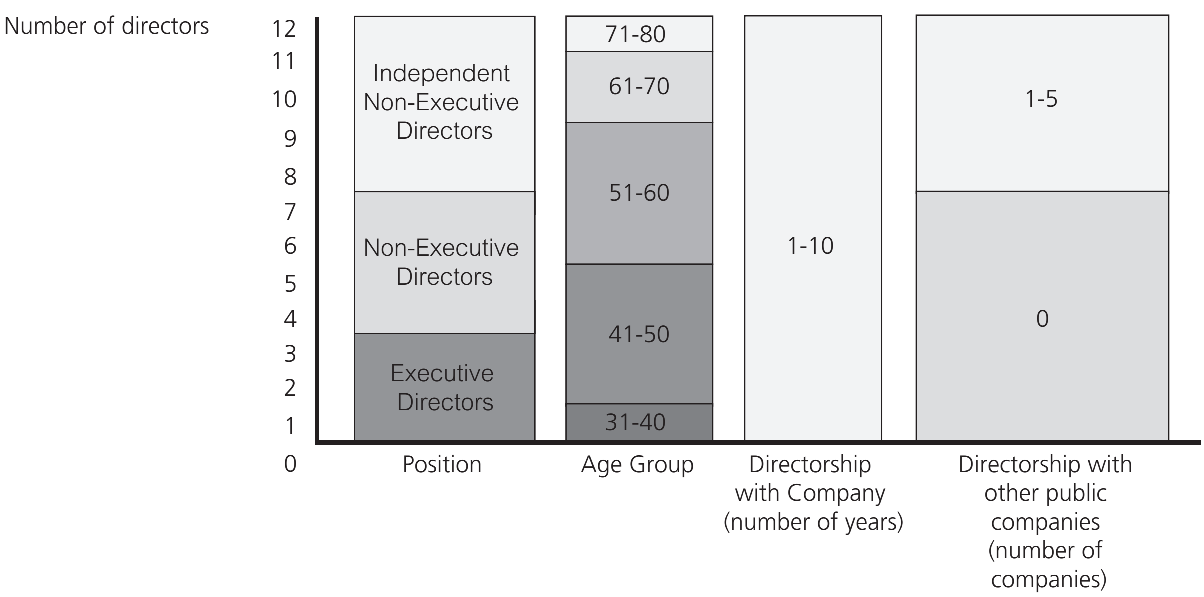
Board Diversity Policy

The Board adopted the board diversity policy in August 2013. The policy sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to age, educational background, professional experience, skills and knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board developed measurable objectives to implement the board diversity policy, where selection of candidates will be based on a range of diversity perspectives as set out above, and the ultimate decision will be based on merit and contribution that the selected candidate will bring to the Board.

An analysis of the Composition of the current Board based on a range of diversity perspectives is set out below:



Audit Committee

As at the date of this report, the Audit Committee comprises of the two non-executive Directors and three independent non-executive Directors. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Board approved the adoption of the Audit Committee's revised terms of reference, with effect from 1 April 2012 (the "Old Version"). The Old Version has been revised, with effect form 1 January 2016 and written terms of reference are available on the websites of the Company and the Stock Exchange.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system, internal control procedures and reviewing risk management system; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

During the year, two Audit Committee meetings were held and the individual attendance of each member is set out below:

Members of the Audit Committee	**Attendance/Number of Meetings**
Non-executive Directors:	
Ms. HUANG He *(appointed on 23 August 2016)*	N/A
Mr. TANG Hua *(appointed on 20 October 2016)*	N/A
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman)*	3/3
Mr. ZHOU Bajun	3/3
Mr. LO Wing Yat	0/3

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2015 and the interim results and the interim report of the Group for the year 2016, as well as the effectiveness of the internal control and risk management system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises of one non-executive Director and three independent non-executive Directors.

The main roles and functions of the Remuneration Committee are as follows:

(a) making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management;

(d) considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(e) reviewing and approving the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(f) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(g) making recommendations to the Board on the remuneration of non-executive Directors.

The Company has adopted the model whereby the Remuneration Committee is delegated the responsibility to determine the remuneration packages of individual executive Directors and senior management.

The Board approved the adoption of the Remuneration Committee's revised terms of reference ("Old Version"), with effect from 1 April 2012. In 2015, the Remuneration Committee also amended the Old Version of terms of reference and the Board adopted it. The revised written terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

In determining the emolument payable to the Directors, the Remuneration Committee takes into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The principal objectives of the Company's remuneration policy include:

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

– providing basic remuneration to the employees that is competitive to the industry and general market condition;

– awarding employees in recognition of good individual and corporate performance; and

– encouraging future employee contributions to achieve overall corporate goals.

During the year, two Remuneration Committee meetings were held and the individual attendance of each member is set out below:

Members of the Remuneration Committee	Attendance/Number of Meetings
Non-Executive Directors:	
Mr. LIU Cunzhou	2/2
Independent Non-executive Directors:	
Mr. ZHOU Bajun *(Chairman)*	2/2
Mr. XIE Rong	2/2
Mr. LO Wing Yat	1/2

During the year, the Remuneration Committee determined the remuneration packages of all executive Directors and senior management and made recommendation to the Board of the remuneration of the non-executive Directors and independent non-executive Directors.

Strategic Committee

The Board set up a strategic committee ("Strategic Committee") in January 2014. In 2016, the Strategic Committee comprises of the six Directors including Mr. WU Xian, Mr. YANG Bin, Mr. WANG Xiaochun, Mr. LIU Cunzhou, Mr. ZHOU Bajun and Mr. YU Tze Shan Hailson. Mr. LIU Cunzhou was appointed as the chairman.

The Strategic Committee is a specific working body set up by the Board. Its main responsibilities are to conduct researches and submit proposals to the Board in respect of medium-to-long term development strategies and material investment decisions of the Group. The Board considers that the proposals submitted by Strategic Committee will strengthen the core competitiveness of the Group, determine its development plans as well as improve its procedures of making investment decisions, so as to enhance the effectiveness and quality of material investment decisions and perfect its corporate governance structure.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

For the year ended 31 December 2016, the Group has been complying with applicable laws and regulations applicable to the Group, including "Pharmaceutical Administration Law of the People's Republic of China" and its implementation regulations, "Regulations of the People's Republic of China on Traditional Chinese Medicine", "Regulations on Protection of Traditional Chinese Medicines", "Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers", "Trademark Law of the People's Republic of China", "Patent Law of the People's Republic of China" and its rules for implementation, "Environmental Protection Law of the People's Republic of China" and "Labor Contract Law of the People's Republic of China". The Group attaches great importance to product safety and conducts multiple quality inspection in the production process to ensure the compliance with the applicable quality regulations promulgated by the relevant authorities. As of this year, the company's production subsidiaries have passed the relevant drug production quality audit and obtained the GMP certification.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group attaches high importance to environmental management and has developed a comprehensive environmental management and monitoring system to strictly perform in accordance with relevant laws and regulations governing the amount and standard of emissions. Apart from monitoring its own emission data, the Group has also entrusted third parties to monitor its sewage emission on a quarterly basis and the emission of exhaust gases from boilers every six months. Having established the hazardous waste management system, the transfer of hazardous waste generated from production is recorded and the waste is recycled or disposed of regularly by local qualified professional hazardous waste recycling companies. The storage area of the hazardous waste is monitored, and relevant information filed by the local environmental protection department.

The Group promotes the concept of green production to achieve the goals of saving energy, reducing consumption and alleviating pollution. Striving to improve the environment surrounding the plant, the Group has put much efforts into the improvement of facilities over the years by replacing oil-burning boilers with gas-burning boilers and upgrading the sewage treatment facilities. In addition, through corporate culture education, the Group carries out the resources conservation campaigns and promotes the importance of green living to all staff, encouraging them to join the green living community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has commenced preparation of the Company's environmental, social and governance report in accordance with the "Environmental, Social and Governance Reporting Guide" issued by the Stock Exchange, which is planned to released in or before July 2017.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group values the development and construction for talents and keeps building the platform for the mutual growth of all staff together with the Group through various means. The Group strictly complies with the requirements of Law of the People's Republic of China on Employment Contracts and the Labour Legislation of Hong Kong Special Administrative Region, and abides by the open, fair and just principles while providing employment opportunities, remuneration, leave, benefits, etc. without discriminatory acts towards differences on gender, religion, culture, educational background, etc. All of the labour standards and recruitment procedures are conducted in strict compliance with the relevant labour laws of the PRC to avoid child labour or forced labour.

Moreover, the Group understands the importance of training and development for the employees. Starting from the appointment of a new staff member, induction course on corporate culture, business operation, regulations and so on is provided. Staff members of different grading are further provided with different training on marketing, production, human resources, financial management, etc. to ensure that staff members can solve their problems encountered in work and their comprehensive capabilities can be enhanced.

The Group strives to take care of the interests of customers and maintain product safety. All production lines are GMP certified as required by laws and regulations. Regarding the research and development of new drugs, the Group would perform all research and development procedures in compliance with the regulations and requirements of regulatory authorities to ensure the passing of clinical tests and the successful registration of new drugs. Currently more than 10 new drugs are at different research and development stages and the Group possesses production approvals for more than 500 drugs.

In addition, the Group maintained good and stable working relationship with the major suppliers of raw materials.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry, all of the Directors who held their office during the reporting year have confirmed that they had complied with the required standard set out in the Model Code throughout the year. In addition, the Board has adopted the provisions of the Model Code as written guidelines for relevant employees in respect of their dealings in securities of the Company. Such relevant employees who may possess or have access to inside information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all Directors so as to enable them to make an informed assessment of the financial and other information at board meetings for approval.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2016, the Directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The statement about the auditors' reporting responsibilities is set out in the Independent Auditor's Report on pages 65 to 71 of this report.

AUDITORS' REMUNERATION

The fee charged by the Group's external auditors for statutory audit and non-audit service are set out below:

Services rendered	Fee paid/payable in 2016 RMB'000
Audit service	2,680
Non-audit services *(Note)*	5,501
Total	8,181

Note: Non-audit services include review of the interim financial report of the Group, due diligence work on the potential target of acquisition, tax services and special audit service during the year.

COMPANY SECRETARY

On 20 October 2016, Mr. HUEN Po Wah resigned as the Company Secretary of the Company due to his retirement age. On the same day, the Company appointed a representative of an external service provider, Ms. LEUNG Suet Lun, as the Company Secretary. The main contact person of the Company is Mr. SITU Min, the Acting Chief Financial Officer of the Company. Ms. LEUNG confirmed that she had taken not less than 15 hours' relevant professional training complied with code provision 3.29 of the Code during the reporting period.

INTERNAL CONTROLS

The Board has an overall responsibility for the system of internal controls of the Group and reviewing its effectiveness. The Board is of the view that such system is effective and adequate. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual review of the effectiveness of system of internal controls which covered relevant financial, operational, compliance control and risk management function within an established framework. The annual review also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulation. Nevertheless, the Board will endeavour its best effort to enhance and improve the internal controls in all aspects of the Group, and will regularly monitor the issues raised by the Audit Committee to ensure appropriate remedial measures have been implemented.

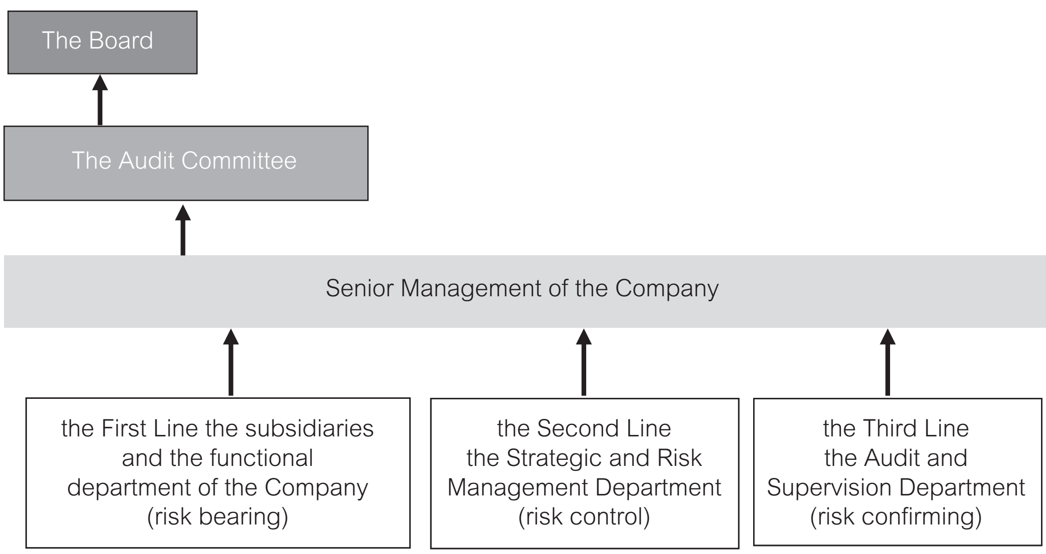
RISK MANAGEMENT

The Board is responsible for the risk management system of the Company and its subsidiaries, reviewing and approving significant policies and reviewing the effectiveness of the risk management system. The Company considers that such systems are effective and adequate. These systems are designed to relieve the Group's inherent risks in the business to an acceptable level, rather than to eliminate all risks. As such, these systems provide reasonable, but not absolute guarantee against the material misrepresentations or financial losses in financial information.

Currently, the Company has established a clear organization and management structure, including appropriate division of responsibilities and authorization reporting mechanism, and has implemented audited policies and procedures for all staff in all business areas that are significant or have a certain degree of risk. The company also has a sound risk reporting system, which the management of the company monthly prepare the financial statements, and make a comparison and analysis with the budget information and the main performance indicators so as to tackle the existing issues and risks as soon as possible. For medium and long term risks, the Company's business has a long-term strategic planning and annual financial budget, subject to the Board's approval. In the course of the development process, the management of the business concerned will assess and report on the risks that are expected to face. At the same time, the Company has an internal audit department with sufficient personnel and resources to be responsible for the internal audit of the business units within the Company, including a detailed review of the internal control systems, operational benefits and compliance with the regulations, to ensure the company's units have a sound internal control system. In addition, the Company will regularly invite external auditors to carry out inspection of the Company's existing risk control system and timely adjust and improve the Company's risk management and control system.

The Strategic and Risk Management Department, as a coordinating unit between the Group's subsidiaries and functional departments and the Audit Committee, reports regularly to the Audit Committee on the Group's risk control for the previous reporting period and provides annual work reports for review.

At present, the company's risk management framework takes the following "three lines" model as a guide.



Based on this risk management structure, the Company separated the Audit and Supervision Department from the original department during the reporting period to ensure the independence of the internal control department. The establishment of the government and legal affairs department and the project management and construction center shall establish and improve the Company's operations management and institutional security and support such security system. In regards to the establishment of the system and implementation, the Company completed or newly built a total of 34 systems throughout the year, and the key points were recorded in booklets which were then sent to the subsidiaries and functional departments for education and implementation.

Focusing on the risk factors such as product quality risk, industrial policy risk, human resource risk, investment integration risk, safety and environmental risk, financial risk, strategic execution risk, governance risk and market risk, the Company implemented the appropriate risk management strategy in accordance with the development of a major risk management system, and achieved good results in 2016. During the reporting period, the Company also invited external auditors to conduct external audits for some of the subsidiaries of the Group and to rectify the relevant issues through management discussions after obtaining the audit report.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of announcements and circulars on the websites of the Stock Exchange and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the interim and full financial year via the websites of the Stock Exchange and the Company;

(c) interim reports, annual reports and circulars that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings;

(e) general meetings; and

(f) meetings with investors and analysts.

The Company also maintains a website at www.china-tcm.com.cn as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may also contact the Company's Investor Relationship for any inquiries with the contact details set out below:

Email:	ir@china-tcm.com.cn
Telephone:	(852) 2854 3393
Fax:	(852) 2544 1269
Address:	Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the provision D.3.1 of the Code. The Board review the compliance of the Code and disclosure in this Corporate Governance Report from time to time. The Board also reviewed the training and continuous professional development of Directors and senior management.

ARTICLES OF ASSOCIATION

During the reporting year, there is no change in the Company's articles of association.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Pursuant to the Listing Rules, any resolution put forward at shareholders' meetings will be voted by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on a show of hands and the poll results will be posted on the websites of the Stock Exchange at "www.hkexnews.hk" and the Company at "www.china-tcm.com.cn" after the relevant shareholders' meetings.

Convening of General Meeting on Request

In accordance with Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests must state the general nature of the business to be dealt with at the meeting, and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); and must be authenticated by the person or persons making it. In accordance with Section 567 of the Companies Ordinance, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the Companies Ordinance and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

Putting Forward Proposals at Annual General Meeting

To put forward a resolution at an annual general meeting, shareholders are requested to follow the requirements and procedures set out in Sections 615 and 616 of the Companies Ordinance.

Section 615 of the Companies Ordinance provides that the Company must give notice of a resolution if it has received requests that it do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than: (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the Companies Ordinance provides that the Company that is required under Section 615 of the Companies Ordinance to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the annual general meeting (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

Pursuant to article 105 of the articles of association of the Company, no person, other than a retiring director, shall, unless recommended by the Directors for election, be eligible for election to the office of director at any general meeting, unless notice in writing of the intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. Detailed procedures for shareholders to propose a person for election as a Director can be found on the Company's website.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 56, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has over 29 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He has been the director, general manager and deputy secretary to the Party Committee of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since August 2010.

