2017 Annual Report

CHINA MEDICAL SYSTEM HOLDINGS LIMITED
(Stock Code: 867)

CONTENTS

CORPORATE INFORMATION 1

FINANCIAL HIGHLIGHTS 2

CHAIRMAN'S STATEMENT 3

MANAGEMENT DISCUSSION AND ANALYSIS 5

DIRECTOR AND SENIOR MANAGEMENT 25

DIRECTORS' REPORT 29

CORPORATE GOVERNANCE REPORT 38

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 48

INDEPENDENT AUDITOR'S REPORT 66

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 72

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 73

CONSOLIDATED STATEMENT OF CHANGES IN EQULITY 75

CONSOLIDATED STATEMENT OF CASH FLOWS 76

NOTES TO THE CONSOLIDATED FINANCIAL STATMENTS 78

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling
Ms. SA Manlin
(resigned on 17 October 2017)

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung
Mr. HUANG Ming
(resigned on 13 December 2017)
Mr. LEUNG Chong Shun
(appointed on 13 December 2017)

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan
Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. HUANG Ming
(resigned on 13 December 2017)
Mr. LEUNG Chong Shun
(appointed on 13 December 2017)

Remuneration Committee Members

Mr. HUANG Ming (Chairman)
(resigned on 13 December 2017)
Mr. LEUNG Chong Shun (Chairman)
(appointed on 13 December 2017)
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)
Mr. LAM Kong
Mr. WU Chi Keung
Mr. HUANG Ming
(resigned on 13 December 2017)
Mr. LEUNG Chong Shun
(appointed on 13 December 2017)

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

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

Registered Office

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

Headquarters

6F-8F, Block B, Majialong Chuangxin Building
198 Daxin Road
Nanshan District
Shenzhen 518052
Guangdong Province
the PRC

Principal Place of Business in Hong Kong

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

Branch Share Registrar in Hong Kong

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

Stock Code

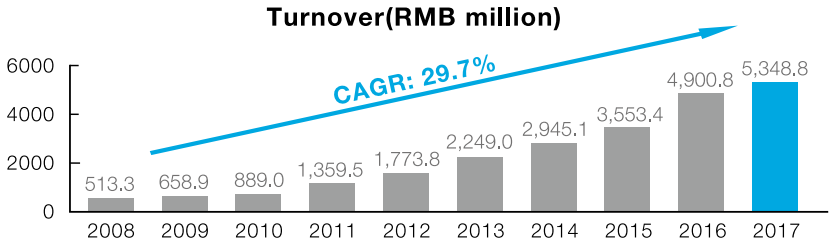
867

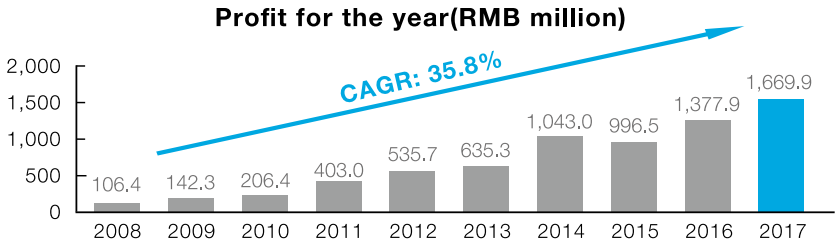
Company's Website

www.cms.net.cn

- Turnover up 9.1% to RMB5,348.8 million (2016: RMB4,900.8 million); excluding the effect of the "two-invoice system", turnover up 21.2% to RMB5,578.6 million (2016: RMB4,603.1 million)
- Gross profit up 19.5% to RMB3,478.3 million (2016: RMB2,911.9 million); excluding the effect of the "two-invoice system", gross profit up 19.1% to RMB3,272.2 million (2016: RMB2,746.3 million)
- Profit for the year up 21.2% to RMB1,669.9 million (2016: RMB1,377.9 million)
- Basic earnings per share up 21.7% to RMB0.6734 (2016: RMB0.5532)
- As at 31 December 2017, the Group's bank balances and cash amounted to RMB855.6 million while readily realizable bank acceptance bills amounted to RMB349.6 million
- Proposed final dividend of RMB0.1393 per share, bringing the total dividend for the year ended 31 December 2017 to RMB0.2686 per share, representing an increase of 21.2% from last year (2016: final dividend of RMB0.1164 and total dividend of RMB0.2216 per share respectively)

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





Consolidated Balance Sheet Highlights

	As at 31 December				
	2013	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	3,917,623	4,905,281	6,397,583	9,791,593	10,148,843
Total liabilities	641,036	914,442	1,045,115	3,523,769	2,820,586
Net assets	3,276,587	3,990,839	5,352,468	6,267,824	7,328,257

CHAIRMAN'S STATEMENT

Dear shareholders and partners,

As China Medical System Holdings Limited (the "Company") enters its seventh year as a listed company on the Main Board of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"), I would like to sincerely thank all our shareholders and partners on behalf of the Board of Directors of the Company ("Board of Directors") for your concerns and unwavering support. Below you will find the Annual Report of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2017 (the "Reporting Period").

Enhancing Cohesion and Developing with Innovation

In 2017, under a string of interlocking reform policies, China's healthcare and pharmaceutical industry moved into a critical period of systematic change. The policies were devised to move the country away from the extensive growth of its pharmaceutical industry and toward a pharmaceutical nation that focuses on quality and efficiency. The Group paid close attention to the direction of reform within the industry, conducting thorough research and laying out its strategies in advance, while optimizing its organization structure to improve operation efficiency. We have always treated the quality, brand and medical evidence of products as developmental tools, and we strive to create a high-quality academic brand image and broader market potential for our products. In 2017, with the hard work and dedication of our staff at CMS, the Group again presented satisfactory annual results.

Innovation was the main theme of the year's healthcare and pharmaceutical industry reform policies. With the publication of "About the Opinions on Deepening the Reform of the Review and Approval System and Encouraging the Innovation of Pharmaceutical and Medical Equipment" by the Office of the Central Committee of the Communist Party of PRC and General Office of the State Council of the PRC, the framework for innovation reform was formulated, and then a series of supporting policies were ushered out over time. This was a significant step in encouraging the launch of innovative products in the Chinese market. It also helped the industry to integrate with the global market, accelerating the introduction and gathering of the world's advance life science resources. The innovation impetus of the pharmaceutical industry was once again inspired and encouraged. The Group has been established on academic promotion, so innovative products are inevitably the impetus behind our continuous development. Under the new trends, we strived to seize opportunities in the international market and increased efforts in the introduction and development of the R&D stage products with independent intellectual property. During the Reporting Period, the Group invested in the equity of Destiny Pharma plc. ("Destiny Pharma") in the UK, and acquired the specific assets of its product portfolio in China and other Asian countries (excluding Japan). The main product in Destiny Pharma's portfolio is Exeporfinium Chloride (XF-73) Nasal Gel, which is an antimicrobial agent with a novel mechanism of action, under the phase II studies in the EU and the US. Furthermore, in December 2017, Traumakine®, which the Group owns the independent intellectual property rights of, completed its recruitment on schedule for its Phase III trial in Europe for the treatment of Acute Respiratory Distress Syndrome (ARDS). Faron Pharmaceuticals Ltd ("Faron") expects the top-line data from the Phase III trial to be available in the first half of 2018. If these innovative products can be successfully launched into the market, it would not only promote the future sustainable growth of the Group, but it would also significantly improve people's health.

Eliminating Difficulties and Advancing Bravely

Effective drugs that help to improve the wellbeing of society and the general public have always been the core weapon for the continuous development of the Group. The Group has always adhered to strict drug screening standards and professional evaluation systems, to search and acquire innovative and quality drugs with high academic value from the global market. The Group has formed a knowledgeable business development team with advanced vision and years of experience. The team is fully-equipped to make strategic thinking in a number of scenarios to find strategic solutions in line with local market demand for local and international partners, while continuously expanding the appropriate products reserves to aid the Group's development. After years of accumulation and development, the Group's product portfolio continues to grow. The number of key products under the promotion and sales were nineteen, and the indication fields of products basically covered the major departments of Class Three Grade-A hospitals (三甲醫院). Even with fierce competition in the market and a complicated policy environment, we believe that drugs with good efficacy, safety and sold at a reasonable price are the driving force for the future development of the pharmaceutical market, and also a powerful guarantee for the sustainable development of the Group.

After twenty years of development, through unremitting exploration and cultivation in China, the Group has established a professional and customer-centred academic promotion network covering all of China. The Group built this quality platform to deliver cutting-edge medical information, providing customers with valuable medical expertise to improve their level of diagnosis and treatment. We also create brand value for our products. In an ever-changing industrial environment, the Group continues to break through the traditional pharmaceutical promotional methods, applying Internet Thinking to actively build up a more efficient digital academic promotional system with the support of its in-house developed information system. In order to promote development through reform, the Group fully utilized the internet to drive its innovation model, upgrading its academic promotional ability and strengthening the core competitiveness of future development.

In November 2017, the Group relocated its office in Shenzhen, China to a more spacious, comfortable office environment to give our employees a more intelligent working experience. This not only represented the Group's people-oriented development concept, but also highlighted its strength and confidence in its future development. Looking forward, the Group will continue to comply with the market and policy trends to introduce new products with diversified strategies and develop its existing products. At the same time, the Group will continue to expand and refine its marketing and promotional network, to support its sustainable growth. We will continue our efforts to create a platform for our employees to realize their career dreams, strive to create value for our customers and take responsibility for our society.

Chairman
Lam Kong
Shenzhen, China
19 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company is pleased to announce that for the year ended 31 December 2017, the Group recorded a turnover of RMB5,348.8 million (2016: RMB4,900.8 million), representing an increase of 9.1% over the same period last year; excluding the effect of the "two-invoice system", the turnover would have been up 21.2% to RMB5,578.6 million (2016: RMB4,603.1 million). Profit for the year reached RMB1,669.9 million (2016: RMB1,377.9 million), up 21.2% from the corresponding period last year. The basic earnings per share was RMB0.6734 (2016: RMB0.5532), representing an increase of 21.7% over the same period last year.