Mr. YANG Bin, aged 49, was appointed to the Board on 6 February 2009. Mr. YANG was the Managing Director of the Company since 11 February 2009. Mr. YANG graduated from 中央民族大學 (Minzu University of China) majoring in Biochemistry. Mr. YANG engaged in research and development of new products in 佛山市醫藥總公司 (Foshan City Medical Corporation), and served as the Deputy General Manager of 佛山市醫藥銷售有限公司 (Foshan City Medical Sale Co., Ltd.), director of 佛山市生物化學製藥廠 (Foshan City Biochemical Pharmaceutical Factory) and General Manager of 佛山市華衛醫藥有限公司 (Foshan City Huawei Medical Co., Ltd.). Mr. YANG has over 21 years of experience in registration of medicines and drugs, research and development and sale of medical products. He had successfully launched a series of new products with good response from the market and enjoys high reputation in the sales market. Mr. YANG is currently the Chairman and a director of Guangdong Medi-World and a director of 山東魯亞製藥有限公司 (Shandong Luya Pharmaceutical Co., Ltd.).

Mr. WANG Xiaochun, aged 49, was appointed to the Board on 23 October 2013. Mr. WANG was the chairman of the board of directors and the chief executive officer of Tongjitang Chinese Medicines Company, which was listed on the New York Stock Exchange in 2007 and subsequently privatised in 2011. He has been a director of Tongjitang Pharmaceutical (Hong Kong) Limited (a subsidiary of the Tongjitang Chinese Medicines Company) since 2008, a director of Unisources Enterprises Limited (a subsidiary of Tongjitang Chinese Medicines Company) since 2005 and the chairman of the board of directors and the president of Guizhou Tongjitang Pharmaceutical Co., Ltd. (a subsidiary of Tongjitang Chinese Medicines Company) since 1997. Mr. WANG received his bachelor's degree in law from the Southwest University of Political Science and Law in China in 1989.

NON-EXECUTIVE DIRECTORS

Mr. LIU Cunzhou, aged 72, was appointed to the Board on 5 February 2013. Mr. LIU completed a master's course in management engineering from Harbin University of Science and Technology in March 1997. Mr. LIU has over 36 years of management experience in pharmaceutical equipment, pharmaceutical and healthcare products industry. Mr. LIU is currently the chief expert of CNPGC. Mr. LIU was the head of equipment department and engineer of Harbin Pharmaceutical Factory from January 1976 to March 1983, and the deputy plant manager for production and plant manager of Harbin Pharmaceutical Factory from April 1984 to April 1989. From April 1989 to July 1997, Mr. LIU was the deputy general manager of Harbin Pharmaceutical Group Co., Ltd. and plant manager of Harbin Pharmaceutical Factory. He was the chairman and general manager of Harbin Pharmaceutical Group Co., Ltd. from August 1997 to October 2004. Mr. LIU was also a director of CNPGC from December 2005 to October 2011, and had served as the chairman from August 2007 to May 2009. Mr. LIU is also a director of Jihua Group Corporation Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., both of which are listed on the Shanghai Stock Exchange ("SSE").

Mr. DONG Zenghe, aged 51, was appointed to the Board on 6 March 2013. Mr. DONG graduated from East China Institute of Chemical Technology (華東化工學院) (currently known as East China University of Science and Technology (華東理工大學)) with a bachelor's degree in engineering in 1989 and obtained a master's degree of business administration in 2011 from the School of Economics and Management of Tsinghua University, majoring in Senior Business Administration. Mr. DONG is also a senior engineer. Mr. DONG has over 25 years of experience in the pharmaceutical production and management industry. Mr. DONG had been the chief of 東北製藥總廠 ("Northeast General Pharmaceutical Factory"), the chairman of the board of 東北製藥集團股份有限公司 ("Northeast Pharmaceutical Group Co., Ltd.") (a company listed on the Shenzhen Stock Exchange, stock code: 000597), as well as the chairman of the board and general manager of 東北製藥有限責任公司 (Northeast Pharmaceutical Group Co., Ltd.) from February 2005 to January 2007. Mr. DONG had also been the deputy general engineer of CNPGC from January 2007 to September 2007 and has been the deputy general manager of CNPGC since September 2007 as well as the chairman of the board of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since June 2012.

Mr. ZHAO Dongji, aged 49, was appointed to the Board on 5 February 2013. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 26 years of related working experience, including over 15 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the manager of Investment Management Department of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since 2011. Mr. ZHAO is the deputy general manager of China National Traditional Chinese Medicine Corporation since November 2014.

Ms. HUANG He, aged 38, was appointed to the Board on 23 August 2016. Ms. HUANG graduated from Renmin University of China with a bachelor degree in International Accounting in July 2001 and a master degree in Accounting in July 2004. Ms. HUANG is an auditor and a senior human resources officer. She was the accountant of the finance department, the vice manager of the operation and audit department and the manager of the strategic planning department of Traditional & Herbal Medicine Company from July 2004 to December 2007; the manager of the audit department, the employee supervisor of the board of supervisors and the manager of the human resources department of China National Corporation of Traditional and Herbal Medicine from January 2008 to December 2013; the director of human resources and the manager of the human resources department of China National Traditional Chinese Medicine Corporation from January 2014 to January 2015. Currently, Ms. HUANG is the director of operations and the manager of the human resources department of China National Traditional Chinese Medicine Corporation.

Ms. TANG Hua, aged 49, was appointed to the Board on 20 October 2016. Ms. TANG graduated from Beijing Union University with a major in accounting and an EMBA of Renmin University of China in 1990 and 2007 respectively. Ms. TANG graduated from the school of business in Renmin University of China with a master degree in Accounting. She is a senior accountant and a Chinese certified public accountant. Ms. TANG was the manager of finance department of Beijing GRINM Semiconductor Materials Co., Ltd, the vice director of finance department of China National Pharmaceutical (Group) Company, the vice director of finance department of China National Medicines Corporation Ltd., the manager of finance department of Reed Sinopharm Exhibitions Co. Ltd. and the financial controller of China National Pharmaceutical Industry Corporation, one after another, from July 1990 to June 2011. Ms. TANG is currently the financial controller and the manager of finance department of China National Traditional Chinese Medicine Corporation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHOU Bajun, aged 68, was appointed to the Board on 5 February 2013. Mr. ZHOU obtained a doctorate degree in economics from East China Normal University in October 1988. Mr. ZHOU has over 29 years of working experience, including over 12 years working experiences in China's securities market. Mr. ZHOU worked in Sun Hung Kai Financial Group as head of China Business and Director of China Studies from November 1990 to November 1998. Mr. ZHOU worked as deputy general manager of the China Business Department of Hong Kong Construction (Hong Kong) Limited from March 1999 to February 2000, and has been a director of China Everbright Research Limited since March 2000 to June 2014. Since February 2002 to present, he has been senior research fellow of China Everbright Holdings Company Limited. Mr. ZHOU was a member of the Commission on Strategic Development of the Hong Kong Special Administrative Region from November 2005 to June 2012. He was a visiting professor of School of Business, Hong Kong Baptist University from October 2007 to August 2009. He has been a standing commissioner of the Hong Kong and Macau Research Center of Shanghai Academy of Social Science since March 2007. Mr. ZHOU has served as an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since August 2009 to September 2014.

Mr. XIE Rong, aged 65, was appointed to the Board on 5 February 2013. Mr. XIE has over 45 years of working experience. He obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002, respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the SSE) since April 2003 and was its independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the SSE), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the SSE), China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the SSE), Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the SSE) and Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) from May 2003 to May 2009, from June 2003 to May 2010, from February 2007 to October 2012, from April 2008 to April 2014 and from August 2007 to September 2014 respectively. Mr. XIE has been an independent non-executive director of each of Shanghai Baosight Software Co. Ltd. (a company listed on the SSE), China Everbright Bank Company Limited (a company listed on the SSE) and Shenwan Hongyuan Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since April 2010, January 2013 and January 2015, respectively. Mr. XIE was the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012 and is currently a professor of the Shanghai National Accounting Institute, a member of the Master of Accounting Professional Education Guidance Committee of the State Department Degree Committee.

Mr. YU Tze Shan Hailson, aged 60, was appointed to the Board on 25 November 2013. Upon completing the Electrical Engineering Degree in 1979, Mr. YU worked as an assistant engineer in Ampex Ferrotec Limited (安培泛達有限公司). After three years, he became the manager of equipment maintenance and testing laboratory and subsequently managed the computer engineering and system engineering team for product and system design, product development plan and the establishment of CAD center. In 1987, Mr. YU joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited (中國國際信託投資(香港集團)有限公司) as a general manager of engineering research and development department. During such period, he improved the business of subsidiaries engaged in technology sector and monitored the venture capital operation in respect of the high-technology business of the U.S. company. He also made contribution to the successful listing of two subsidiaries in the U.S. and the asset trading of several subsidiaries and later became the consultant for oil development and LPG terminal project. In 1998, Mr. YU was a deputy managing director of Versitech Limited (港大科橋有限公司), a technology transfer and commercial company of The University of Hong Kong which mainly commercializes and transfers achievements in scientific research to the business sectors. Additional, Mr. YU has been an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since September 2014.

Mr. YU possesses bachelor's and master's degree in Electrical Engineering and a master of arts degree in Arbitration and Dispute Resolution. He completed the Postgraduate Diploma in Investment Management and Graduate Certificates in Hong Kong Laws and Chinese Medicine. He is a fellow of Hong Kong Institution of Engineers, Engineering Council in United Kingdom, Hong Kong Institute of Arbitrators and the Institute of Arbitrators of the United Kingdom.

Mr. LO Wing Yat, aged 58, was appointed to the Board on 27 January 2015. Mr. LO was an independent non-executive director of the Company from February 2009 to February 2013. Mr. LO is an executive director of FDG Electric Vehicles Limited (Stock Code: 729) and has been an executive director of FDG Kinetic Limited (formerly known as CIAM Group Limited (Stock Code: 378) from April 2008 to March 2016, both shares are listed on the Stock Exchange. He is also a director and the Chief Executive Officer of both CITIC International Assets Management Limited and CITIC International Financial Holdings Limited. Mr. LO graduated from the University of Hong Kong with a bachelor's degree in Laws. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. He served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and a partner of Linklaters. During his legal career, Mr. LO was specialized in banking project financing primarily in the PRC.

SENIOR MANAGEMENT

Mr. ZHANG Qingsheng, aged 56, was appointed as a vice president of the Company in July 2013, and the party secretary of the Company in October 2013 respectively. Mr. ZHANG has over 30 years of working experience, and he currently takes charge of the party committee, human resources and assist the Managing Director on investing activities management. Mr. ZHANG has served as several positions including vice president, director, chairman of the labor union and secretary of the board of directors of China National Corp. of Traditional & Herbal Medicines (currently known as China National Traditional Chinese Medicine Corporation) from 2005 to 2013.

Mr. HUANG Zhangxin, aged 48, was appointed as a vice president of the Company in November 2013, in charge of work relating to the production and R&D of the products. Mr. HUANG has engaged in management of drug research and development, manufacturing and sales business for over 20 years. He served as director of Research and Development, assistant to general manager and deputy general manager of Winteam Pharmaceutical Group Limited; deputy general manager of Guangdong Medi-World Pharmaceutical Co., Ltd., and deputy general manager of Shunde Nanfang Bio-Pharmaceutical Co., Ltd. (順德南方生物製藥有限公司). Mr. HUANG obtained the qualification of pharmaceutical engineer, and was awarded as Foshan City Advanced Innovation Character third prize and Shunde Technology Progress second prize.

Mr. XU Qian, aged 54, was appointed as a vice president of the Company in January 2013. Mr. XU was in charge of the Traditional Chinese Medicine Healthcare Service Department. He has served several positions including deputy general manager and general manager in Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. (國藥集團同濟堂(貴州)製藥有限公司); deputy director of Guiyang Productivity Promotion Center, deputy general manager of Guizhou Science and Technology Venture Capital Co., Ltd. (貴州省科技風險投資有限公司) , chief accountant of Jianxin Branch of China Zhenhua Science& Technology Co., Ltd. (振華科技股份有限公司建新分公司). Mr. XU obtained a master's degree in Business Administration from Northwestern Polytechnical University. Mr. Xu resigned in December 2016.

Mr. SITU Min, aged 47, was appointed as the Director of Investment of the Company in October 2013 and has served as acting Chief Financial Officer of the Company since April 2016. Mr. SITU previously served in the Board of Wing Shan International Limited and Winteam Pharmaceutical Group Limited from September 2001 to February 2013. He is a fellow member of the Association of Chartered Certified Accountants and is also a member of Chinese Institute of Certified Public Accountants. Mr. SITU has extensive experience in financial management, and corporate finance and acquisitions.

Deloitte. 德勤

To the Members of
China Traditional Chinese Medicine Holdings Co. Limited
(Formerly Known as China Traditional Chinese Medicine Co. Limited)
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 72 to 176, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 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 year. 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.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters

Adjustments during the measurement period to the provisional values of other intangible assets arising from business combination during the year ended 31 December 2015

We identified the adjustments during the measurement period to the provisional amounts of other intangible assets arising from business combination during the year ended 31 December 2015 as a key audit matter due to significant management judgements exercised and assumptions used by the management in assessing the valuation methodologies adopted and valuation inputs used, and in determining useful lives of other intangible assets identified.

As disclosed in notes 4, 21 and 39(a) to the consolidated financial statements, during the current year the Group updated the identification and determination of fair value of the other intangible assets arose from the acquisition of the Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang Group") during the year ended 31 December 2015 and recognised other intangible assets amounted to RMB5,827,260,000, including product protection rights and trademark with indefinite useful lives of RMB2,166,163,000 and RMB1,594,548,000, respectively, and the customer relationship with finite useful life of RMB2,066,549,000. In determination of fair value of the other intangible assets, the valuation methodologies adopted included "Relief from Royalty Method" for product protection rights and trademark and "Multi Period Excess Earning Method" for customer relationship. The key valuation inputs included discount rates, royalty rates, growth rates, budgeted sales and gross profit margin as estimated by the management. In determination of useful lives of other intangible assets including protect protection rights and trademark that have indefinite useful lives and the useful life of customer relationship, the management takes into consideration the regulatory environment, historical customers' information and prevailing industry conditions and practice.

How our audit addressed the key audit matters

Our procedures in relation to evaluating the appropriateness of adjustments during the measurement period in the current year to the provisional values of other intangible assets arising from business combination during the year ended 31 December 2015 included:

- Understanding from the management what are the new information about facts and circumstances that existed at the acquisition date and assessing their impacts;
- Assessing the appropriateness of the other intangible assets as identified by the management, including protection production rights, trademark and customer relationship that are arose from the business combination;
- Assessing the competency, capability and objectivity of the independent professional valuer appointed by the Group;
- Assessing the appropriateness of the valuation methodologies and key valuation inputs used by the independent professional valuer, including the "Relief from Royalty Method" for product protection rights and trademark and the "Multi-Period Excess Earnings Method" for customer relationship and the discount rates, royalty rates, growth rates, budgeted sales and gross profit margin as estimated by the management;
- Involving our valuation expert to evaluate the appropriateness of the valuation process, including the valuation methodologies adopted and key valuation inputs including the discount rates and royalty rates; and
- Assessing the reasonableness of the key assumptions used by the management in determining useful lives of other intangible assets including product protection rights and trademark that have indefinite useful lives and the useful life of customer relationship against the regulatory environment, historical customers' information and prevailing industry condition and practice.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of goodwill and other intangible assets allocated to cash generating units ("CGUs") of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical and Jingfang as defined in notes 4 and 6 to the consolidated financial statements	
We identified the impairment assessment of goodwill and other intangible assets allocated to the cash generating units ("CGUs") including Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical and Jingfang as a key audit matter due to significant judgements exercised and assumptions used by the management in assessing the impairment assessment. As disclosed in notes 6 and 22 to the consolidated financial statements, in determining whether goodwill and other intangible assets are impaired required an estimation of the recoverable amounts (i.e. the value in use) of the CGUs to which goodwill and other intangible assets have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the corresponding CGUs, with key assumptions including the growth rates, budgeted sales and gross profit margins, and suitable discount rates in order to calculate the present values. The carrying amount of goodwill and other intangible assets allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical and Jingfang are in aggregate of RMB3,181,592,000 and RMB3,997,462,000, respectively, at 31 December 2016. During the year ended 31 December 2016, management determines that there are no impairments identified on those goodwill and other intangible assets.	Our procedures in relation to evaluating the appropriateness of impairment assessment of goodwill and other intangible assets allocated to the CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical and Jingfang included: • Understanding how the management performed the impairment assessment; • Evaluating the appropriateness of the value in use calculations prepared by the management; • Assessing the reasonableness of the key assumptions used by the management in determining the value in use of the CGUs including discount rates, growth rates, budgeted sales and gross profit margin; • Evaluating the historical accuracy of the cash flow forecasts by comparing the historical cash flow forecasts with the actual performance of the CGUs of Dezhong, Tongjitang Pharmaceutical and Jingtang; and • Evaluating the potential impact on the recoverable amounts of the CGUs on the reasonably possible changes of discount rates and growth rates assessed by the management.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Valuation of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the significant judgments involved by management on the assessment of the recoverability of trade receivables. As disclosed in note 6 to the consolidated financial statements, in determining whether an allowance for doubtful debts is required, the Group takes into consideration of the credit history of the customers, including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables. The carrying amount of trade receivables of the Group is RMB1,758,510,000 (net of allowance for doubtful debts of RMB141,325,000) at 31 December 2016.	Our procedures in relation to evaluating the appropriateness of the assessment of the recoverability of trade receivables included: • Understanding the Group's credit risk assessment and impairment assessment process; • Testing, on a sample basis, the accuracy of the aging analysis of trade receivables to the relevant documents; • Assessing the reasonableness of the recoverability of trade receivables and the allowance for doubtful debts with reference to the credit history of the customers including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables; and • Evaluating the historical accuracy of the management estimates on the allowance of doubtful debts by comparing the historical allowance made to the actual settlement and actual loss incurred, and testing, on a sample basis, the details of the settlement during the year and the subsequent settlements to the settlement details.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion to those statements on 21 March 2016.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Lau King Pak.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000 (Restated)
Continuing operations			
Revenue	7	**6,532,867**	3,709,406
Cost of sales		**(2,745,187)**	(1,508,733)
Gross profit		**3,787,680**	2,200,673
Other income	8	**82,363**	128,428
Other gains and losses	9	**(8,010)**	12,426
Selling and distribution expenses		**(1,968,432)**	(1,195,636)
Administrative expenses		**(329,986)**	(272,590)
Research and development expenses		**(186,832)**	(112,324)
Finance costs	10	**(73,423)**	(70,180)
Share of results of associates	23	**444**	(1,637)
Profit before tax	13	**1,303,804**	689,160
Income tax expense	11	**(217,264)**	(119,106)
Profit for the year from continuing operations		**1,086,540**	570,054
Discontinued operation			
Profit for the year from discontinued operation (net of tax)	12	**–**	73,995
Profit for the year		**1,086,540**	644,049
Other comprehensive income (expense) for the year			
Item that will not be reclassified to profit or loss:			
– Exchange differences arising on translation of functional currency to presentation currency		**674,584**	566,601
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**(779,189)**	(510,270)
– Cash flow hedge:			
– Effective portion of changes in fair value of hedging instruments recognised during the year		**–**	(122,887)
– Amount transferred to initial carrying amount of hedged item		**–**	122,887
Other comprehensive (expense) income for the year, net of income tax		**(104,605)**	56,331
Total comprehensive income for the year		**981,935**	700,380