2017 was a key year for healthcare and pharmaceutical industry reform, with the implementation of various reform policies enhanced gradually. Several policies were carried out in an orderly manner, such as the new edition of the National Reimbursement Drug List ("NRDL"), the implementation of the "two-invoice system", the elimination of drugs' mark-up and the control of the weight of drug sales. These policies profoundly influenced all aspects of the industry. The reform mainly focused on encouraging innovation and improving quality, which provided unprecedented developmental opportunities for promoting the structural adjustments of pharmaceutical and medical devices industries and technological innovation. During the Reporting Period, following on the developmental direction of innovation, the Group steadily promoted the introduction and R&D progress of patented products through a combination of in-house and cooperative R&D. At the same time, by continuing to explore and supplement academic key points, the Group solidified academic differentiation-based promotion strategies of products, treating professional academic promotion as the core weapon of its operation and development. The Group once again achieved satisfactory growth during the Reporting Period, which was contributed by the Group's quality product portfolio, fully covered promotional network and efficient operation system.

Product Introduction and Development

Product Introduction

The new products serve as a foundation for the Group's future development. Relying on the strict criteria for drugs selection and the professional drug evaluation system, the Group applied diversified introduction strategies and a multilevel (short-term, mid-term and long-term) new product introduction system to ensure the sufficient and constant supply of products launched to the market at any stage. This strategy supports the sustainable growth of the Group. During the Reporting Period, the Group continued to select and purchase high-quality products from the global market, and increased the strength of introducing patent products at R&D stage.

Added products with patent family protection as long-term pipeline via equity participation

In September 2017, the Group entered into a binding investment, development and commercialization framework agreement ("Framework Agreement") with Destiny Pharma. The detailed agreement would negotiate in good faith of the Framework Agreement: the Group will acquire certain rights to develop, manufacture, sell and commercialise certain assets in Destiny Pharma's current product portfolio in China and other Asian countries (excluding Japan), including, among others, relevant intellectual property, regulatory approvals and product data or documentations. In December 2017, the Group completed the equity investment in Destiny Pharma and acquired the above mentioned assets of Destiny Pharma's current product portfolio in China and other Asian countries (excluding Japan).

Destiny Pharma's current product portfolio mainly contains XF-73, which is an antimicrobial agent with a novel mechanism of action at phase II stage in the EU and the US, and two anti-infective agents at pre-clinical stages. The Group will undertake research and clinical development of above mentioned assets to develop Destiny Pharma's current product portfolio that the Group will then market in China and other Asian countries (excluding Japan). Under this collaboration arrangement, the Group further enriches and extends its current product reserve.

Existing Product Development

Plendil (Felodipine Sustained Release Tablets)

The Company owns the 20-year exclusive license for the commercialisation of Plendil in the People's Republic of China ("PRC"), excluding the Hong Kong Special Administrative Region ("Hong Kong SAR"), the Macau Special Administrative Region ("Macau SAR") and Taiwan. Plendil is an original product manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限公司). Plendil is used to treat hypertension and stable angina pectoris, and is in the NRDL. Plendil is the sustained release formulation of Felodipine, which controls the blood pressure smoothly with low occurrence rates of side effects. During the Reporting Period, Plendil recorded revenue of RMB1,289.0 million, an increase of 37.9% compared with the same period last year. Excluding the effect of the "two-invoice system", Plendil's revenue increased by 46.6% to RMB1,378.9 million compared with the same period last year.

During the Reporting Period, by cooperating with various academic platforms and capturing various opportunities, the Group divided promotional lines to refine academic promotion strategies, strengthening the layout of its key market. For emerging markets, the Group enhanced the coverage and penetration of re-education, delivering the core academic information of the product. As at 31 December 2017, sales of Plendil covered around 26,000 hospitals and medical institutions throughout China.

Ursofalk (Ursodeoxycholic Acid Capsules)

Ursofalk is manufactured by Losan Pharma GmbH, Germany, the entrusted manufacturer of Dr. Falk Pharma GmbH, Germany ("Falk") . The product is used to treat cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis, and it is in the NRDL. Based on IMS data in 2017, Ursofalk is the best-selling ursodeoxycholic acid drug in China, and ranks first in sales among digestive products in the Chinese cholagogue market. During the Reporting Period, Ursofalk recorded revenue of RMB959.4 million, an increase of 24.3% compared with the same period last year.

During the Reporting Period, the Group stuck to academic promotion strategies by deeply exploring the differentiated characteristics of the product. Meanwhile, the Group strengthened the academics image of Ursofalk with the help of wide-covered conference tours held by Falk. As at 31 December 2017, sales of Ursofalk covered around 9,400 hospitals and medical institutions throughout China.

Deanxit (Flupentixol and Melitracen Tablets)
Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used in the treatment of mild to moderate depression, anxiety and psychosomatic affections, and it is in the NRDL. Based on IMS data in 2017, Deanxit ranked the first in market share of antidepressant drugs in China. During the Reporting Period, Deanxit recorded revenue of RMB949.3 million, an increase of 3.4% compared with the same period last year.

During the Reporting Period, the Group enhanced the construction and optimization of the existing promotion platform, and actively participated in various platform activities. In addition, the Group focused on internal academic trainings, strengthening the internal drive for product promotion. By maintaining the traditional department coverage and increasing the penetration of key fields, the Group solidified the status of product's brand. As at 31 December 2017, sales of Deanxit covered around 21,000 hospitals and medical institutions throughout China.

XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)
XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Rhodiola Pharmaceutical Holdings Co., Ltd. ("Tibet Pharmaceutical", an associate company of the Group) in which the Group holds 36.83% of the total share, is a National Class One biological agent used to treat acute heart failure. It is also the only Recombinant Human Brain Natriuretic Peptide ("rhBNP") currently available in the Chinese market. XinHuoSu is in the NRDL. XinHuoSu was recommended by the first "Acute Heart Failure Diagnosis and Treatment Guideline (2010)" in China, and it was also recommended by "China Emergency Clinical Practice Guideline for Acute Heart Failure" in 2017. The product has gradually become the new generation of drug for treating acute heart failure. During the Reporting Period, XinHuoSu recorded revenue of RMB411.8 million, a decrease of 23.4% compared with the same period last year. Excluding the effect of the "two-invoice system", XinHuoSu's revenue increased by 18.9% to RMB651.9 million compared with the same period last year.

With strong academic network coverage and the resource integration of the cardiovascular and cerebrovascular division, the Group actively expanded and deepened the core expert network, and strengthened the professional academic promotion route by capturing the new NRDL inclusion opportunity. As at 31 December 2017, sales of XinHuoSu covered around 1,900 hospitals and medical institutions throughout China.

Salofalk (Mesalazine)
Dosage forms of suppositories and enemas of Salofalk are manufactured by Vifor AG Zweigniederlassung Medichemie Ettingen, Switzerland, the entrusted manufacturer of Falk, Germany; while enteric-coated tablets of Salofalk are manufactured by Losan Pharma GmbH, Germany, the entrusted manufacturer of Falk, Germany. Salofalk is mainly used to treat ulcerative colitis and Crohn's disease with acute exacerbations. It is in the NRDL, and is the Mesalazine with the widest dosage forms in China. During the Reporting Period, Salofalk recorded revenue of RMB296.3 million, an increase of 34.1% compared with the same period last year.

During the Reporting Period, the Group continued to improve the academic education amongst doctors and patients, maximising the advantages of multiple formulations. The Group also stabilised its key market and promoted market penetration, expanding the brand influence of Salofalk. As at 31 December 2017, sales of Salofalk covered around 3,900 hospitals and medical institutions throughout China.

Bioflor (Saccharomyces Boulardii Sachets)
Manufactured by Biocodex of France, Bioflor is a probiotics agent used to treat diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance. Bioflor is the probiotics agent with the most adequate medical evidence base to treat acute gastroenteritis in children, and it is also the only Saccharomyces Boulardii currently available in the Chinese market. The newest publication of 2016 "The Clinical Practice Guidelines for Chinese Children with Acute Infectious Diarrhea" gave Bioflor the highest level of recommendation. In 2017, the World Organisation of Gastroenterology (WGO) updated "Probiotics and Prebiotics Guidelines", which granted Bioflor an authoritative recommendation in related indications based on the 2011 edition of the guidelines. During the Reporting Period, Bioflor recorded revenue of RMB263.3 million, an increase of 49.5% compared with the same period last year.

During the Reporting Period, using a different academic promotion strategy, the Group cooperated with Biocodex to conduct various academic forums and conference tours. Meanwhile, by exploring the domestic medical evidence base in China, the Group solidified the pediatric field, while continuing its promotion in the digestive field and expanding other departments. As at 31 December 2017, sales of Bioflor covered around 3,000 hospitals and medical institutions throughout China.

Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)
The Group owns Augentropfen Stulln Mono Eye Drops' related assets for the China (including Hong Kong SAR and Macau SAR) market, and has entrusted the manufacture of the product to Pharma Stulln GmbH of Germany. Augentropfen Stulln Mono Eye Drops is used to treat senile macula degeneration and all forms of asthenopia. It is the only eye drops product approved by the China Food and Drug Administration (CFDA) for the treatment of macula degeneration, and it is preservative-free. During the Reporting Period, Augentropfen Stulln Mono Eye Drops recorded revenue of RMB217.5 million, an increase of 20.1% compared with the same period last year.

During the Reporting Period, by building multi-level academic platforms, the Group improved the construction of its network of experts, continuing to solidify and reinforce promotional work in the related fields of ocular fundus disease and asthenopia. As at 31 December 2017, sales of Augentropfen Stulln Mono Eye Drops covered around 7,000 hospitals and medical institutions throughout China.