	NOTE	**2016** **RMB'000**	2015 RMB'000 (Restated)
Profit for the year attributable to owners of the Company			
– from continuing operations		**966,927**	545,993
– from discontinued operation		**–**	79,603
Profit for the year attributable to owners of the Company		**966,927**	625,596
Profit (loss) for the year attributable to non-controlling interests			
– from continuing operations		**119,613**	24,061
– from discontinued operation		**–**	(5,608)
Profit for the year attributable to non-controlling interests		**119,613**	18,453
		1,086,540	644,049
Total comprehensive income attributable to:			
Owners of the Company		**862,322**	681,927
Non-controlling interests		**119,613**	18,453
		981,935	700,380
EARNINGS PER SHARE	*17*		
From continuing and discontinued operations			
Basic and diluted (RMB cents)		**21.73**	16.97
From continuing operations			
Basic and diluted (RMB cents)		**21.73**	14.81

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*19*	**2,019,036**	1,669,254
Prepaid lease payments	*20*	**334,244**	302,562
Investment properties	*19*	**2,376**	2,513
Goodwill	*18*	**3,456,353**	3,341,045
Other intangible assets	*21*	**6,763,921**	6,680,449
Interests in associates	*23*	**88,784**	88,136
Deposits and prepayments	*24*	**161,946**	135,678
Deferred tax assets	*34*	**139,716**	111,367
		12,966,376	12,331,004
CURRENT ASSETS			
Inventories	*27*	**1,894,169**	1,235,861
Trade and other receivables	*25*	**2,716,250**	3,398,227
Prepaid lease payments	*20*	**10,122**	5,104
Held for trading investments	*28*	**591**	594
Derivative financial instruments	*29*	**23,694**	–
Other financial assets	*30*	**–**	100,000
Pledged bank deposits	*31*	**2,226**	36,030
Fixed deposits	*31*	**1,050,000**	–
Bank balances and cash	*31*	**2,373,356**	2,101,856
		8,070,408	6,877,672
CURRENT LIABILITIES			
Trade and other payables	*32*	**2,303,735**	2,676,614
Deferred government grants	*33*	**–**	59,776
Bank borrowings	*35*	**1,001,392**	1,600,059
Tax liabilities		**201,697**	148,580
		3,506,824	4,485,029
NET CURRENT ASSETS		**4,563,584**	2,392,643
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,529,960**	14,723,647

	NOTES	2016 RMB'000	2015 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Deferred government grants	33	**142,630**	64,389
Deferred tax liabilities	34	**1,722,917**	1,668,745
Unsecured notes	36	**2,485,604**	–
Bank borrowings	35	**422,947**	850,300
		4,774,098	2,583,434
NET ASSETS		**12,755,862**	12,140,213
CAPITAL AND RESERVES			
Share capital	37	**9,809,935**	9,809,935
Reserves		**1,778,392**	1,323,437
Equity attributable to owners of the Company		**11,588,327**	11,133,372
Non-controlling interests		**1,167,535**	1,006,841
TOTAL EQUITY		**12,755,862**	12,140,213

The consolidated financial statements on pages 72 to 176 were approved and authorised for issue by the Board of Directors on 21 March 2017 and are signed on its behalf by:

WU Xian
Executive Director

WANG Xiaochun
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity shareholders of the Company								
	Share capital (note 37) RMB'000	Translation reserve RMB'000	Statutory surplus reserve (note (a)) RMB'000	Cashflow hedging reserve (note 39(a)) RMB'000	Other reserve (note (b)) RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015	2,542,246	(116,909)	157,946	–	(53,039)	653,512	3,183,756	73,366	3,257,122
Profit for the year (restated)	–	–	–	–	–	625,596	625,596	18,453	644,049
Other comprehensive income (expense)									
– Exchange differences arising on translation of functional currency to presentation currency	–	566,601	–	–	–	–	566,601	–	566,601
– Exchange differences arising on translation of foreign operations	–	(510,270)	–	–	–	–	(510,270)	–	(510,270)
– Cash flow hedge: Effective portion of changes in fair value of hedging instruments recognised during the year	–	–	–	(122,887)	–	–	(122,887)	–	(122,887)
– Cash flow hedge: Amount transferred to initial carrying amount of hedged item	–	–	–	122,887	–	–	122,887	–	122,887
Subtotal of other comprehensive income	–	56,331	–	–	–	–	56,331	–	56,331
Total comprehensive income for the year (restated)	–	56,331	–	–	–	625,596	681,927	18,453	700,380
New shares issued during the year (note 37)	7,267,689	–	–	–	–	–	7,267,689	–	7,267,689
Acquisition of subsidiaries (restated) (note 39(a))	–	–	–	–	–	–	–	968,727	968,727
Disposal of a subsidiary (note 12)	–	–	–	–	–	–	–	(47,554)	(47,554)
Dividend declared to non-controlling interests by a subsidiary	–	–	–	–	–	–	–	(7,621)	(7,621)
Capital injection from a non-controlling equity holder	–	–	–	–	–	–	–	1,470	1,470
Transfer to statutory surplus reserve	–	–	32,224	–	–	(32,224)	–	–	–
At 31 December 2015 (restated)	9,809,935	(60,578)	190,170	–	(53,039)	1,246,884	11,133,372	1,006,841	12,140,213
Profit for the year	–	–	–	–	–	966,927	966,927	119,613	1,086,540
Other comprehensive income (expense)									
– Exchange differences arising on translation of functional currency to presentation currency	–	674,584	–	–	–	–	674,584	–	674,584
– Exchange differences arising on translation of foreign operations	–	(779,189)	–	–	–	–	(779,189)	–	(779,189)
Subtotal of other comprehensive expense	–	(104,605)	–	-	–	–	(104,605)	–	(104,605)
Total comprehensive (expense) income for the year	–	(104,605)	–	–	–	966,927	862,322	119,613	981,935
Dividend paid to non-controlling interests by a subsidiary	–	–	–	–	–	–	–	(117)	(117)
Dividends paid (note 16)	–	–	–	–	–	(245,148)	(245,148)	–	(245,148)
Acquisition of a subsidiary (note 39(b))	–	–	–	–	–	–	–	41,198	41,198
Shares repurchased during the year (note 37)	–	–	–	–	–	(162,219)	(162,219)	–	(162,219)
Transfer to statutory surplus reserve	–	–	10,083	–	–	(10,083)	–	–	–
At 31 December 2016	9,809,935	(165,183)	200,253	–	(53,039)	1,796,361	11,588,327	1,167,535	12,755,862

Notes:

(a) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by its board of directors annually. The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation.

(b) Other reserve represents premium paid for acquisition of non-controlling interests in prior years.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000 (Restated)
Operating activities			
Profit before tax from			
– Continuing operations		**1,303,804**	689,160
– Discontinued operation		**–**	73,951
Adjustments for:			
Depreciation and amortisation		**336,760**	161,683
Amortisation of deferred government grants	33	**(2,356)**	(4,589)
Impairment losses recognised in respect of			
– trade receivables	25	**78,368**	56,039
– other receivables		**1,811**	6,155
Write down of inventories		**16,008**	–
Finance costs		**73,423**	71,593
Interest income		**(14,590)**	(96,401)
Loss on disposal of property, plant and equipment	9	**1,528**	650
Gain on disposal of a subsidiary	12	**–**	(85,439)
Fair value changes on held for trading investments	9	**3**	68
Fair value changes on foreign currency forward contracts	9	**(23,694)**	(9,842)
Gain on disposal of other financial assets		**–**	(566)
Unrealised exchange gain		**(54,987)**	(7,433)
Share of results of associates		**(444)**	1,637
Operating cash flows before movements in working capital		**1,715,634**	856,666
Increase in inventories		**(600,092)**	(56,214)
Decrease (increase) in trade and other receivables		**155,463**	(635,229)
Decrease in pledged bank deposit		**33,804**	–
Increase in trade and other payables		**364,161**	502,126
Cash generated from operations		**1,668,970**	667,349
PRC Enterprise Income Tax paid		**(204,330)**	(148,648)
Net cash from operating activities		**1,464,640**	518,701

	NOTES	2016 RMB'000	2015 RMB'000
Investing activities			
Cash consideration paid for the acquisition of subsidiaries, net of cash acquired		**(1,328,209)**	(7,451,568)
Placement of fixed deposits		**(1,050,000)**	(35,725)
Cash paid to acquire other financial assets		**(300,000)**	–
Purchase of property, plant and equipment and payment for construction in progress		**(195,267)**	(225,783)
Deposit paid for the acquisition of a subsidiary	*25*	**(26,317)**	–
Purchase of prepaid lease payments	*20*	**(20,263)**	(11,907)
Purchase of other intangible assets	*21*	**(7,607)**	–
Capital contribution to an associate		**(204)**	–
Proceeds on disposal of other financial assets		**400,000**	–
Interest received		**14,590**	89,217
Proceeds from disposal of a subsidiary, net of cash disposed	*12*	**10,618**	110,390
Proceeds from disposal of property, plant and equipment		**2,400**	989
Purchase of available-for-sale financial assets		**–**	(500,000)
Proceeds from disposal of available-for-sale financial assets		**–**	800,979
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	55,665
Proceeds from disposal of foreign currency forward contracts		**–**	9,842
Net cash used in investing activities		**(2,500,259)**	(7,157,901)
Financing activities			
Repayment of bank borrowings		**(1,758,074)**	(2,184,330)
Dividend distribution	*16*	**(245,148)**	–
Payment for repurchase shares	*37*	**(162,219)**	–
Interest paid		**(59,450)**	(58,269)
Dividends paid to non-controlling interests of a subsidiary		**(117)**	–
Proceeds from issue of unsecured notes		**2,485,000**	–
New bank borrowings raised		**1,093,957**	3,386,508
Proceeds from issue of shares	*37*	**–**	7,199,974
Other borrowing costs paid		**–**	(14,217)
Increase in restricted bank deposits		**(226,018)**	–
Net cash from financing activities		**1,127,931**	8,329,666
Net increase in cash and cash equivalents		**92,312**	1,690,466
Cash and cash equivalents at beginning of the year		**2,101,856**	439,416
Effect of foreign exchange rate changes		**(46,830)**	(28,026)
Cash and cash equivalents at end of the year, represented by bank balances and cash	*31*	**2,147,338**	2,101,856

1. GENERAL

China Traditional Chinese Medicine Holdings Co. Limited (the "Company") is a listed company incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. In the opinion of directors of the Company, the Company's ultimate controlling party is China National Pharmaceutical Group Corporation ("CNPGC"), a company established in the People's Republic of China (the "PRC") which is a Chinese state-owned enterprise. The address of the registered office and principal place of business of the Company is Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong. Pursuant to a special resolution in the annual general meeting held on 28 June 2016 which approved by the shareholders of the Company, the name of the Company has been changed from China Traditional Chinese Medicine Co. Limited to China Traditional Chinese Medicine Holdings Co. Limited with effect from 22 July 2016.

The principal activities of the Company and its subsidiaries ("the Group") are research and development, production and sale of Chinese medicine and pharmaceutical products in the PRC.

2. CHANGE IN FUNCTIONAL CURRENCY

The functional currency of the Company for the prior year was Hong Kong dollar ("HK$"). As a result of a substantial increase in the Company's RMB revenue stream and debt level during the current year, the directors of Company considered that the functional currency of the Company has been changed to RMB. The presentation currency of the consolidated financial statements is RMB.

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates.

The change in functional currency of the Company was applied prospectively from date of change in accordance with HKAS 21 "The effects of changes in foreign exchange rates". The Company translated all items into RMB using the exchange rate on that date.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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 HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[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[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]

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

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after a date to be determined.

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

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

HKFRS 15 "Revenue from contracts with customers"

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

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 15 "Revenue from contracts with customers" (continued)

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

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

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

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

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

HKFRS 16 "Leases"

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

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

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 16 "Leases" (continued)

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB27,780,000 as disclosed in note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

The directors of the Company do not anticipate that the application of the other new and amendments to HKFRSs will have a material impact on the Group's consolidated financial statements.

4. ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2015

Pursuant to HKFRS 3 "Business Combinations", if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. As further disclosed in note 39, the Group acquired 87.3% of the equity interest in Jiangyin Tianjiang Group in October 2015. The Group recognised in its consolidated financial statements for the year ended 31 December 2015 provisional amounts of purchase considerations, fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current year (i.e. within the measurement period), the Group retrospectively adjusted the provisional amounts of Jiangyin Tianjiang Group recognised at the acquisition date and recognised additional assets including trademark and product protection rights to reflect new information obtained about facts and circumstances that existed as of the acquisition date which have affected the measurement of the amounts recognised as of that date. The Group retrospectively adjusted the 2015 comparative information on the consolidated statement of financial position as at 31 December 2015 as follows:

	As previously reported RMB'000	Adjustments RMB'000	Restated RMB'000
Goodwill	5,389,508	(2,048,463)	3,341,045
Other intangible assets	3,638,341	3,042,108	6,680,449
Deferred tax assets	125,546	(14,179)	111,367
Trade and other payables	(2,660,470)	(16,144)	(2,676,614)
Deferred government grants (current)	(81,880)	22,104	(59,776)
Deferred government grants (non-current)	(148,663)	84,274	(64,389)
Deferred tax liabilities	(901,497)	(767,248)	(1,668,745)
		302,452	
Equity attributable to owners of the Company	11,129,468	3,904	11,133,372
Non-controlling interests	708,293	298,548	1,006,841
		302,452	

Further details of the identifiable asset acquired and the liabilities assumed in related to the acquisition of Jiangyin Tianjiang Group are set out in note 39(a) to the consolidated financial statements.

The adjustment to provisional values for business combination in 2015 made in the comparative figures and the reclassifications as disclosed in note 48 had no impact to the Group's consolidated statement of financial position as at 1 January 2015 and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014, accordingly, the third consolidated statement of financial position is not presented.

5. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

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

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair 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 "Income 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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

- 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.

When 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 made 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 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, with the corresponding gain or loss being recognised in profit or loss.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that are 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.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) 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 CGUs).

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

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

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

Revenue recognition

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

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

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

Service income is recognised when services are provided.

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

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

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

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

Leasehold land and building

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Borrowing costs

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

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

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

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

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

Current and deferred taxes are recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Intangible assets

Internally-generated intangible assets-research and development expenditure

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

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

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, fixed deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

For all other financial assets, objective evidence of impairment could include:

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

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

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

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bank borrowings and unsecured notes are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve.

Amounts previously recognised in other comprehensive income and accumulated in equity (cash flow hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 5, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

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

Impairment assessment of goodwill and other intangible assets allocated to CGUs of Jiangyin Tianjiang Group, Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd ("Dezhong"), Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical") and Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. ("Jingfang")

In determining whether goodwill and other intangible assets are impaired required an estimation of the recoverable amounts (i.e. the value in use) of the CGUs to which goodwill and other intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires management to estimate future cash flows expected to arise from the corresponding CGUs, with key assumptions including the growth rates, budgeted sales and gross profit margin, and suitable discount rates in order to calculate the present values. Where the actual future cash flows are less than expected, change in facts and circumstances which results in a downward revision of future cash flows, a material impairment loss may arise.

At 31 December 2016, the carrying amount of goodwill and other intangible assets allocated to Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical and Jingfang are in aggregate RMB3,181,592,000 (31 December 2015: RMB3,216,592,000) and RMB3,997,462,000 (31 December 2015: RMB3,997,462,000) respectively. Details of the impairment testing are disclosed in note 22.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Valuation of trade receivables

The Group estimates allowance for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are made on trade receivables whenever there is any objective evidence that the balances may not be recoverable. In determining whether an allowance for doubtful debts is required, the Group takes into consideration of the credit history of the customers, including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the period in which such estimate has been changed. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, further allowance for doubtful debts is required. At 31 December 2016, the carrying amount of trade receivables are RMB1,758,510,000 (net of allowance for doubtful debts of RMB141,325,000) (31 December 2015: RMB2,091,451,000 (net of allowance for doubtful debts of RMB74,979,000)) as disclosed in note 25.

Depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual value and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned. Change in these estimations may have a material impact on the results of the Group. At 31 December 2016, the carrying amount of property, plant and equipment is RMB2,019,036,000 (31 December 2015: RMB1,669,254,000) as disclosed in note 19.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Amortisation of other intangible assets with finite useful lives

Other intangible assets with finite useful lives are amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group determines the estimated useful lives of other intangible assets on initial recognition in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful lives are determined taking into the factors including the regulatory environment, historical customers' information and prevailing industry condition and practice of other intangible assets. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates. At 31 December 2016, the carrying amount of other intangible assets with finite useful lives is RMB2,640,944,000 (31 December 2015: RMB2,667,875,000) as disclosed in note 21.