XiDaKang (Protein Hydrolysate Oral Solution/ Oral Protein Hydrolysate)
XiDaKang, the Group's self-owned product, is the only protein hydrolysate enteral nutrition agent approved by the CFDA, and it is sold in forms of an oral solution and granules. XiDaKang is manufactured by Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), a wholly-owned subsidiary of the Group. Since the second half of 2014, the agency model of XiDaKang has been transferred to the promotional service model, which is hospital-based and to achieve long-term partnerships with agencies. The "two-invoice system" operational model adjustment has been completed in advance. During the Reporting Period, by strengthening the follow-up work of academic promotion, the Group extensively participated in academic conferences at all levels, while actively carrying out market development of newly entered regions. During the Reporting Period, XiDaKang recorded revenue of RMB194.6 million, a decrease of 10.6% compared with the same period last year. Excluding the effect of the "two-invoice system", XiDaKang's revenue decreased by 10.4% to RMB58.9 million compared with the same period last year.

YiNuoShu (Ambroxol Hydrochloride Injection)
The Group owns the product controlling rights for YiNuoShu. The Group mainly entrusted the manufacture of YiNuoShu to TIPR Pharmaceutical Responsible Co., Ltd. ("TIPR Pharmaceutical") and the production is partially subcontracted to Kangzhe Hunan by TIPR Pharmaceutical. YiNuoShu is the first generic version of ambroxol hydrochloride injection in China, and it is an expectorant product used for respiratory diseases. It is included in the NRDL. During the Reporting Period, the Group adjusted its strategic layout due to strong competition, actively increasing product's competitiveness. During the Reporting Period, YiNuoShu recorded revenue of RMB159.1 million, an increase of 15.7% compared with the same period last year. Excluding the effect of the "two-invoice system", YiNuoShu's revenue decreased by 18.8% to RMB100.6 million compared with the same period last year.

DanShenTong Capsules
DanShenTong Capsules is owned and manufactured by Hebei Xinglong Xili Pharmaceutical Co., Ltd. in which the Group owns more than 50% of the total share. It is in the NRDL. DanShenTong Capsules is a plant-based and multi-functional antibiotic (broad spectrum) with explicit molecular structure. The product incorporates positive effects to antisepsis and anti-inflammation. The drug is mainly used for the treatment of acne, tonsillitis, otitis externa, boils, carbuncles, traumatic infection, burn infection, mastitis, cellulitis and osteomyelitis, etc. During the Reporting Period, DanShenTong Capsules recorded revenue of RMB151.8 million, an increase of 2.7% compared with the same period last year.

During the Reporting Period, the Group carefully refined the pharmacological mechanism and promotional direction of the product, carrying out a series of academic promotion activities centered on its academic information. As at 31 December 2017, sales of DanShenTong Capsules covered around 4,000 hospitals and medical institutions throughout China.

Hirudoid (Mucopolysaccharide Polysulfate Cream)
The Group owns Hirudoid's related assets for the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market, and the product is manufactured by Mobilat Produktions GmbH (Germany). The active ingredient of Hirudoid is mucopolysaccharide polysulfate. The drug is used for the treatment of blunt traumata with or without hematomas, and superficial phlebitis insofar as it cannot be treated by compression. Hirudoid has a wide-range of effects and it's a high-quality, safe product. During the Reporting Period, Hirudoid recorded revenue of RMB129.0 million, an increase of 25.6% compared with the same period last year.

During the Reporting Period, the Group further solidified its national and regional dermatological network of experts, while working on in-depth research and constructing a strong medical evidence base. As at 31 December 2017, sales of Hirudoid covered around 6,000 hospitals and medical institutions throughout China.

NuoDiKang Capsules

NuoDiKang Capsules is manufactured by Sichuan NuoDiKangWeiGuang Pharmaceutical Co., Ltd., a subsidiary of Tibet Pharmaceutical, in which the Group holds 36.83% of the total share. The product is included in the National Essential Drug List ("EDL") and NRDL, and is listed as a Traditional Chinese Medicinal Protection Product. The main functions of the product are boosting vital energy, activating blood circulation, freeing flow in blood vessels and alleviating pain. It is used to treat chest impediments caused by a deficiency in vital energy and blood stasis, manifested as tightness in the chest, tingling or pain, palpitations, shortness of breath, lassitude, asthenic breathing, disinclination to talk and dizziness, and coronary heart disease and angina with the aforementioned symptoms. During the Reporting Period, NuoDiKang Capsules recorded revenue of RMB100.6 million, a decrease of 17.5% compared with the same period last year. Excluding the effect of the "two-invoice system", NuoDiKang Capsules' revenue increased by 7.4% to RMB135.1 million compared with the same period last year.

During the Reporting Period, the Group continued to further explore the academic value of the product through scientific research and strengthening features-based promotion. As at 31 December 2017, sales of NuoDiKang Capsules covered around 3,700 hospitals and medical institutions throughout China.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)

The Group owns Combizym's related assets for the China (including Hong Kong SAR, Macau SAR and Taiwan) market and other designated countries or areas. Combizym is manufactured by Nordmark Arzneimittel GmbH & Co. KG (Germany). The main ingredients of Combizym are pancreatin and aspergillus oryzae enzymes. The product is used for treating dyspepsia caused by a decrease in digestive enzymes. It is included in the NRDL. During the Reporting Period, Combizym recorded revenue of RMB67.9 million, an increase of 28.6% compared with the same period last year.