Assessment of the indefinite useful lives of the product protection rights arising from the acquisition of Jiangyin Tianjiang Group

Management estimates the useful lives of the product protection rights arising from the acquisition of Jiangyin Tianjiang Group based on the expected lifespan of those product protection rights. The product protection rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely taking into account the stable track record of industry of Concentrated Traditional Chinese Medicines ("TCM granules") and the high barrier to market entry. In addition, the directors of the Company are of the opinion that the Group could renew the product protection rights continuously at minimal cost and therefore there is no foreseeable limit to the period over which the product protection rights are expected to generate net cash inflows to the Group.

The useful lives of the product protection rights could change significantly as a result of regulatory, commercial and technological environment. When the actual useful lives of product protection rights due to the change of regulatory, commercial and technological environment are different from their estimated useful lives, such difference will impact the amortisation charges and the amounts of assets written down for future periods. The carrying amount of the product protection rights with infinite useful lives is RMB2,166,163,000 at 31 December 2016 (31 December 2015: RMB2,166,163,000). Details of impairment testing of the product protection rights with indefinite useful lives are disclosed in note 22.

Impairment of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. The management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow moving items. Although the Group carries periodic review on the net realisable value of inventories, the actual realisable value of inventories is not known until the sale was concluded. At 31 December 2016, the carrying amount of inventories are RMB1,894,169,000 (31 December 2015: RMB1,235,861,000) as disclosed in note 27.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Recognition of deferred tax assets

As at 31 December 2016, deferred tax assets of RMB27,156,000 (31 December 2015: nil) have been recognised in the consolidated statement of financial position. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place. Besides, no deferred tax assets has been recognised in respect of certain deductible tax losses of RMB10,605,000 due to the unpredictability of future profits streams, details of which are set out in note 34. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted and recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which such a situation take place.

7. REVENUE AND SEGMENT INFORMATION

Revenue

Continuing operations

The principal activities of the Group are manufacture and sale of pharmaceutical products in the PRC. Revenue represents the sales value of goods sold less returns, discounts and sales tax and is analysed as follows:

	2016 **RMB'000**	2015 RMB'000
Sale of pharmaceutical products		
– Finished drugs	**2,174,321**	2,730,514
– TCM granules	**4,358,546**	978,892
	6,532,867	3,709,406

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenues (2015: Nil).

Segment reporting

The Group's operating and reporting segments have been identified on the basis of internal management reports that are regularly reviewed by the Executive Directors, being the chief operating decision maker ("CODM") of the Group, in order to allocate resources to segments and to assess their performances.

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting (continued)

The Group presented the following twelve subsidiaries as reportable segments in the consolidated financial statements for the year ended 31 December 2015:

- Dezhong
- Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. ("Feng Liao Xing")
- Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")
- Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. ("Luya")
- Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")
- Tongjitang Pharmaceutical
- Jingfang
- Sinopharm Group Longlife (Guizhou) Pharmaceutical Co., Ltd. ("Guizhou LLF")
- Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante")
- Guizhou Zhongtai Biological Technological Company Limited and its subsidiaries ("Guizhou Zhongtai")
- Jiangyin Tianjiang Group

During the current year, the Group changed the format of internal financial reporting to the CODM and the reportable segments from the above mentioned "by twelve subsidiaries" basis for the year ended 31 December 2015 to only two segments: by finished drugs and concentrated TCM granules. The above mentioned twelve subsidiaries which engaged in manufacturing and sales of finished drugs were aggregated and presented as a single segment. Management considered such a change provides more useful information about the impact of acquisition of Jiangyin Tianjiang Group, which engaged in manufacturing and sales of concentrated TCM granules.

The operating results of Guizhou Zhongtai for the year ended 31 December 2015 are presented as discontinued operation in the consolidated financial statements. Further details of the discontinued operation are set out in note 12.

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting (continued)

(i) Segment results, assets and liabilities

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

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. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, including rental income, share of results of associates, gain on disposal of a subsidiary, fair value changes on derivative financial instruments, fair value changes on held for trading investments, net exchange gain and head office and corporate expenses.

Segment assets include all tangible, intangible assets and current assets with the exception of other financial assets, held for trading investments, derivative financial instruments, deferred tax assets and unallocated head office and corporate assets. Segment liabilities include trade and other payables, bank borrowings, deferred government grants and unsecured notes attributable to individual segments and bank borrowings managed directly by the segments, with the exception of tax liabilities, deferred tax liabilities and unallocated head office and corporate liabilities.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings which managed directly by the segments, depreciation, amortisation.

Information regarding the Group's reportable segments as provided to the CODM for the purposes of resource allocation and assessment of segment performance is set out below.

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

	Continuing operations			Discontinued operation	
	Finished drugs RMB'000	Concentrated TCM granules RMB'000	Subtotal RMB'000	Finished drugs RMB'000	Total RMB'000
For the year ended 31 December 2016					
Reportable segment revenue	2,174,484	4,358,789	6,533,273	–	6,533,273
Elimination of inter-segment revenue	(163)	(243)	(406)	–	(406)
Revenue from external customers	2,174,321	4,358,546	6,532,867	–	6,532,867
Reportable segment profit (adjusted EBITDA)	383,259	1,251,618	1,634,877	–	1,634,877
Interest income	9,690	4,900	14,590	–	14,590
Interest expenses	39,051	34,372	73,423	–	73,423
Depreciation and amortisation for the year	115,503	221,257	336,760	–	336,760
As at 31 December 2016					
Reportable segment assets	6,940,502	14,332,898	21,273,400	–	21,273,400
Reportable segment liabilities	3,685,052	2,812,688	6,497,740	–	6,497,740

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

	Continuing operations			Discontinued operation	
	Finished drugs RMB'000 (restated)	Concentrated TCM granules RMB'000 (restated)	Subtotal RMB'000 (restated)	Finished drugs RMB'000 (restated)	Total RMB'000 (restated)
For the year ended 31 December 2015					
Reportable segment revenue	2,730,514	978,892	3,709,406	19,772	3,729,178
Reportable segment profit (adjusted EBITDA)	565,997	245,916	811,913	(8,853)	803,060
Interest income	92,639	3,659	96,298	103	96,401
Interest expenses	41,358	–	41,358	1,413	42,771
Depreciation and amortisation for the year	109,616	50,742	160,358	1,325	161,683
As at 31 December 2015					
Reportable segment assets	5,754,206	12,265,228	18,019,434	–	18,019,434
Reportable segment liabilities	1,865,305	871,465	2,736,770	–	2,736,770

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting (continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2016			2015		
	Continuing operations RMB'000	Discontinued operation RMB'000	Total RMB'000	Continuing operations RMB'000 (restated)	Discontinued operation RMB'000 (restated)	Total RMB'000 (restated)
Reportable segment profit (adjusted EBITDA)	1,634,877	–	1,634,877	811,913	(8,853)	803,060
Depreciation and amortisation	(336,760)	–	(336,760)	(160,358)	(1,325)	(161,683)
Interest income	14,590	–	14,590	96,298	103	96,401
Finance costs	(73,423)	–	(73,423)	(41,358)	(1,413)	(42,771)
Rental income	880	–	880	866	–	866
Fair value changes on derivative financial instruments	23,694	–	23,694	9,842	–	9,842
Fair value changes on held for trading investments	(3)	–	(3)	(68)	–	(68)
Net exchange gain	54,987	–	54,987	7,433	–	7,433
Gain on disposal of a subsidiary	–	–	–	–	85,439	85,439
Share of results of associates	444	–	444	(1,637)	–	(1,637)
Headoffice and corporate expenses	(15,482)	–	(15,482)	(33,771)	–	(33,771)
Consolidated profit before tax	1,303,804	–	1,303,804	689,160	73,951	763,111

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting (continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (continued)

	2016 RMB'000	2015 RMB'000 (Restated)
Assets		
Reportable segment assets	**21,273,400**	18,019,434
Elimination of inter-segment receivables	**(1,320,494)**	–
	19,952,906	18,019,434
Other financial assets	**–**	100,000
Held for trading investments	**591**	594
Derivative financial instruments	**23,694**	–
Deferred tax assets	**139,716**	111,367
Unallocated head office and corporate assets	**919,877**	977,281
Consolidated total assets	**21,036,784**	19,208,676
Liabilities		
Reportable segment liabilities	**6,497,740**	2,736,770
Elimination of inter-segment payables	**(1,320,494)**	–
	5,177,246	2,736,770
Tax liabilities	**201,697**	148,580
Deferred tax liabilities	**1,722,917**	1,668,745
Unallocated head office and corporate liabilities	**1,179,062**	2,514,368
Consolidated total liabilities	**8,280,922**	7,068,463

(iii) Geographical information

Analysis of the Group's revenue and results as well as analysis of the amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

8. OTHER INCOME

	2016 RMB'000	2015 RMB'000 (Restated)
Continuing operations		
Government grants		
– Unconditional subsidies (note)	**64,537**	26,675
– Conditional subsidies (note 33)	**2,356**	4,589
Interest income on bank deposits	**8,155**	94,621
Interest income on other financial assets	**6,435**	1,677
Rental income	**880**	866
	82,363	128,428

Note: The amount represents subsidy income received from various government authorities as incentives to certain members of the Group to recognise their contribution to the local economy.

9. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000 (Restated)
Continuing operations		
Loss on disposal of property, plant and equipment	**(1,528)**	(650)
Fair value changes on foreign currency forward contracts	**23,694**	9,842
Fair value changes on held for trading investments	**(3)**	(68)
Net exchange gain	**54,987**	7,433
Impairment losses recognised in respect of		
– trade receivables (note 25)	**(78,368)**	–
– other receivables	**(1,811)**	–
Others	**(4,981)**	(4,131)
	(8,010)	12,426

10. FINANCE COSTS

	2016 **RMB'000**	2015 RMB'000
Continuing operations		
Interest on bank borrowings	**62,640**	70,180
Interest on unsecured notes	**10,783**	–
	73,423	70,180

11. INCOME TAX EXPENSE

	2016 **RMB'000**	2015 RMB'000 (restated)
Continuing operations		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**238,802**	160,327
(Over)underprovision in prior years:		
PRC EIT	**(2,661)**	741
	236,141	161,068
Deferred tax credit (note 34)	**(18,504)**	(41,962)
Effect of change in tax rate (note 34)	**(373)**	–
	217,264	119,106

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit in Hong Kong for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the ''EIT Law'') and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years, except for:

(1) Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang, Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang"), Guangdong Yifang Pharmaceutical Co., Ltd. ("GD Yifang") and Anhui Tianxiang Pharmaceutical Co., Ltd. ("Tianxiang"), which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% for the year ended 31 December 2016 (2015: The PRC Enterprise Income Tax rate applicable to Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang, Jiangyin Tianjiang and GD Yifang was of 15%) pursuant to documents issued by local government authorities;

11. INCOME TAX EXPENSE (CONTINUED)

(2) Tongjitang Pharmaceutical, Guizhou LLF, Pulante, Guizhou Zhongtai and Longxi Yifang Pharmaceutical Co., Ltd. ("Longxi Yifang"), being qualified enterprises located in the western region of the PRC, enjoy a preferential income tax rate of 15% effective retrospectively from 1 January 2011 to 31 December 2020 pursuant to CaiShui 2011 No. 58, dated 27 July 2011;

(3) Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal"), being qualified enterprise with operation of medicinal plants primary processing business in the PRC, enjoy a full enterprise income tax exemption from 1 January 2016 to 31 December 2016 pursuant to the EIT Law, Order of the President 2007 No. 63; and

(4) Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang"), being qualified enterprise in operation of medicinal plants primary processing business in the PRC, enjoy a full enterprise income tax exemption from 2010 to 2024 in respect of its medicinal plants procession business pursuant to CaiShui 2008 No.149, dated 20 November 2008.

The income tax expense for the year is reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 **RMB'000**	2015 RMB'000 (restated)
Profit before tax (from continuing operations)	**1,303,804**	689,160
Notional tax on profit before tax, calculated at rates applicable to profits in the jurisdictions concerned	**312,293**	177,185
Tax effect of expenses not deductible for tax purposes	**2,544**	13,886
Tax effect of income not taxable for tax purposes	**(2,668)**	(4,208)
Income tax at concessionary rate	**(113,585)**	(73,735)
Effect of tax exemptions granted to PRC subsidiaries	**(1,586)**	–
(Over)underprovision in respect of prior years	**(2,661)**	741
Tax effect of tax losses not recognised	**2,123**	329
Withholding tax on distributable profits of PRC entities	**21,177**	4,908
Others	**(373)**	–
Income tax expense for the year	**217,264**	119,106

12. DISCONTINUED OPERATION

On 27 January 2015, the Group agreed with a fellow subsidiary, China Biotechnology Co., Ltd. (中國生物技術股份有限公司), which is a wholly-owned subsidiary of CNPGC, that the Group conditionally sold 31% of equity interest in Guizhou Zhongtai at a consideration of RMB139,500,000. On 27 January 2015, the directors of the Company approved to dispose of 31% equity interest in Guizhou Zhongtai. On 1 December 2015, the Group further agreed with China Biotechnology Co., Ltd. on the adjustment of consideration, which was finally agreed to be RMB139,148,000. The transaction was completed on 4 November 2015. Upon the completion of transaction, the Group retains 20% of equity interest in Guizhou Zhongtai, which becomes the associate to the Group.

Guizhou Zhongtai is principally engaged in research and development, production and sales of blood products in the PRC, and represented a separate major line of business or a geographical area of operations.

Accordingly, the operating results of Guizhou Zhongtai for the ten months ended 31 October 2015 are presented as discontinued operation in the consolidated financial statements for the year ended 31 December 2015.

All the assets and liabilities of Guizhou Zhangtai were derecognised during the year ended 31 December 2015.

The profit from the discontinued operation of Guizhou Zhongtai is set out below:

	Ten months ended 31 October 2015 RMB'000
Loss of Guizhou Zhongtai for the period	(11,444)
Gain on disposal of a subsidiary	85,439
	73,995
Profit (loss) for the period from discontinued operation attributable to	
Owners of the Company	79,603
Non-controlling interests	(5,608)
	73,995

12. DISCONTINUED OPERATION (CONTINUED)

The result of the operation of Guizhou Zhongtai for the ten months ended 31 October 2015, which have been included in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015, was as follow:

	Ten months ended 31 October 2015 RMB'000
Revenue (note 7)	19,772
Cost of sales	(12,009)
Gross profit	7,763
Other income	659
Selling and distribution expenses	(32)
Administrative expenses	(18,465)
Finance costs	(1,413)
Loss before tax	(11,488)
Income tax expense	44
Loss for the period	(11,444)

Result of the discontinued operation is arrived at after (crediting) charging:

	Ten months ended 31 October 2015 RMB'000
Other income:	
Government grants (note 33)	(556)
Interest income	(103)
	(659)
Finance costs:	
Interest expense	1,413
Staff costs:	
Salaries, wages and other benefits	7,918
Contributions to defined contribution retirement plan	888
	8,806
Other items:	
Depreciation of property, plant and equipment	931
Amortisation of prepaid lease payments	89
Amortisation of other intangible assets	305
Minimum lease payments under operating leases in respect of land and buildings	100
Research and development expenses	799
Cost of inventories recognised as expenses	12,009

12. DISCONTINUED OPERATION (CONTINUED)

Cash flows of the discontinued operation:

	Ten months ended 31 October 2015 RMB'000
Net cash used in operating activities	(5,063)
Net cash used in investing activities	(793)
Net cash used in financing activities	(477)
Net cash outflow for the year	(6,333)

Net cash inflow from the disposal:

	Notes	For the year ended 31 December 2015 RMB'000
Net assets disposed of:		
Property, plant and equipment	*19*	71,979
Prepaid lease payments	*20*	9,187
Other intangible assets	*21*	23,784
Deposits paid for acquisition of property, plant and equipment		1,012
Inventories		21,300
Trade and other receivables		1,040
Bank balances and cash		14,808
Trade and other payables		(37,841)
Deferred government grants	*33*	(3,698)
Deferred tax liabilities	*34*	(4,522)
Net identifiable assets		97,049
Group's effective interest		51%
Group's share of net assets of the subsidiary		49,495
Goodwill		93,987
Less: Fair value of 20% equity interest of the associate under equity-method		(89,773)
Gain on disposal of a subsidiary		85,439
		139,148
Satisfied by:		
Consideration		139,148
Analysis of the net cash inflow in respect of the disposal of a subsidiary:		
Cash received		125,198
Cash and cash equivalent of the subsidiaries disposed of		(14,808)
Net cash inflow from the disposal		110,390

The Group received the consideration of RMB10,618,000 during the current year.