During the Reporting Period, the academic promotion of Combizym was focused on "improving the digestive efficiency, digestive enzyme supplement therapy" concept. Meanwhile, supported by its adequate resources from the digestive product line, the Group continued to concentrate on building the product's brand image. As at 31 December 2017, sales of Combizym covered around 1,300 hospitals and medical institutions throughout China.

GanFuLe Tablets

GanFuLe Tablets, the Group's self-owned product, is used for the treatment of primary liver cancer, cirrhosis and liver fibrosis. GanFuLe Tablets has been in clinical use for more than two decades, and is included in the NRDL. The product is manufactured by Kangzhe Hunan. During the Reporting Period, GanFuLe Tablets recorded revenue of RMB40.6 million, a decrease of 15.2% compared with the same period last year.

During the Reporting Period, with the same resources as other products under the digestive product line, the Group built the product's brand image by delivering its academic information via various academic conferences. As at 31 December 2017, sales of GanFuLe Tablets covered around 600 hospitals and medical institutions throughout China.

Imdur (Isosorbide Mononitrate Sustained Release Tablets)
The Group's associate company Tibet Pharmaceutical owns Imdur's global assets (US market excluded). The Group is responsible for Imdur's promotion in the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market. Imdur is a long-acting, oral nitrate preparation for the long-term treatment of coronary artery disease and prophylactic angina pectoris. It is temporarily manufactured by AstraZeneca Pharmaceutical Co., Ltd (阿斯利康製藥有限公司). Imdur has the Durules sustained release technology of AstraZeneca and is suitable for long-term anti-ischemic treatment. It is a NRDL product and is listed in local EDL in some areas. It is one of the indispensable drugs for anti-ischemic treatment of coronary artery disease. During the Reporting Period, Imdur recorded promotional service revenue of RMB40.0 million, an increase of 96.0% compared with the same period last year.

During the Reporting Period, focusing on the "standardized clinical application of nitrates" concept, the Group carried out multi-level academic activities. The Group also rebuilt its leading-brand position among nitrates by solidifying the good reputation of AstraZeneca's Durules sustained release technology. As at 31 December 2017, sales of Imdur covered around 8,000 hospitals and medical institutions throughout China.

Parlodel® (Bromocriptine Mesilate Tablets)
The Group owns Parlodel®'s related assets for the China (including Hong Kong SAR and Taiwan, excluding Macau SAR) market, and has entrusted the manufacture of the product to Novartis Farma S.P.A. in Italy. The active ingredient of Parlodel® is bromocriptine mesilate. It is an original product and is included in the NRDL. The product is suitable for indications of endocrine and nervous system, and it is a standard first-line treatment product for hyperprolactinaemia (HPRL) recommended by guidelines. During the Reporting Period, Parlodel® recorded revenue of RMB27.3 million, an increase of 27.5% compared with the same period last year. As at 31 December 2017, sales of Parlodel® covered around 1,300 hospitals and medical institutions throughout China.

Lamisil® (Terbinafine Hydrochloride Tablets)
The Group owns Lamisil®'s related assets for the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market, and the product is temporarily manufactured by Beijing Novartis Pharma Ltd ("Novartis"). The active ingredient of Lamisil® is terbinafine hydrochloride. It is an original product and is included in the NRDL. It is used to treat fungal infections on skin and hair caused by dermatophytes such as trichophyton, microsporumcanis and epidermophyton floccosum, as well as onychomycosis due to infection with dermatophyte (Hyphomycetes). Oral terbinafine is one of the systemic antifungal agents recommended by Chinese medical guidelines on tinea corporis and tinea cruris, tinea pedis, tinea capitis and onychomycosis. The Group is currently processing the transfer of the Drug Production License for Lamisil®. The production of Lamisil® will be transferred to Kangzhe Hunan after the production transfer is completed. During the license transformation period, the sales work for Lamisil® has been handled by Novartis, and Novartis has settled its profit to the Group based on an agreement. During the Reporting Period, the Group received Lamisil®'s settled profits revenue of RMB8.3 million, a decrease of 6.3% compared with the same period last year.

YinLianQingGanKeLi

The Group owns the 20-year exclusive sales rights of YinLianQingGanKeLi in China. The product, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is an exclusive TCM product that has been awarded a National New Drug Certificate. The main functions of the product are clearing away heat and toxic substances, and regulating the liver and spleen. It is used for acute hepatitis A and chronic hepatitis B. The product is included in the NRDL. During the Reporting Period, YinLianQingGanKeLi recorded revenue of RMB6.5 million, an increase of 77.7% compared with the same period last year. Excluding the effect of the "two-invoice system", YinLianQingGanKeLi's revenue decreased by 9.9% to RMB3.0 million compared with the same period last year.

MOVICOL® (Macrogol Sodium Potassium Powder)

The Group owns MOVICOL®'s related assets for the China (including Hong Kong SAR and Macao SAR) market, and has entrusted the manufacture of the product to Norgine Limited, UK. The active ingredients of MOVICOL® are macrogol 3350, sodium bicarbonate, sodium chloride and potassium chloride. The drug is used for the treatment of chronic constipation and fecal impaction. As a well-known brand for such ailments, it has been sold in Europe for many years, and the product has a wide-range of targeted patients in China. The China Imported Drug License ("IDL") for MOVICOL® is ready, and the product had yet to be sold in the China market before. During the Reporting Period, the Group carried out the relevant preparatory promotional work for MOVICOL® in China.

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

Introduction	**Products**	**As a Percentage of the Group's Revenue (%)**
Rights Control	Plendil	24.1
	XinHuoSu	7.7
	Stulln	4.1
	XiDaKang	3.6
	YiNuoShu	3.0
	DanShenTong	2.8
	Hirudoid	2.4
	NuoDiKang	1.9
	Combizym	1.3
	GanFuLe	0.8
	Imdur	0.7
	Parlodel	0.5
	Lamisil	0.2
	YinLianQingGan	0.1
	MOVICOL	0.0
	Subtotal	**53.2**
Exclusive Agency Contract	Ursofalk	17.9
	Deanxit	17.7
	Salofalk	5.5
	Bioflor	4.9
	Subtotal	**46.0**

Other Products

Apart from the products mentioned above, other products sold by the Group such as Cystistat, Exacin, ShaDuoLiKa, XiangFuYiXueKouFuYe recorded total revenue amounting to approximately RMB36.6 million, accounting for approximately 0.8% of the Group's turnover during the Reporting Period.

Pipeline Products

Products undergoing application process for Imported Drug License Registration

During the Reporting Period, the group had 4 products undergoing the application process for Imported Drug registration which will contribute to the group's revenue after they are officially issued an IDL by the CFDA. Key information on these products is listed below:

Products	Indications	Manufacturers	CFDA Pending Number	Registration Process
Budenofalk	For the treatment of Crohn's disease	Dr. Falk Pharma GmbH (Germany)	JXHL1100207 (Capsules)	Clinical Trial Approved
Maltofer® (Iron Maltose)	Used to treat iron deficiency without anemia ("ID") and iron deficiency with anemia ("IDA")	Vifor (International) Inc. (Switzerland)	JXHL1400152 (Syrup)	Clinical Trial Approved
			JXHL1400153 (Chewable Tablets)	Clinical Trial Approved
Ze 339	For the treatment of allergic rhinitis	Zeller Medical AG (Switzerland)	JXZL1500004	CDE Review
Succinylated Gelatin Injection	For initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited (UK)	Material Preparation	Material Preparation

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

During the Reporting Period, due to the business and technical considerations for Ze 440 (for the treatment of pre-menstrual syndrome, and menstrual cycle disorder), Ze 450 (for the treatment of menopausal discomfort), Budenofalk Foam Aerosol (for the treatment of ulcerative colitis) and Succinylated Gelatin Electrolyte Injection (for initial management of hypovolaemic shock), the Group agreed to terminate their Chinese IDL registrations.

Products with Independent Intellectual Property Rights

Tyroserleutide (CMS024)

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

Based on the positive results from the follow-up study and analysis of earlier clinical trials, the Group has decided to carry out a new extended phase III clinical trial for Tyroserleutide. During the Reporting Period, the phase III extended clinical trial of Tyroserleutide has been conducted in about 12 research centers in China, which is still in the patient recruitment process. The costs of the clinical trial will continue to be borne by Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D"), and the Group will pay 13% of the product's revenue to Kangzhe R&D as royalty fees after the successful commercialisation of the product. If Tyroserleutide is successfully launched into the market, it will not only have great market potential in China, but it will also have a major overall impact on human health.

Traumakine®

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

Traumakine® is a Recombinant Human Interferon beta-1a intravenous lyophilized preparation for the treatment of acute respiratory distress syndrome ("ARDS"). ARDS is an acute respiratory failure caused by many different factors, with progressive respiratory distress, refractory hypoxemia and non-cardiogenic pulmonary edema as clinical symptoms, and it is one of the common acute and critical clinical syndromes. ARDS involves several clinical sections, and common causes of ARDS include systemic infection, trauma, shock, burns and acute severe pancreatitis, etc. Five patents for and related to Traumakine® have been filed around the world. Among them, two have been directly filed in China via Patent Cooperation Treaty ("PCT"), with one having been granted; the remaining two patents were granted in the EU, US and Japan, etc. During the Reporting Period, Traumakine®'s formulation patent protecting the intravenous use of interferon-beta has been granted in Finland, and it will enter China via PCT in the future. In addition, Traumakine® was designated as an orphan drug for acute lung injury by the EU on 29 November, 2007, and it also was granted Promising Innovative Medicines (PIM) designation by the United Kingdom's Medicines and Healthcare Products Regulatory Agency (MHRA) in October 2017.

The Phase I/II clinical studies of Traumakine® were conducted in the UK with 28-day mortality as the endpoint for primary effectiveness. The results showed that the product improved mortality significantly (mortality in treatment group was 8%, compared to 32% in the control group, demonstrating an 81% reduction in the odds of 28-day mortality, p=0.01). Related research result has been published on the famous Lancet Respir Med Journal (LancetRespirMed.2014Feb; 2(2): 98-107). In December 2015, Traumakine®'s Phase III INTEREST clinical study started. It is a randomized, double-blind, parallel-group comparison of efficacy and safety of interferon and placebo in the treatment of moderate to severe ARDS patients who are recruited from multi-centers across Europe. In December 2017, the Phase IIII INTEREST clinical study of Traumakine® successfully recruited 300 patients on schedule. Faron has adopted recommendations from the Independent Data Monitoring Committee (IDMC) and Steering Committee (SC) to present patient data showing blinded ARDS outcomes (mortality/morbidity) at 90 days (D90), in addition to the day 28 (D28) mortality endpoint. Based on this, Faron expects to present the top-line data of Traumakine®'s Phase III INTEREST clinical study in the first half of 2018.