13. PROFIT BEFORE TAX

	2016 RMB'000	2015 RMB'000 (Restated)
Continuing operations		
Profit before tax has been arrived at after charging:		
Directors' remuneration (note 14)	**4,924**	6,419
Other staff costs		
Salaries, wages and other benefits	**653,177**	528,167
Contributions to defined contribution retirement plans	**76,838**	35,384
	734,939	569,970
Auditors' remuneration	**8,181**	8,591
Depreciation		
– investment properties (note 19)	**137**	138
– property, plant and equipment (note 19)	**182,208**	84,478
Amortisation of prepaid lease payments (note 20)	**10,122**	5,015
Amortisation of other intangible assets (note 21)	**144,293**	70,727
Total depreciation and amortisation	**336,760**	160,358
Impairment losses recognised in respect of		
– trade receivables (note 25)	**78,368**	56,039
– other receivables	**1,811**	6,155
Write down of inventories (note 27)	**16,008**	6,186
Minimum lease payments under operating leases in respect of land and buildings	**6,399**	2,604

14. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

Directors' and chief executives' remuneration for both years, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

			2016		
	Directors' fees RMB'000	**Salaries and allowances RMB'000**	**Discretionary bonuses RMB'000 (note e)**	**Retirement benefit RMB'000**	**Total RMB'000**
Executive directors					
Wu Xian	–	–	–	–	–
Yang Bin	**201**	**1,688**	**–**	**100**	**1,989**
Wang Xiaochun	**201**	**1,659**	**–**	**77**	**1,937**
Non-executive directors					
Liu Cunzhou	–	–	–	–	–
Zhao Dongji	–	–	–	–	–
Dong Zenghe	–	–	–	–	–
Huang He (note a)	–	–	–	–	–
Tang Hua (note b)	–	–	–	–	–
Zhang Jianhui (note d)	–	–	–	–	–
Independent non-executive directors					
Zhou Bajun	**215**	**43**	**–**	**–**	**258**
Xie Rong	**215**	**43**	**–**	**–**	**258**
Yu Tze Shan Hailson	**215**	**43**	**–**	**–**	**258**
Lo Wing Yat (note c)	**215**	**9**	**–**	**–**	**224**
	1,262	**3,485**	**–**	**177**	**4,924**

14. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS (CONTINUED)

	2015				
	Directors' fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000 (note e)	Retirement benefit RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	739	–	15	754
Yang Bin	191	1,704	407	100	2,402
Wang Xiaochun	191	1,664	407	77	2,339
Non-executive directors					
Liu Cunzhou	–	–	–	–	–
Zhao Dongji	–	–	–	–	–
Dong Zenghe	–	–	–	–	–
Zhang Jianhui (note d)	–	–	–	–	–
Independent non-executive directors					
Zhou Bajun	204	33	–	–	237
Xie Rong	204	33	–	–	237
Yu Tze Shan Hailson	204	33	–	–	237
Lo Wing Yat (note c)	189	24	–	–	213
	1,183	4,230	814	192	6,419

The executive directors' emoluments shown above for both years were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above for both years were for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above for both years were for their services as directors of the Company.

Notes:

(a) Appointed as a non-executive director on 23 August 2016.

(b) Appointed as a non-executive director on 20 October 2016.

(c) Appointed as an independent non-executive director on 27 January 2015.

(d) Resigned as a non-executive director on 18 July 2016.

(e) Discretionary bonuses are determined with reference to the performance of the respective individual and market trends.

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Mr. Yang Bin and Mr. Wang Xiaochun are the chief executives of the Company and their emoluments disclosed above included those for services rendered by them as the chief executives.

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

Save for the contracts amongst group companies and the acquisition of Shanghai Tongjitang (see note 39(c)), no other significant transactions, arrangements and contracts to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of both years or at any time during both years.

15. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two directors (2015: three directors), details of whose remuneration are set out in note 14 above. Details of the remuneration for the year of the remaining three (2015: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries and allowance	**3,238**	2,212
Retirement benefits	**92**	106
	3,330	2,318

The emoluments of the three (2015: two) individuals with highest emoluments are within the following bands:

	2016 **Number of** **individuals**	2015 Number of individuals
HK$		
Nil-1,000,000	**1**	–
1,000,001-1,500,000	**1**	1
1,500,001-2,000,000	**1**	1

16. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2016 **RMB'000**	2015 RMB'000
2016 interim – HK6.44 cents (2015: nil) per share	**245,148**	–

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2016 of HK3.59 cents per share (nil per share in respect of the year ended 31 December 2015) has been proposed by the directors of the Company and is subject to approval by the shareholders at the forthcoming annual general meeting. The total amount of the proposed final dividend amounting to HK$159,091,000 (2015: nil), calculated based on the Company's number of shares issued at the date of this report, is not recognised as a liability in the consolidated statement of financial position.

17. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share from continuing and discontinuing operations attributable to the owner of the Company is based on the following data:

	2016 **RMB'000**	2015 RMB'000 (Restated)
Continuing and discontinued operations		
Profit attributable to the owners of the Company	**966,927**	625,596
Basic earnings per share (RMB per share)	**21.73 cents**	16.97 cents
Continuing operations		
Profit attributable to the owners of the Company	**966,927**	545,993
Basic earnings per share (RMB per share)	**21.73 cents**	14.81 cents
Discontinued operation		
Profit attributable to the owners of the Company	**–**	79,603
Basic earnings per share (RMB per share)	**–**	2.16 cents

17. EARNINGS PER SHARE (CONTINUED)

(b) Weighted average number of ordinary shares

	2016	2015
	'000	'000
Issued ordinary shares at 1 January	**4,483,747**	2,533,899
Effect of shares issued (note 37)	**–**	1,152,974
Effect of shares repurchased (note 37)	**(33,312)**	–
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,450,435**	3,686,873

No diluted earnings per share for both 2016 and 2015 were presented as there were no potential ordinary shares in issue for both 2016 and 2015.

18. GOODWILL

	RMB'000
COST AND CARRYING AMOUNT	
At 1 January 2015	1,191,052
Acquired through business combination (restated)	2,243,980
Disposal of a subsidiary	(93,987)
At 31 December 2015 (restated)	3,341,045
Acquired through business combination (note 39)	150,308
Adjustment for provisional consideration	(35,000)
At 31 December 2016	3,456,353

Particulars regarding to the carrying amount of goodwill and impairment testing on goodwill are disclosed in note 22.

19. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Office equipment and others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
COST								
At 1 January 2015	483,549	353,917	30,575	76,074	87,166	1,031,281	7,160	1,038,441
Additions	14,862	19,731	4,253	148,914	26,576	214,336	–	214,336
Acquisition of subsidiaries (note 39)	555,158	143,906	4,732	53,558	105,762	863,116	–	863,116
Transfer from construction in progress	66,066	25,625	–	(99,460)	7,769	–	–	–
Disposals	(5,634)	(1,737)	(863)	–	(3,235)	(11,469)	(908)	(12,377)
Disposal of a subsidiary (note 12)	(42,521)	(35,219)	(1,879)	–	(8,683)	(88,302)	–	(88,302)
Exchange adjustments	91	–	50	–	178	319	–	319
At 31 December 2015	1,071,571	506,223	36,868	179,086	215,533	2,009,281	6,252	2,015,533
Additions	23,549	74,420	4,338	239,959	41,682	383,948	–	383,948
Acquisition of subsidiaries (note 39)	122,200	27,115	1,920	–	735	151,970	–	151,970
Transfer from construction in progress	47,857	18,110	–	(79,870)	13,903	–	–	–
Disposals	–	(15,826)	(5,104)	–	(4,373)	(25,303)	–	(25,303)
At 31 December 2016	1,265,177	610,042	38,022	339,175	267,480	2,519,896	6,252	2,526,148
ACCUMULATED DEPRECIATION								
At 1 January 2015	62,434	160,029	12,907	–	45,141	280,511	4,509	285,020
Charge for the year	33,742	35,029	3,889	–	12,749	85,409	138	85,547
Written back on disposals	(5,426)	(932)	(774)	–	(2,698)	(9,830)	(908)	(10,738)
Disposal of a subsidiary (note 12)	(5,118)	(8,020)	(521)	–	(2,664)	(16,323)	–	(16,323)
Exchange adjustments	52	–	43	–	165	260	–	260
At 31 December 2015	85,684	186,106	15,544	–	52,693	340,027	3,739	343,766
Charge for the year	58,055	87,393	4,881	–	31,879	182,208	137	182,345
Written back on disposals	–	(14,047)	(3,608)	–	(3,720)	(21,375)	–	(21,375)
At 31 December 2016	143,739	259,452	16,817	–	80,852	500,860	3,876	504,736
NET BOOK VALUE								
At 31 December 2016	1,121,438	350,590	21,205	339,175	186,628	2,019,036	2,376	2,021,412
At 31 December 2015	985,887	320,117	21,324	179,086	162,840	1,669,254	2,513	1,671,767

19. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The above items of property, plant and equipment, other than construction in progress, are depreciated after taking into account their estimated residual value, using straight-line method over the following useful lives:

Buildings	Over the shorter of lease terms or 50 years
Investment properties	25 to 35 years
Plant, machinery and equipment	3 to 5 years
Motor vehicles	4 to 10 years
Office equipment and others	2 to 12 years

(b) All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2016 was RMB14,610,000 (2015: RMB14,410,000) by reference to net rental income allowing for reversionary income potential. The fair value of the investment properties as at 31 December 2016 and 31 December 2015 has been arrived at on the basis of valuation carried out on the respective date by an independent qualified professional valuers.

(c) Certain of the Group's buildings with carrying value of RMB30,740,000 (2015: RMB35,931,000) were pledged to secure certain bank borrowings granted to the Group.

(d) The Group's building situated in the PRC with carrying value of RMB18,007,300 (2015: RMB143,155,000) has not yet obtained the ownership certificate. Management of the Group considers there is no material legal impediment for the Group to obtain the ownership certificate.

20. PREPAID LEASE PAYMENTS

	2016 **RMB'000**	2015 RMB'000
CARRYING AMOUNT		
At the beginning of the year	**307,666**	282,893
Additions	**20,263**	11,907
Acquisition of subsidiaries (note 39)	**27,673**	120,450
Disposals	**(1,114)**	(93,293)
Disposal of a subsidiary (note 12)	**–**	(9,187)
Charge to profit or loss for the year	**(10,122)**	(5,104)
At the end of the year	**344,366**	307,666
Analysed for reporting purposes as:		
Current portion	**10,122**	5,104
Non-current portion	**334,244**	302,562
	344,366	307,666

20. PREPAID LEASE PAYMENTS (CONTINUED)

The Group's prepaid lease payments are situated in the PRC and are held on medium-term leases of 50 to 70 years. At 31 December 2016, the remaining period of the prepaid lease payments ranged from 21 years to 48 years (2015: 22 years to 49 years).

Certain of the Group's prepaid lease payments with carrying value of RMB1,559,000 (2015: RMB5,518,000) were pledged to secure certain bank borrowings granted to the Group.

21. OTHER INTANGIBLE ASSETS

	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Total RMB'000
COST						
At 1 January 2015	647,858	300,558	59,818	1,776	107,081	1,117,091
Acquisition of subsidiaries (restated) (note 39)	2,166,163	1,594,548	–	–	2,066,549	5,827,260
Disposal of a subsidiary (note 12)	(30,009)	–	(818)	(634)	–	(31,461)
At 31 December 2015 (restated)	2,784,012	1,895,106	59,000	1,142	2,173,630	6,912,890
Acquisition of subsidiaries (note 39)	37,655	110,403	–	178	71,922	220,158
Additions	4,026	1,081	–	2,500	–	7,607
At 31 December 2016	2,825,693	2,006,590	59,000	3,820	2,245,552	7,140,655
ACCUMULATED AMORTISATION						
At 1 January 2015	104,737	15,530	35,112	842	12,865	169,086
Amortisation for the year (restated)	28,149	1,703	5,909	413	34,858	71,032
Disposal of a subsidiary (note 12)	(7,110)	–	(213)	(354)	–	(7,677)
At 31 December 2015 (restated)	125,776	17,233	40,808	901	47,723	232,441
Amortisation for the year	29,344	954	5,900	440	107,655	144,293
At 31 December 2016	155,120	18,187	46,708	1,341	155,378	376,734
NET BOOK VALUE						
At 31 December 2016	2,670,573	1,988,403	12,292	2,479	2,090,174	6,763,921
At 31 December 2015	2,658,236	1,877,873	18,192	241	2,125,907	6,680,449

21. OTHER INTANGIBLE ASSETS (CONTINUED)

At 31 December 2016, the carrying amount of other intangible assets with finite useful lives is RMB2,640,944,000 (31 December 2015: RMB2,667,875,000). Other intangible assets with finite useful lives are amortised on a straight-line basis over the following periods:

		Carrying amount as at	
		31.12.2016	31.12.2015
		RMB'000	RMB'000 (restated)
Product protection rights	5 to 25 years	**504,410**	492,073
Trademarks	10 to 44 years	**31,589**	31,462
Distribution network	10 years	**12,292**	18,192
Software	5 to 10 years	**2,479**	241
Customer relationship	5 to 21 years	**2,090,174**	2,125,907
		2,640,944	2,667,875

The amortisation charge for the year is mainly included in "cost of sales" line item in the consolidated statement of profit or loss and other comprehensive income.

The following other intangible assets, trademarks (including brand names) and product protection rights, acquired through business combinations, are assessed to have indefinite useful lives. The product protection rights have a legal life of 5 years but is renewable at minimal cost. The directors of the Company are of the opinion that the Group could renew the product protection rights and maintain the trademarks (including brand names) continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks (including brand names) and product protection rights have no foreseeable limit to the period over which the products are expected to generate net cash flows for the Group. As a result, the trademarks (including brand names) and product protection rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks (including brand names) and product protection rights will not be amortised until the useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in note 22.

	Trademarks		Product protection rights	
	31.12.2016	31.12.2015	**31.12.2016**	31.12.2015
	RMB'000	RMB'000 (restated)	**RMB'000**	RMB'000 (restated)
Manufacture and sale of pharmaceutical products				
Tongjitang Group				
– Tongjitang Pharmaceutical	**198,972**	198,972	**–**	–
– Jingfang	**37,779**	37,779	**–**	–
– Guizhou LLF	**10,075**	10,075	**–**	–
– Pulante	**5,037**	5,037	**–**	–
Shanghai Tongjitang	**110,403**	–	**–**	–
Jiangyin Tianjiang Group	**1,594,548**	1,594,548	**2,166,163**	2,166,163
	1,956,814	1,846,411	**2,166,163**	2,166,163

At 31 December 2016, certain product protection rights with carrying value of RMB2,250,000 (2015: RMB3,776,000) were pledged to secure certain bank borrowings granted to the Group.

22. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill, trademarks (including brand names) and product protection rights with indefinite useful lives set out in notes 18 and 21 to the consolidated financial statements have been allocated to individual CGUs as below:

	Goodwill		Trademarks		Product protection rights	
	31.12.2016 RMB'000	31.12.2015 RMB'000 (restated)	**31.12.2016 RMB'000**	31.12.2015 RMB'000 (restated)	**31.12.2016 RMB'000**	31.12.2015 RMB'000 (restated)
Manufacture and sale of pharmaceutical products						
Dezhong	**100,391**	100,391	**–**	–	**–**	–
Feng Liao Xing	**23,664**	23,664	**–**	–	**–**	–
Guangdong Medi-World	**26,055**	26,055	**–**	–	**–**	–
Luya	**11,221**	11,221	**–**	–	**–**	–
Tongjitang Group						
– Tongjitang Pharmaceutical	**733,037**	733,037	**198,972**	198,972	**–**	–
– Jingfang	**139,184**	139,184	**37,779**	37,779	**–**	–
– Guizhou LLF	**37,116**	37,116	**10,075**	10,075	**–**	–
– Pulante	**18,558**	18,558	**5,037**	5,037	**–**	–
Jiangyin Tianjiang Group (note 39)	**2,208,980**	2,243,980	**1,594,548**	1,594,548	**2,166,163**	2,166,163
Huayi Pharmaceutical Co. Ltd ("Huayi") (note 39)	**9,774**	–	**–**	–	**–**	–
Shanghai Tongjitang (note 39)	**111,101**	–	**110,403**	–	**–**	–
Tongjitang Herbal (note 39)	**29,433**	–	**–**	–	**–**	–
Sale of pharmaceutical products						
Feng Liao Xing Material & Slices	**2,449**	2,449	**–**	–	**–**	–
Winteam Sales	**5,390**	5,390	**–**	–	**–**	–
	3,456,353	3,341,045	**1,956,814**	1,846,411	**2,166,163**	2,166,163

During the year ended 31 December 2016, management of the Group determines that there are no impairments of any of its CGUs containing goodwill, trademarks (including brand names) or product protection rights with indefinite useful lives (2015: nil).

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the suitable discount rates, growth rates, budgeted sales and gross profit margin. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGUs.

22. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Jiangyin Tianjiang Group

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGU. The recoverable amounts of goodwill, trademarks and product production rights of Jiangyin Tianjiang Group amounted to RMB2,208,980,000 (2015: RMB2,243,980,000), RMB1,594,548,000 (2015: RMB1,594,548,000) and RMB2,166,163,000 (2015: RMB2,166,163,000), respectively, were determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of each of the CGU which derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3% in selling prices and costs with no growth in sales volume. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The pre-tax rate used to discount the forecast cash flows is 18.39%. The discount rate reflects specific risks relating to the relevant CGUs.

Dezhong

For the purpose of impairment testing, goodwill has been allocated to the relevant CGU. The recoverable amount of goodwill of Dezhong amounted to RMB100,391,000 (2015: RMB100,391,000) has been determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of each of the CGU which derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3% in selling prices and costs with no growth in sales volume. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The pre-tax rate used to discount the forecast cash flows is 17.88% (2015:17.94%). The discount rate reflects specific risks relating to the relevant CGUs.

Tongjitang Pharmaceutical

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGU. The recoverable amounts of goodwill and trademarks of Tongjitang Pharmaceutical amounted to RMB733,037,000 (2015: RMB733,037,000) and RMB198,972,000 (2015: RMB198,972,000), respectively, have been determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3% in selling prices and costs with no growth in sales volume. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The pre-tax rate used to discount the forecast cash flows is 16.56% (2015: 16.08%) for goodwill and 18.28% (2015: 17.98%) for other intangible asset with indefinite useful life. The discount rate reflects specific risks relating to the relevant CGUs.

22. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

Jingfang

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGU. The recoverable amounts of goodwill and trademarks of Jingfang amounted to RMB139,184,000 (2015: RMB139,184,000) and RMB37,779,000 (2015: RMB37,779,000), respectively, have been determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of each of the CGU which derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3% in selling prices and costs with no growth in sales volume. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The pre-tax rate used to discount the forecast cash flows is 17.20% (2015: 17.96%). The discount rate reflects specific risks relating to the relevant CGUs.

The aggregate amounts of goodwill and other intangible assets of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical and Jingfang are in aggregate RMB3,181,592,000 (31 December 2015: RMB3,216,592,000) and RMB3,997,462,000 (31 December 2015: RMB3,997,462,000) respectively.

Other CGUs

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGU. The recoverable amounts of goodwill and trademarks of remaining CGUs has been determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3% in selling prices and costs with no growth in sales volume. The pre-tax rates used to discount the forecast cash flows range from 16.50% to 19.97% (31 December 2015: 15.75% to 19.92%). The discount rates reflect specific risks relating to the relevant CGUs.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the goodwill and other intangible assets to exceed their recoverable amounts.

23. INTERESTS IN ASSOCIATES

	2016 **RMB'000**	2015 RMB'000
Cost of investments in associates, unlisted	**89,977**	89,773
Share of post-acquisition losses and other comprehensive expense	**(1,193)**	(1,637)
	88,784	88,136

23. INTERESTS IN ASSOCIATES (CONTINUED)

Details of each of the Group's associates at the end of the reporting period are as follow:

Name of associate	Form of business structure	Place/country of establishment/ incorporation	Principal place of operation	Proportion of nominal value of issued capital/ registered capital held by the Group		Proportion of voting power held		Principal activities
				2016	2015	**2016**	2015	
Guizhou Zhongtai	Incorporated	The PRC	The PRC	**20%**	20%	**20%**	20%	Development, manufacturing, marketing and sales of blood products
Foshan Shunde Cili Biological Technology Company Limited	Incorporated	The PRC	The PRC	**40%**	–	**40%**	–	Catering

Summarised financial information of material associate

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

Guizhou Zhongtai is the only material associate to the Group and it is accounted for using the equity method in these consolidated financial statements.

Guizhou Zhongtai

	2016 RMB'000	2015 RMB'000
Current assets	**43,289**	22,446
Non-current assets	**100,749**	106,477
Current liabilities	**(48,000)**	(35,020)
Non-current liabilities	**(4,550)**	(5,040)

23. INTERESTS IN ASSOCIATES (CONTINUED)

Guizhou Zhongtai (continued)

	2016 RMB'000	2015 RMB'000
Revenue for the year/post-acquisition period	**55,841**	3,203
Profit (loss) for the year/post-acquisition period	**2,625**	(8,186)
Total comprehensive income (expense) for the year/post-acquisition period	**2,625**	(8,186)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate in respect of Guizhou Zhongtai recognised in the consolidated financial statements:

	2016 RMB'000	2015 RMB'000
Net assets of Guizhou Zhongtai attributable to owners	**91,488**	88,863
Proportion of the Group's ownership interest in Guizhou Zhongtai	**20%**	20%
	18,298	17,773
Goodwill	**70,363**	70,363
Carrying amount of the Group's interest in Guizhou Zhongtai	**88,661**	88,136

Information of an associate that is not individually material

	2016 RMB'000	2015 RMB'000
The Group's share of loss and total comprehensive expense	**(81)**	–
Carrying amount of the Group's interest in this associate	**123**	–

24. DEPOSITS AND PREPAYMENTS

	2016	2015
	RMB'000	RMB'000
Prepayments for property, plant and equipment	**53,333**	39,080
Prepayment for arrangement fees relating to long-term borrowings	**1,251**	2,598
Deposit paid for acquisition of property, plant and equipment (note)	**94,000**	94,000
Rental prepayment	**13,362**	–
	161,946	135,678

Note: The amount represents the Group's deposit paid for the buildings in Foshan City, Guangdong Province of the PRC. Pursuant to agreements, the amount of investment by the Group is fixed at RMB94,000,000 and the other independent third party is responsible for the remaining construction cost. The Group would be entitled to certain percent of relevant buildings after the completion of construction based on the proportion of RMB94,000,000 to the total construction cost in the construction project.

25. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
		(restated)
Trade receivables	**1,899,835**	2,166,430
Less: Allowance for doubtful debts	**(141,325)**	(74,979)
	1,758,510	2,091,451
Bills receivables	**756,966**	1,126,175
Deposits and prepayments	**101,029**	44,237
Deposit for acquisition of a subsidiary	**26,317**	–
Consideration receivable from disposal of Guizhou Zhongtai	**3,332**	13,950
Value added tax deductible	**22,457**	10,331
Other receivables	**47,639**	112,083
	2,716,250	3,398,227

The Group allows a credit period ranging from 30 to 180 days to certain trade customers. The bills receivables have maturity period ranging from 90 to 180 days as at 31 December 2016 and 2015.

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

The aging analysis of the Group's trade receivables, net of allowance, based on invoice date at the end of each reporting period are as follows:

	2016	2015
	RMB'000	RMB'000
0-90 days	**856,247**	1,252,366
91-180 days	**483,646**	403,268
181-365 days	**392,515**	433,311
Over 365 days	**26,102**	2,506
	1,758,510	2,091,451

The aging analysis of the Group's bills receivables based on issue date at the end of each reporting period is as follows:

	2016	2015
	RMB'000	RMB'000
0-90 days	**669,671**	915,074
91-180 days	**87,295**	211,101
	756,966	1,126,175

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.

The movements in the allowance for doubtful debts during the year are as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**74,979**	20,728
Impairment loss recognised (note 13)	**78,368**	56,039
Amounts written off as uncollectible	**(12,022)**	(1,788)
At 31 December	**141,325**	74,979

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

Impairment of trade and bills receivables (continued)

In determining the recoverability of the trade receivables, the Group takes into consideration of the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables. Allowances for doubtful debts of RMB141,325,000 (2015: RMB74,979,000) were recognised. The Group does not hold any collateral over these balances.

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

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

At 31 December 2016, the carrying amount of bills receivables discounted to banks with full recourse is RMB4,479,000 (2015: RMB432,005,000). The Group continues to include these discounted bills receivables and recognised the cash received as bank borrowings with the same amount until maturity. The carrying amount of the associated liability is RMB4,479,000 (2015: RMB432,005,000) (see note 26).

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

	2016 **RMB'000**	2015 RMB'000
HK$	**2,193**	–

26. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2016 and 2015 that were transferred to banks by discounting those receivables on full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables. These financial assets are carried at their carrying amounts in the Group's consolidated financial statements and associated liabilities have been recognised and included in liabilities for these bills receivables discounted with recourse.

26. TRANSFERS OF FINANCIAL ASSETS (CONTINUED)

	Bill receivables discounted to banks with full recourse	
	2016	2015
	RMB'000	RMB'000
Carrying amount of transferred assets	**4,479**	432,005
Carrying amount of associated liabilities – within one year	**(4,479)**	(432,005)
Net position	**–**	–

27. INVENTORIES

	2016	2015
	RMB'000	RMB'000
Inventories comprise:		
Raw materials	**384,032**	375,590
Work in progress	**706,919**	497,737
Finished goods	**803,218**	362,534
	1,894,169	1,235,861

The analysis of the amount of inventories recognised as an expense and included in profit or loss from continuing operations is as follows:

	2016	2015
	RMB'000	RMB'000
Carrying amount of inventories sold	**2,729,179**	1,502,547
Write down of inventories (note 13)	**16,008**	6,186
	2,745,187	1,508,733

28. HELD FOR TRADING INVESTMENTS

	2016 **RMB'000**	2015 RMB'000
Held for trading investments include:		
– Equity securities listed in Hong Kong	**591**	594

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 **RMB'000**	2015 RMB'000
Foreign currency forward contracts	**23,694**	–

Major terms of the foreign currency forward contracts are as follows:

Notional amount	**Maturity**	**Exchange rates**
At 31 December 2016		
Buy HK$442,869,796.27	15 February 2017	Low end: HK$:RMB0.9028 High end: HK$:RMB0.9032
Buy HK$244,000,000.00	21 February 2017	Low end: HK$:RMB0.8625 High end: HK$:RMB0.8629
Buy HK$243,000,000.00	21 February 2017	Low end: HK$:RMB0.8618 High end: HK$:RMB0.8622
Buy HK$243,000,000.00	21 February 2017	Low end: HK$:RMB0.8629 High end: HK$:RMB0.8633

Note: The Group will settle at the low end or high end exchange rates if the actual exchange rate on the respective maturity date is below or above the specified low end or high end, respectively, of the range as shown above.

30. OTHER FINANCIAL ASSETS

	2016 **RMB'000**	2015 RMB'000
Structured bank deposits	**–**	100,000

Other financial assets at 31 December 2015 represented structured bank deposits ("SBDs") placed by the Group with a number of banks. The SBDs had expected rate of returns of about 3.4%, with reference to the performance of the underlying investments of the respective SBDs. In the opinion of the directors of the Company, the fair value of these financial assets did not differ materially from their carrying amounts as at the reporting date because of their short periods to maturity.

31. FIXED DEPOSIT/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) The fixed deposits amounted to RMB1,050,000,000 (2015: nil) carried fixed interest rate of 1.82% per annum (2015: nil) with an original maturity of 6 months.

(b) Pledged bank deposits

	2016 RMB'000	2015 RMB'000
Pledged bank deposits for bank borrowings	–	32,050
Guarantee deposits and other restricted deposits with maturity less than three months	2,226	3,980
	2,226	36,030

Pledged bank deposits carried interest at market rates ranging from 0.30% to 0.35% p.a. (2015: 0.35% to 0.385% p.a.).

(c) Bank balances and cash

	2016 RMB'000	2015 RMB'000
Restricted bank deposits	226,018	–
Bank balances and cash	2,147,338	2,101,856
	2,373,356	2,101,856

Bank balances and cash comprised cash held by the Group and short-term deposits and carried interest at prevailing market rates ranging from 0.30% to 0.35% p.a. (2015: 0.35% to 0.385% p.a.) with original maturity of three months or less.

Included in fixed deposits/pledged bank deposits/bank balances and cash are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2016 RMB'000	2015 RMB'000
HK$	923,852	–

32. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000 (Restated)
Trade payables	**852,330**	508,688
Deposits received	**279,820**	199,002
Advances received from customers	**75,582**	175,560
Advances of government grants (note a)	**11,884**	16,144
Salary and welfare payables	**116,799**	115,338
Other tax payables	**142,414**	138,675
Accrual of operating expenses	**316,523**	319,194
Interest payables	**11,889**	–
Consideration payable for acquisition of Jiangyin Tianjiang Group (note 39(a))	**88,110**	1,011,227
Contingent consideration payable for acquisition of Shanghai Tongjitang (note 39(c))	**10,000**	–
Other payables	**398,384**	192,786
	2,303,735	2,676,614

Note:

(a) As at 31 December 2016 and 2015, advances of government grants to the Group mainly included various conditional government grants to compensate the Group's research and development projects of new or existing pharmaceutical products. Such government grants are recognised as income in the same periods when they become receivable.

The aging analysis of the Group's trade payables based on invoice date at the end of each reporting period are as follows:

	2016 RMB'000	2015 RMB'000
0-90 days	**806,582**	380,548
91-180 days	**10,835**	72,767
181-365 days	**21,534**	23,778
Over 365 days	**13,379**	31,595
	852,330	508,688

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

	2016 RMB'000	2015 RMB'000
HK$	**11,968**	–

33. DEFERRED GOVERNMENT GRANTS

The movements in deferred government grants as stated under current and non-current liabilities are as follows:

	2016 **RMB'000**	2015 RMB'000 (Restated)
At the beginning of the year	**124,165**	69,639
Additions	**20,821**	63,369
Disposal of a subsidiary (note 12)	**–**	(3,698)
Credited to profit or loss		
– Continuing operations (note 8)	**(2,356)**	(4,589)
– Discontinued operation (note 12)	**–**	(556)
At the end of the year	**142,630**	124,165
Representing:		
Current portion	**–**	59,776
Non-current portion	**142,630**	64,389
	142,630	124,165

As at 31 December 2016 and 2015, deferred government grants of the Group mainly includes various conditional government grants relating to purchase of property, plant and equipment. Such deferred government grants will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

34. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 **RMB'000**	2015 RMB'000 (Restated)
Deferred tax assets	**(139,716)**	(111,367)
Deferred tax liabilities	**1,722,917**	1,668,745
	1,583,201	1,557,378

34. DEFERRED TAXATION (CONTINUED)

The components of deferred tax assets (liabilities) recognised in the consolidated statement of financial position and the movements during the current and prior years are as follows:

	Intangible assets RMB'000	Depreciation Allowances in excess of related depreciation RMB'000	Allowance for impairment of doubtful debts RMB'000	Withholding tax on undistributed profits of PRC subsidiaries RMB'000	Unrealised inter-segment profit RMB'000	Tax loss RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	(210,654)	(23,999)	7,005	(10,369)	5,310	–	36,109	(196,598)
Addition through acquisition (note 39) (restated)	(1,429,752)	(12,461)	21,259	–	6,236	–	2,417	(1,412,301)
Credited (charged) to profit or loss (restated)	10,889	1,587	8,291	(3,545)	8,592	–	16,148	41,962
Release upon dividend declared (note 11)	–	–	–	4,908	–	–	–	4,908
Disposal of a subsidiary (note 12)	3,245	1,277	–	–	–	–	–	4,522
Exchange adjustments	–	–	–	129	–	–	–	129
At 31 December 2015 (restated)	(1,626,272)	(33,596)	36,555	(8,877)	20,138	–	54,674	(1,557,378)
Addition through acquisition (note 39)	(51,732)	(14,277)	–	–	–	–	132	(65,877)
Credited (charged) to profit or loss	17,471	1,866	10,841	(28,677)	(355)	27,156	(9,798)	18,504
Release upon dividend declared	–	–	–	21,177	–	–	–	21,177
Effect of change in tax rate	–	–	–	–	–	–	373	373
At 31 December 2016	(1,660,533)	(46,007)	47,396	(16,377)	19,783	27,156	45,381	(1,583,201)

At the end of the reporting period, the Group had unused tax losses of RMB119,230,000 available for offset against future profits. A deferred tax asset of RMB27,156,000 has been recognised in respect of RMB108,625,000 (2015: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB10,605,000 due to the unpredictability of future profit streams.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB148,655,000 (31 December 2015: RMB81,697,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

35. BANK BORROWINGS

	2016 **RMB'000**	2015 RMB'000
Bank borrowings comprised bank loans and other loans and analysed as follows:		
Bank loans	**1,419,860**	2,018,354
Other loans (note)	**4,479**	432,005
	1,424,339	2,450,359
Secured	**144,479**	462,080
Unsecured	**1,279,860**	1,988,279
	1,424,339	2,450,359
Carrying amount repayable*:		
Within one year	**1,001,392**	1,600,059
More than one year, but not exceeding two years	**422,947**	340,118
More than two years, but not exceeding three years	**–**	510,182
	1,424,339	2,450,359
Amounts due within one year shown under current liabilities	**1,001,392**	1,600,059
Add: Amounts shown under non-current liabilities	**422,947**	850,300
	1,424,339	2,450,359

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Note: Other loans represented the discounting of bill receivables amounting to RMB4,479,000 (2015: RMB432,005,000) (note 25), which were repayable within one year.

The exposure of the Group's borrowings are as follows:

	Carrying amount	
	2016 **RMB'000**	2015 RMB'000
Fixed rate borrowings	**1,001,392**	962,333
Floating rate borrowings	**422,947**	1,488,026
	1,424,339	2,450,359

The Group's floating rate borrowings carried interest at Hong Kong Inter-bank Offered Rate ("HIBOR") plus 1.65%.

35. BANK BORROWINGS (CONTINUED)

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2016	2015
Effective interest rate		
– Fixed rate borrowings	**1.60%-4.35%**	1.60%-5.35%
– Floating rate borrowings	**2.22%-2.62%**	2.85%-2.89%

At the end of the reporting period, the Group had the following undrawn borrowing facilities:

	2016 RMB'000	2015 RMB'000
Floating rate		
– expiring beyond one year	**777,058**	352,408
Fixed rate		
– expiring within one year	**238,884**	–
– expiring beyond one year	**883,739**	149,696
	1,899,681	502,104

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

	2016 RMB'000	2015 RMB'000
HK$	**1,079,865**	–

36. UNSECURED NOTES

	2016 **RMB'000**	2015 RMB'000
Carrying amount repayable:		
Within two to five years	**2,485,604**	–
RMB2,500,000,000 notes carries fixed coupon rate of 3.4% per annum, interest payable annually with maturity on 15 November 2019	**2,485,604**	–

At 31 December 2016, the Company registered medium-term notes in an aggregate amount of RMB4,500,000,000 and the notes could be issued by the Company in multiple tranches within two years from 9 November 2016. On 16 November 2016, the Company completed the issuance of the first tranche of notes in an aggregate amount of RMB2,500,000,000, with a maturity of three years and coupon rate of 3.4% per annum.

37. SHARE CAPITAL OF THE COMPANY

	Number of shares		**Share capital**	
	2016 **'000**	2015 '000	**2016** **RMB'000**	2015 RMB'000
Issued and fully paid				
At beginning of the year	**4,483,747**	2,533,899	**9,809,935**	2,542,246
Issue of shares (note i)	**–**	1,949,848	**–**	7,267,689
Repurchase of shares (note ii)	**(52,242)**	–	**–**	–
At end of the year	**4,431,505**	4,483,747	**9,809,935**	9,809,935

Notes:

(i) The Company allotted and issued 1,538,425,000 and 213,674,000 ordinary shares at HK$4.68 (approximately RMB3.75) per share on 12 May 2015 and 14 May 2015 respectively. In addition, the Company allotted and issued 197,749,000 ordinary shares at HK$4.212 (approximately RMB3.370) per share on 5 November 2015 to Mr. Tan Dengping and Ms. Zhou Jialin (note 39). The total net proceeds from the share issues amounted to RMB7,199,974,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) During the current year, 52,242,000 shares were repurchased at a consideration of HK$188,716,000 (RMB162,219,000). All of the shares repurchased during the year were cancelled and the nominal value of such cancelled shares were debited to accumulated profits.

37. SHARE CAPITAL OF THE COMPANY (CONTINUED)

Notes:

(ii) (continued)

During the year, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
2016				
March	15,206,000	3.80	3.44	53,885
April	19,728,000	3.80	3.56	72,641
May	17,308,000	3.65	3.50	62,190

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

38. RETIREMENT BENEFITS PLANS

Hong Kong

The Group participates in a defined contribution scheme under Mandatory Provident Fund Scheme ("MPF Scheme"). For members of the MPF Scheme, both the Group and the employee contribute 5% of the employee's relevant income to the Scheme according to the MPF ordinance.

PRC

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 certain 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.

39. ACQUISITION OF SUBSIDIARIES

(a) The Jiangyin Tianjiang Group

In October 2015, the Group acquired 87.3% of the equity interest in Jiangyin Tianjiang Group for a provisional consideration of RMB8,758,337,000. On 30 November 2015, the Company delivered a notice to all of the ex-shareholders of the Jiangyin Tianjiang Group. Pursuant to the notice, the Company declared that it was entitled to claim a total compensation of RMB145,599,000 from all of the ex-shareholders for potential loss of future revenue of the Jiangyin Tianjiang Group due to a litigation against three distributors of the Jiangyin Tianjiang Group incurred before the acquisition. Certain ex-shareholders agreed with the Group a total compensation amount of RMB45,601,000, which has been deducted from the total consideration as at 31 December 2015. However, the remaining ex-shareholders were still negotiating the remaining compensation of RMB99,998,000 as at 31 December 2015, and such amount has not been deducted from the provisional consideration in the consolidated financial statements for the year ended 31 December 2015. As at 31 December 2015, the directors of the Company were in the process of assessing fair values of the consideration and the identifiable net assets and liabilities assumed of the Jiangyin Tianjiang Group at the date of the acquisition and goodwill was determined as provisional amounts in accordance with HKFRS 3 "Business Combinations". On 31 May 2016, the Company further agreed a compensation of RMB35,000,000 with two of the remaining ex-shareholders and the compensation was deducted against the goodwill in the consolidated financial statements for the year ended 31 December 2016. During the current year, management considered the remaining compensation amount of RMB64,998,000 is unlikely to be indemnified because the Group did not incur that loss and such amount has not been deducted from the purchase consideration in the consolidated financial statements for the year ended 31 December 2016. Goodwill arising from the acquisition is analysed as below:

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

	Amount recognised at the date of acquisition RMB'000 (Previously stated)	Adjustments RMB'000	Amount recognised at the date of acquisition RMB'000 (Restated)
Property, plant and equipment	863,116	–	863,116
Prepaid lease payments	120,450	–	120,450
Deposits paid for acquisition of property, plant and equipment	39,899	–	39,899
Other intangible assets	2,791,872	3,035,388	5,827,260
Inventories	783,252	–	783,252
Trade and other receivables	1,575,091	–	1,575,091
Bank balances and cash	227,827	–	227,827
Other financial assets	448,134	–	448,134
Deferred tax assets	44,321	(14,409)	29,912
Trade and other payables	(767,060)	(16,144)	(783,204)
Deferred government grants	(107,868)	107,868	–
Tax liabilities	(83,553)	–	(83,553)
Deferred tax liabilities	(675,973)	(766,240)	(1,442,213)
Less: Non-controlling interests of subsidiaries of Jiangyin Tianjiang Group	(3,172)	–	(3,172)
	5,256,336	2,346,463	7,602,799

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(a) The Jiangyin Tianjiang Group (continued)

	RMB'000 (Restated)
Consideration transferred	8,758,337
Transferred from cash flow hedging reserve	122,887
Adjustment to provisional consideration	(35,000)
Plus: Non-controlling interests	965,555
Less: Fair value of identifiable net assets acquired	(7,602,799)
Goodwill arising on acquisition	2,208,980

Goodwill arose in the acquisition of Jiangyin Tianjiang Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies. The directors of the Company are of the view that through the acquisition, the Group could realise synergies through the sharing of resources in overall management, research and development, raw materials and production, marketing, sales and distribution; the cross-selling benefits derived from the customer base of the Group and Jiangyin Tianjiang Group; expanded management expertise; additional negotiation power relative to both customer and suppliers relationships; revenue growth; future market development; and the assembled workforce of Jiangyin Tianjiang Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In the opinion of the directors of the Company, the fair values of trade and other receivables acquired approximate to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables which all expected to be collected.

Cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges in respect of the forecasted acquisition of Jiangyin Tianjiang Group. RMB122,887,000 was transferred from cash flow hedging reserve to goodwill upon the business combination occurred.

The non-controlling interests in Jiangyin Tianjiang Group recognised at the acquisition date was measured by reference to the share of the fair value of the identifiable assets acquired and the liabilities assumed which amounted to RMB968,727,000.

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(a) The Jiangyin Tianjiang Group (continued)

Analysis of the net cash outflow in respect of the acquisition of subsidiaries

	RMB'000
Provisional consideration at 31 December 2015	8,758,337
Less: Fair value adjustment (note (i))	(67,715)
Less: Outstanding consideration payable at 31 December 2015	(1,011,227)
Cash paid for the year ended 31 December 2015	7,679,395
Cash and cash equivalent of the subsidiaries acquired	(227,827)
Net cash outflow for the year ended 31 December 2015	7,451,568

Notes:

(i) On 15 May 2015, the Company and Mr. Tan Dengping and Ms. Zhou Jialin, entered into a trustee subscription agreement respectively, pursuant to which Mr. Tan Dengping and Ms. Zhou Jialin agreed, subject to fulfilment of certain conditions including approval from the shareholders at an extraordinary general meeting to be held, to subscribe for 197,749,000 shares at HK$4.212 (approximately RMB3.370) per share for a total amount of HK$832,922,000 (RMB666,337,000). The amount to be paid for shares subscription would be obtained through the acquisition of the Jiangyin Tianjiang Group. Mr. Tan Dengping and Ms. Zhou Jialin were two of the ex-shareholders of the Jiangyin Tianjiang Group. On 5 November 2015, Mr. Tan Dengping and Ms. Zhou Jialin completed the share subscriptions and the fair value adjustment of RMB67,715,000 represents the excess of the fair value of shares subscribed as at the acquired date over the agreed amounts to be paid according to the trustee subscription agreements.

(ii) During the year ended 31 December 2016, the Company paid RMB888,117,000 out of the outstanding consideration payable as at 31 December 2015 of RMB1,011,227,000. The agreed compensation of RMB35,000,000 from two of the ex-shareholders during the year was deducted from the consideration payable and the balance of consideration payable as at 31 December 2016 was RMB88,110,000.

(b) Huayi

In May 2016, the Group acquired 100% of the equity interest of Huayi for consideration of RMB34,000,000 from China National Traditional Chinese Medicine Corporation ("CNTCM"). In the opinion of directors of the Company, CNTCM is the Company's intermediate holding company. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB9,774,000.

Consideration transferred

	RMB'000
Cash	34,000

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(b) Huayi (continued)

Goodwill arose on the acquisition of Huayi because Huayi manufactures and markets two exclusive TCM products and the directors of the Company are of the view that these two products are of high growth potential and the acquisition of Huayi will expand the Group's mix of exclusive TCM products.

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

	Amount recognised at the date of acquisition RMB'000 (Provisional basis)
Property, plant and equipment	37,689
Prepaid lease payments	11,526
Other intangible assets	36,093
Inventories	16,094
Trade and other receivables	4,700
Bank balances and cash	37,601
Trade and other payables	(28,326)
Amount due to a related party	(49,500)
Deferred tax liabilities	(453)
Less: Non-controlling interests of subsidiary of Huayi	(41,198)
	24,226
Consideration transferred	34,000
Less: Fair value of identifiable net assets acquired	(24,226)
Provisional goodwill arising on acquisition	9,774

Net cash inflow arising on acquisition

	RMB'000
Consideration paid in cash	(34,000)
Less: Bank balances and cash acquired	37,601
	3,601

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(b) Huayi (continued)

The directors of the Company are in process of assessing fair value of the identifiable net assets and liabilities assumed of Huayi at the date of the acquisition and goodwill was determined provisionally.

Goodwill arose in the acquisition of Huayi because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Huayi. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In the opinion of the directors of the Company, the fair values of trade and other receivables acquired approximate to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables which all expected to be collected.

Impact of acquisition on the results of the Group

During the year ended 31 December 2016, Huayi contributed RMB46,619,000 to the Group's revenue and loss of RMB2,044,000 to the Group's results.

Had the acquisition of Huayi been effected at 1 January 2016, the total amount of revenue of the Group from continuing operations for the year ended 31 December 2016 would have been RMB6,554,258,000 and the amount of the profit of the Group for the year from continuing operations would have been RMB1,084,920,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(c) Shanghai Tongjitang

During the year, the Group acquired 100% of the equity interest of Shanghai Tongjitang for consideration of RMB510,000,000. Wang Xiaochun, being the executive director of the Company, held 50% of the equity interests Shanghai Tongjitang before the acquisition. This acquisition has been accounted for using the purchase method with effective from 7 November 2016. The amount of goodwill arising as a result of the acquisition was RMB111,101,000.

Consideration

	RMB'000
Cash paid	500,000
Contingent consideration arrangement (Note)	10,000
Total	510,000

Note: The vendors have guaranteed that the audited net profit after tax (excluding non-recurring gains and losses) of Shanghai Tongjitang for each of the two years ending 31 December 2016 and 2017 shall be not less than RMB43,000,000 (the "Target Profits"). The Target Profits were determined after taking into account the audited profit after tax of Shanghai Tongjitang for the six months ended 30 June 2016 of RMB22,700,000. In the event that the audited net profit after tax (excluding non-recurring gains and losses) for any of the two years ending 31 December 2016 and 2017 is less than the Target Profits, the consideration for the acquisition will be adjusted to RMB500,000,000. Given that the profit after tax recorded by Shanghai Tongjitang for the six months ended 30 June 2016 represents more than half of the Target Profits, the directors of the Company considered that it is unlikely that adjustment will be made to the consideration.

Goodwill arose on the acquisition of Shanghai Tongjitang because Shanghai Tongjitang is principally engaged in the manufacture and sale of TCM decoction pieces in Shanghai, the PRC. The acquisition of Shanghai Tongjitang is in line with the Group's development strategy to become leader in the TCM industry and will allow the Group to expand its product mix, consolidate upstream resources and extend its coverage in the industry value chain.

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(c) Shanghai Tongjitang (continued)

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

	Amount recognised at the date of acquisition RMB'000 (Provisional basis)
Property, plant and equipment	110,305
Prepaid lease payments	16,147
Other intangible assets	184,065
Inventories	52,622
Trade and other receivables	54,738
Deferred tax assets	132
Bank balances and cash	96,053
Trade and other payables	(47,273)
Deferred tax liabilities	(65,556)
Tax liabilities	(2,334)
	398,899
Consideration	510,000
Less: Fair value of identifiable net assets acquired	(398,899)
Provisional goodwill arising on acquisition	111,101

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	(500,000)
Less: Bank balances and cash acquired	96,053
	(403,947)

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(c) Shanghai Tongjitang (continued)

The directors of the Company are in process of assessing fair value of the identified net assets and liabilities assumed of Shanghai Tongjitang at the date of the acquisition and goodwill was determined provisionally.

Goodwill arose in the acquisition of Shanghai Tongjitang because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Shanghai Tongjitang. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In the opinion of the directors of the Company, the fair values of trade and other receivables acquired approximate to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables.

Impact of acquisition on the results of the Group

During the year ended 31 December 2016, Shanghai Tongjitang contributed RMB23,916,000 to the Group's revenue and profit of RMB1,850,000 to the Group's results.

Had the acquisition of Shanghai Tongjitang been effected at 1 January 2016, the total amount of revenue of the Group from continuing operations for the year ended 31 December 2016 would have been RMB6,734,989,000 and the amount of the profit of the Group for the year from continuing operations would have been RMB1,130,289,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

(d) Tongjitang Herbal

In November 2016, the Group acquired 100% of the equity interest of Tonjitang Herbal for consideration of RMB60,934,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB29,433,000.

Consideration transferred

	RMB'000
Cash paid	48,747
Outstanding consideration to be paid	12,187
Total	60,934

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(d) Tongjitang Herbal (continued)

Goodwill arose on the acquisition of Tongjitang Herbal because Tongjitang Herbal is principally engaged in the manufacture and sale of TCM decoction pieces in Guizhou Province, the PRC. The acquisition of Tongjitang Herbal is in line with the Group's development strategy to become leader in the TCM industry and will allow the Group to expand its product mix, consolidate upstream resources and extend its coverage in the industry value chain.

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

	Amount recognised at the date of acquisition RMB'000 (Provisional basis)
Property, plant and equipment	3,976
Inventories	5,508
Trade and other receivables	39,843
Bank balances and cash	3,525
Trade and other payables	(21,249)
Tax liabilities	(102)
	31,501
Consideration	60,934
Less: Fair value of identifiable net assets acquired	(31,501)
Provisional goodwill arising on acquisition	29,433

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	(48,747)
Less: Bank balances and cash acquired	3,525
	(45,222)

The directors of the Company are in process of assessing fair value of the identified net assets and liabilities assumed of Tongjitang Herbal at the date of the acquisition and goodwill was determined provisionally.

39. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(d) Tongjitang Herbal (continued)

Goodwill arose in the acquisition of Tongjitang Herbal because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Tongjitang Herbal. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In the opinion of the directors of the Company, the fair values of trade and other receivables acquired approximate to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables.

Impact of acquisition on the results of the Group

During the year ended 31 December 2016, Tongjitang Herbal contributed RMB10,756,000 to the Group's revenue and profit of RMB4,581,000 to the Group's results.

Had the acquisition of Tongjitang Herbal been effected at 1 January 2016, the total amount of revenue of the Group from continuing operations for the year ended 31 December 2016 would have been RMB6,620,352,000and the amount of the profit of the Group for the year from continuing operations would have been RMB1,088,005,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

40. OPERATING LEASES

The Group as lessee

	2016 **RMB'000**	2015 RMB'000
Minimum lease payment paid under operating leases during the year	**6,399**	2,604

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**25,117**	1,954
In the second to fifth years inclusive	**1,780**	3,240
After fifth years	**883**	5,990
	27,780	11,184

40. OPERATING LEASES (CONTINUED)

The Group as lessee (continued)

Operating lease payments represent rentals payable by the Group for its office and production premises, and leasehold land held under operating leases. The lease was negotiated for an average term of two to fifteen years (2015: two to fifteen years) with fixed rental. The lease did not include any contingent rentals.

The Group as lessor

Property rental income earned during the year was RMB880,000 (2015: RMB866,000). All of the properties held have committed tenants for the next 1 to 18 years (2015: 1 to 19 years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2016	2015
	RMB'000	RMB'000
Within one year	**390**	390
In the second to fifth years inclusive	**624**	894
After fifth years	**1,860**	1,980
	2,874	3,264

41. CAPITAL COMMITMENTS

	2016	2015
	RMB'000	RMB'000
Contracted for but not provided in the consolidated financial statements		
– Investments in PRC entities (note a)	**640,000**	–
– Acquisition of a subsidiary (note b)	**61,403**	–
– Acquisition of property, plant and equipment	**265,589**	237,225
	966,992	237,225

Notes:

(a) Pursuant to the cooperation agreements entered into by the Group, Foshan Hospital Geriatric Co., Ltd and Foshan Hospital of TCM on 13 January 2016, the parties agreed to form two companies which are principally engaged in the provision of general hospital services, investments in medical industry and provision of hospital management consultancy services. The registered capital of these companies has not yet paid up to the date of issue of these consolidated financial statements.

(b) Pursuant to the sales and purchase agreement entered into by the Group and the vendor, the Group would acquire the 60% registered capital of 貴州同濟堂藥房連鎖有限公司 (Guizhou Tongjitang Pharmacy Chain Co. Ltd.) at a consideration of RMB87,720,000. As at 31 December 2016, the relevant regulatory procedures was still in progress, and RMB26,317,000 (refer to note 25) was paid as deposit. The outstanding consideration of RMB61,403,000 is payable upon completion of the acquisition.

42. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of net debt, which includes bank borrowings and unsecured notes disclosed in notes 35 and 36, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents. Adjusted capital comprises all components of equity.

The adjusted debt-to-equity ratios at 31 December 2016 and 2015 are as follows:

	2016 **RMB'000**	2015 RMB'000 (Restated)
Current liability:		
Bank borrowings	**1,001,392**	1,600,059
Non-current liabilities:		
Bank borrowings	**422,947**	850,300
Unsecured notes	**2,485,604**	–
	2,908,551	850,300
Total debt	**3,909,943**	2,450,359
Less: Cash and cash equivalents	**(2,147,338)**	(2,101,856)
Adjusted net debt	**1,762,605**	348,503
Total equity	**12,755,862**	12,140,213
Adjusted net debt-to-equity ratio	**14%**	3%

The Group is not subject to externally imposed capital requirements except for financial covenants relating to certain of the banking facilities of the Company.

43. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading investments	**591**	594
Derivative financial instruments	**23,694**	–
Other financial assets	**–**	100,000
Loans and receivables (including cash and cash equivalents)	**5,995,961**	5,412,022
Financial liabilities		
Amortised cost	**5,667,275**	4,493,544

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, held for trading investments, derivative financial instruments, other financial assets, pledged bank deposits, fixed deposits, bank balances and cash, trade and other payables, unsecured notes and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies, i.e. currency other than the functional currency of the respective group entities, which are mainly other receivables, bank balances and cash, other payables, and bank borrowings of the Group and the Company, at the end of the reporting period are as follows:

	2016		2015	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
HK$	**926,045**	**(1,091,833)**	–	–

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

The Group manage the foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently does not have a foreign exchange hedging policy. Management will consider hedging foreign currency exposure should the need arise.

Sensitivity analysis

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rates. If the RMB strengthens 5% (2015: 5%) against the relevant foreign currencies, the increase in post tax profit for the year is as follows:

	2016 **RMB'000**
HK$	**8,289**

There would be an equal and opposite impact on the post tax profit for the year if RMB weaken 5% against the relevant currencies.

The Group is also exposed to foreign currency risk in relation to the outstanding foreign currency forward contracts at the end of the reporting period. The sensitivity to foreign currency risk arising from the foreign currency forward contracts has been determined based on the reasonably possible change in the forward exchange rate between RMB and HK$. For a 5% strengthening in RMB against HK$, the post tax profit for the year will be increased by RMB178,000 (2015: nil). If RMB has been weakened against HK$ in an opposite magnitude and all other variables held constant, the potential effect on the results would be equal and opposite.

During the year, the functional currency of Company and certain of its subsidiaries was changed from HK$ to RMB. Other receivables, bank balances and cash, other payables, and bank borrowings denominated in HK$ are therefore exposed to significant foreign currency risk and the Group's sensitivity to foreign currency has been increased during the year ended 31 December 2016. In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings and unsecured notes. The Group is exposed to cash flow interest rate risk in relation to the floating rate borrowings. The Group does not have any interest rate hedging policy. However, the management monitors the related interest rate risk exposure closely and will consider hedging the interest rate risk exposure should the need arise.

The Group's pledged bank deposits and bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on pledged bank deposits and bank balances. The management considers the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are mainly within short maturity period.

The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's borrowings denominated in Hong Kong dollars.

Interest rate profile

The following table details the interest rate profile of the Group's total bank borrowings and unsecured notes at the end of the reporting period.

	2016		2015	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank borrowings	**2.22%**	**1,001,392**	5.19%	962,333
Unsecured notes	**3.40%**	**2,485,604**	–	–
		3,486,996		962,333
Floating rate borrowings:				
Bank borrowings	**2.27%**	**422,947**	2.87%	1,488,026
Total bank borrowings and unsecured note		**3,909,943**		2,450,359
Net fixed rate borrowings as a percentage of total bank borrowings and unsecured notes		**89.2%**		39.3%

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and floating rate borrowings. The analysis is prepared assuming that those balances outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease which represents the management's assessment of the reasonably possible charge in interest rates is used.

If the interest rate on pledged bank deposits and bank balances carried at variable rates had been 50 basis points higher/lower and all other variables were held constant, the post-tax profit of the Group would increase/decrease by RMB15,286,200 (2015: increase/decrease by RMB9,753,900) for the years ended 31 December 2016. If the interest rate on floating rate borrowings had been 50 basis points higher/lower and all other variables were held constant, the post-tax profit of the Group would decrease/increase by RMB2,115,000 (2015: decrease/increase by RMB7,440,000) for the year ended 31 December 2016.

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure as the year end exposure does not reflect the exposure during the year.

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of each individual trade receivables at the end of the reporting period in determining the allowance for doubtful debts and ensures that adequate allowance for doubtful debts are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

43. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

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 approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves 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 tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities which are based on contractual undiscounted cash flows including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period and the earliest date the Group can be required to pay:

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 3 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2016						
Trade and other payables	**–**	**1,757,332**	**–**	**–**	**1,757,332**	**1,757,332**
Bank borrowings	**2.23%**	**1,015,728**	**429,409**	**–**	**1,445,137**	**1,424,339**
Unsecured notes	**3.40%**	**85,000**	**85,000**	**2,574,375**	**2,744,375**	**2,485,604**
		2,858,060	**514,409**	**2,574,375**	**5,946,844**	**5,667,275**
31 December 2015						
Trade and other payables	–	2,043,185	–	–	2,043,185	2,043,185
Bank borrowings	3.78%	1,634,856	12,903	869,436	2,517,195	2,450,359
		3,678,041	12,903	869,436	4,560,380	4,493,544

44. FAIR VALUES MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

		Fair value as at			
		31.12.2016 RMB'000	31.12.2015 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at FVTPL					
1.	Listed equity securities	**591**	594	Level 1	Quoted bid prices in active markets.
2.	Foreign currency forward contracts	**23,694**	–	Level 2	Discounted cash flow: Future cash flows are estimated based on difference between predetermined forward exchange rates and spot exchange rates at the end of the reporting period
3.	Structured bank deposits	**–**	100,000	Level 2	Discounted cash flow: Future cash flows are estimated based on expected interest returns, discounted at a rate that reflects the credit risk of various counterparties

There were no transfers between Level 1and 2 during both years.

Fair value measurements and valuation processes

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.

45. RELATED PARTY TRANSACTIONS

Key management remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company and certain of the highest paid employees as disclosed in notes 14 and 15, is as follows:

	2016 **RMB'000**	2015 RMB'000
Short-term employee benefits	**7,983**	8,439
Post-employments benefits	**269**	298
	8,252	8,737

Total remuneration is included in "other staff costs" (see note 13).

Other related party transactions

Name of related party	**Relationship**
Mr. Wu Xian	Executive director of the Company
Mr. Yang Bin	Executive director of the Company
Mr. Wang Xiaochun	Executive director of the Company
CNPGC	Ultimate controlling party
CNPGC's subsidiaries other than the Group	Fellow subsidiaries of the Group

45. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management remuneration (continued)

During the year, the Group entered into the following related party transactions:

	2016 RMB'000	2015 RMB'000
(i) Sales of finished goods to CNPGC's subsidiaries other than the Group – Continuing operations	**257,078**	377,614

	2016 RMB'000	2015 RMB'000
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group – Continuing operations	**7,515**	12,737

	2016 RMB'000	2015 RMB'000
(iii) Research and development services provided by CNPGC's subsidiaries other than the Group – Continuing operations	**–**	11,768

	2016 RMB'000	2015 RMB'000
(iv) Acquisition of Huayi from CNTCM, CNPGC's subsidiaries other than the Group – Continuing operations	**34,000**	–

45. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management remuneration (continued)

Particulars of significant balances between the Group and the related parties are as follows:

	2016 RMB'000	2015 RMB'000
(v) Trade and other receivable balances due from CNPGC's subsidiaries other than the Group	**172,818**	238,579

	2016 RMB'000	2015 RMB'000
(vi) Trade and other payable balances due to CNPGC's subsidiaries other than the Group	**5,663**	52,903

Transactions/balances with other state-controlled entities

The Group itself is part of a larger group of companies under CNPGC, which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("stated-controlled entities") in the ordinary course of business. The director of the Company consider those entities other than the CNPGC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

The Group has bank balances deposited in and entered into various transactions, including sales, purchases, borrowings and other operating expenses, with other state-controlled entities during the current year in which the director of the Company are of the opinion that it is impracticable to ascertain the identity of the controlling parties of these counterparties and accordingly whether the counterparties are state-controlled entities.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

(a) General information of subsidiaries

Name of subsidiary	Place/Date of incorporation/ establishment and operation	Issued and fully paid capital/registered capital		Attributable equity interest of the Group		Principal activities
		2016	2015	**2016**	2015	
Directly held the Company						
Jiangyin Tiangjiang#	The PRC 18 September 1998	**RMB94,555,556**	RMB94,555,556	**87.3%**	87.3%	Development, manufacturing and sales of traditional Chinese medicine granules
Indirectly held the Company						
Dezhong#	The PRC 1 November 1998	**USD6,460,000**	USD6,460,000	**96.94%**	96.94%	Manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing#	The PRC 16 March 2000	**USD7,526,100**	USD7,526,100	**98%**	98%	Manufacture and sale of Chinese pharmaceutical products
Guangdong Medi-World*	The PRC 13 November 1992	**USD27,340,000**	USD27,340,000	**100%**	100%	Manufacture and sale of pharmaceutical products and investment holding
Luya#	The PRC 6 November 2000	**RMB24,529,300**	RMB24,529,300	**100%**	100%	Manufacture and sale of pharmaceutical products
Feng Liao Xing Material & Slices^	The PRC 6 March 1982	**RMB5,500,000**	RMB5,500,000	**100%**	100%	Trading of pharmaceutical products
Winteam Sales*	The PRC 1 August 2002	**RMB10,000,000**	RMB10,000,000	**100%**	100%	Trading of pharmaceutical products
Tongjitang Pharmaceutical*	The PRC 29 June 2005	**RMB249,759,458**	RMB249,759,458	**100%**	100%	Development, manufacturing, marketing and sales of pharmaceutical products
Jingfang^	The PRC 7 March 2000	**RMB39,000,000**	RMB39,000,000	**100%**	100%	Development, manufacturing, marketing and sales of pharmaceutical products
Guizhou LLF*	The PRC 23 October 2001	**RMB50,000,000**	RMB50,000,000	**100%**	100%	Development, manufacturing, marketing and sales of pharmaceutical products

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place/Date of incorporation/ establishment and operation	Issued and fully paid capital/registered capital		Attributable equity interest of the Group		Principal activities
		2016	2015	**2016**	2015	
Indirectly held the Company (continued)						
Pulante^	The PRC 1 June 2000	**RMB27,520,000**	RMB27,520,000	**100%**	100%	Development, manufacturing, marketing and sales of pharmaceutical products
GD Yifang^	The PRC 10 February 1993	**RMB64,491,680**	RMB64,491,680	**87.3%**	87.3%	Development, manufacturing and sales of traditional Chinese medicine granules
Longxi Yifang^	The PRC 19 September 2006	**RMB30,000,000**	RMB30,000,000	**87.3%**	87.3%	Development, manufacturing and sales of traditional Chinese medicine granules
Tianxiang^	The PRC 20 December 2010	**RMB30,000,000**	RMB30,000,000	**87.3%**	87.3%	Manufacture and sale of traditional Chinese medicine granules
Jiangyin Tianjiang Chinese Medical Clinics Ltd. ("TCM Clinics")^	The PRC 3 November 2011	**RMB2,000,000**	RMB2,000,000	**87.3%**	87.3%	Provision of traditional Chinese medical consultation services
Sichuan Tianhao Pharmaceutical Company Limited ("Sichuan Tianhao")^	The PRC 22 January 2015	**RMB10,000,000**	RMB10,000,000	**44.5%**	44.5%	Plantation, purchase and sales of TCM products
Huayi^	The PRC 26 July 2002	**RMB126,000,000**	–	**100%**	–	Development, manufacturing, marketing and sales of TCM products
Shanghai Tongjitang^	The PRC 23 August 2002	**RMB80,000,000**	–	**100%**	–	Manufacture and sale of TCM decoction pieces products
Tongjitang Herbal^	The PRC 27 May 2002	**RMB6,000,000**	–	**100%**	–	Manufacture and sale of TCM decoction pieces products

* These companies were established in the PRC in the form of wholly foreign-owned enterprises.

These companies were established in the PRC in the form of sino-foreign equity joint ventures.

^ These companies were established in the PRC in the form of domestic enterprises.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016**	2015	**2016**	2015
				RMB'000	RMB'000 (restated)	**RMB'000**	RMB'000 (restated)
Continuing operations							
Jiangyin Tianjiang Group (Note)	The PRC	**12.7%**	12.7%	**111,829**	21,741	**1,093,257**	993,047
Individually immaterial subsidiaries with non-controlling interests				**7,784**	2,320	**74,278**	13,794
Discontinued operation							
Guizhou Zhongtai	The PRC			**–**	(5,608)	**–**	–
				119,613	18,453	**1,167,535**	1,006,841

Note: The amounts have been adjusted for intragroup elimination which primarily represent the goodwill and other intangible assets arising from the acquisition of Jiangyin Tianjiang.

Summarised consolidated financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

The following table lists out the information relating to the Jiangyin Tianjiang Group, the only sub-group of the Group which has material non-controlling interest (NCI) as at 31 December 2016. Sichuan Tianhao ("四川天濠藥業有限公司") is a 51% owned subsidiary of the Jiangyin Tianjiang Group and the effective interest owned by the Group in Sichuan Tianhao is 44.5%. Carrying amount of NCI included 55.5% of minority interest in Sichuan Tianhao, amounting to RMB3,649,000 (2015: RMB4,496,000).

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Jiangyin Tianjiang Group

	2016 RMB'000	2015 RMB'000
Current assets	**6,079,234**	3,268,002
Non-current assets	**1,174,575**	1,056,953
Current liabilities	**(2,935,344)**	(1,009,723)
Non-current liabilities	**(112,652)**	(81,929)
Equity attributable to owners of Jiangyin Tianjiang Group	**4,205,813**	3,233,303
Non-controlling interests of Jiangyin Tianjiang Group	**3,650**	4,496
Revenue	**4,358,789**	978,892
Expenses	**(3,386,281)**	(786,441)
Profit and total comprehensive income for the year	**972,508**	192,451
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group	**973,355**	191,903
Total comprehensive income attributable to the non-controlling interests	**(847)**	548
Total comprehensive income for the year	**972,508**	192,451
Net cash inflow from operating activities	**97,412**	257,490
Net cash (outflow) inflow from investing activities	**(625,391)**	301,075
Net cash (outflow) inflow	**(527,979)**	558,565

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Investments in subsidiaries	**12,591,126**	12,061,360
Loan to subsidiaries	**2,484,994**	–
Other receivables	**1,221**	2,598
	15,077,341	12,063,958
Current assets		
Other receivables	**10,528**	4,356
Amounts due from subsidiaries	**485,100**	64,361
Bank balances and cash	**909,707**	909,359
	1,405,335	978,076
Current liabilities		
Trade and other payables	**102,873**	1,020,777
Amounts due to subsidiaries	**2,125,687**	292,746
Bank borrowings	**642,072**	637,726
	2,870,632	1,951,249
Net current liabilities	**(1,465,297)**	(973,173)
Total assets less current liabilities	**13,612,044**	11,090,785
Non-current liabilities		
Bank borrowings	**407,030**	850,300
Unsecured notes	**2,485,604**	–
	2,892,634	850,300
NET ASSETS	**10,719,410**	10,240,485
CAPITAL AND RESERVES		
Share capital	**9,809,935**	9,809,935
Reserves (note (a))	**909,475**	430,550
TOTAL EQUITY	**10,719,410**	10,240,485

Approved and authorised for issue by the board of directors on 21 March 2017.

WU Xian
Executive Director

WANG Xiaochun
Executive Director

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note:

(a) Movements in the Company's reserves

	Cashflow hedging reserve RMB'000 (note 39(a))	Translation reserve RMB'000	Accumulated (losses) profits RMB'000	Total RMB'000
At 1 January 2015	–	(197,300)	(91,120)	(288,420)
Profit for the year	–	–	172,081	172,081
Other comprehensive income (expense)				
– Exchange differences arising from translation of functional currency to presentation currency	–	546,889	–	546,889
– Cash flow hedge: Effective portion of changes in fair value of hedging instruments recognised during the period	(122,887)	–	–	(122,887)
– Cash flow hedge: Amount transferred to initial carrying amount of hedged item	122,887	–	–	122,887
Subtotal of other comprehensive income	–	546,889	–	546,889
Total comprehensive income for the year	–	546,889	172,081	718,970
At 31 December 2015	–	349,589	80,961	430,550
Profit for the year	–	–	422,682	422,682
Other comprehensive income				
– Exchange differences arising from translation of functional currency to presentation currency	–	463,610	–	463,610
Subtotal of other comprehensive income	–	463,610	–	463,610
Total comprehensive income for the year	–	463,610	422,682	886,292
Dividends paid (note 16)	–	–	(245,148)	(245,148)
Share repurchased during the year	–	–	(162,219)	(162,219)
At 31 December 2016	–	813,199	96,276	909,475

48. COMPARATIVE FIGURES

Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year's presentations of the Group:

(i) reclassification of construction in progress to property, plant and equipment of RMB179,086,000 in the consolidated statement of financial position;

(ii) reclassification of prepaid lease payments (non-current portion) to prepaid lease payments (current portion) of RMB5,104,000 in the consolidated statement of financial position; and

(iii) reclassification of other financial assets to held for trading investments of RMB594,000 in the consolidated statement of financial position.

(iv) reclassification of gain on disposal of a subsidiary of RMB73,995,000 from continuing operations to discontinued operation in the consolidated statement of profit or loss and other comprehensive income.

In the opinion of the directors of the Company, other than the adjustments to provisional values for business combination in 2015 as set out in note 4, the reclassifications made in the comparative figures have insignificant impact to the Group's consolidated statement of financial position as at 1 January 2015, accordingly, the third consolidated statement of financial position is not presented.

49. MAJOR NON-CASH TRANSACTION

During the current year, bills received by the Group from its customers amounting to RMB140,000,000 were endorsed for the settlement of payables for acquisition of property, plant and equipment.

50. CONTINGENT LIABILITIES

During the year, the Group (i) endorsed certain bills receivables for the settlement of trade and other payables; and (ii) discounted certain bills receivables to banks for raising of cash. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivables, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivables is low because all endorsed and discounted bills receivables are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised on the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of the reporting period are as follows:

	2016 **RMB'000**	2015 RMB'000
Settlement of trade and other payables	**72,511**	1,937
Discounted bills for raising of cash	**4,479**	432,005
Outstanding endorsed and discounted bills receivables with recourse	**76,990**	433,942

The outstanding endorsed and discounted bills receivables are aged within 180 days at the end of the reporting period. The directors of the Company consider that the carrying amounts of the endorsed and discounted bills receivables approximate their fair values.