In September 2017, Faron announced that the US Food and Drug Administration ("FDA") had proposed that Faron can proceeds directly to Biologics License Application (BLA) submission pending positive results from the two on-going Phase III trials (INTEREST in Europe and MR 11A8-2 in Japan) with Traumakine®, subject to the FDA being satisfied with data from the trials. In January 2018, Faron announced that Traumakine® had received Fast Track designation from FDA for the treatment of ARDS. ARDS has a relatively high mortality rate (around 50% in China, and around 35-45% in Europe and America). Once the product has been successfully commercialised, Traumakine® could become the first life-saving drug in the world for patients suffering from ARDS, and it will have great market potential.

Destiny Pharma's Porfolio

During the Reporting Period, the Group acquired certain rights to develop, manufacture, sell and commercialise certain assets in Destiny Pharma's current product portfolio in China and other Asian countries (excluding Japan), including, among others, relevant intellectual property, regulatory approvals and product data or documentations through equity investment in Destiny Pharma by its wholly-owned subsidiary. The Group undertakes research and clinical development of Destiny Pharma's current product portfolio to develop products that the Group will then market in China and other Asian countries (excluding Japan). This cooperation further enriches the current reserve of the Group.

The product portfolio of Destiny Pharma mainly includes three products. Exeporfinium chloride (XF-73) Nasal Gel is mainly used for nasal decolonisation of Staphylococcus aureus (S. aureus) to prevent postoperative S. aureus infection. XF-73 is a synthetic dicationic porphyrin derivative with antibacterial activity. It has a novel mechanism of action which is different from that of any existing families of antimicrobial agents. Published research studies indicate that it is bactericidal and acts via a bacterial cell-surface mechanism that affects membrane's permeability and integrity, leading to the release of intracellular components and the death of bacteria cell, without lysis. XF-73 is active against all tested S. aureus strains including methicillin-resistant and multi-drug resistant strains. And it exhibits rapid bactericidal activity against S. aureus and has a low potential for development of bacterial resistance. XF-73 has completed its Phases I/IIa clinical trial in Europe and the US. It now plans to conduct Phase IIb clinical trial. The completed Phase I/IIa clinical trial results showed that XF-73 Nasal Gel is effective and safe for the reduction of the nasal burden of S. aureus. In October 2015, the US FDA granted Qualified Infectious Disease Product designation to XF-73 for the prevention of post-surgical Staphylococcal infections. In addition, XF-73 has two authorized patents in China, one is a compound patent, and the other is a use patent.

S. aureus is a clinically isolated common bacteria. China Antimicrobial Resistance Surveillance System indicates that it ranked first in Gram-positive bacteria and it is the main pathogen of nosocomial infection. Studies have shown that the S. aureus nasal colonization rate is very high, and bacterial colonization increases the risk of hospital-acquired infection. Nasal colonization by S. aureus is also a risk factor for postoperative infection. People who require nasal decolonization of S. aureus include, among others, orthopedic surgery patients, cardiothoracic surgery and ICU patients, and there is also a wide range of potential target patients. Furthermore, so far, no drugs have been approved for nasal decolonization in China. So once approved, it is expected that XF-73 will have broad market prospects in China.

Destiny Pharma's existing product portfolio includes following two other products at the pre-clinical stage with patent family protection:

XF-70: potential indication to be developed is the treatment of skin infections, and its preclinical data will support a wide range of indications including impetigo, acne, atopic dermatitis, bacterial infected skin lacerations, candida skin/vaginal infection and treatment of serious bacterial burn wound infections.

DPD-207: a derivative of XF-73 complexed with an iron (Fe) moiety within its porphyrin ring. This compound may be useful for the treatment of ocular microbial infections.

Network development

Direct Network

The operation of academic promotional network has gradually improved under the continuous optimization of various management mechanisms. During the Reporting Period, the Group continued to carry out the product lines divided promotion at provincial and district levels. Meanwhile, according to the market development, the Group further sub-divided and added more promotional districts. Furthermore, with the supports of the optimization of incentive policy and the building of database center, the Group introduced more rational human resource strategies and job requirement systems to the district management, providing assurances for the highly efficient operation of the direct academic network. To increase the competitiveness of the products and the academic professionalism of its promotional representatives, the Group continued to strengthen its training in various aspects of medical knowledge, drugs' academic information and compliance, to ensure the professional behavior of its promotional staff to efficiently and compliantly deliver products' academic information. Meanwhile, by utilizing the intelligent cloud platform and mobile internet tools, the Group actively explored more efficient and convenient innovative promotional methods.

The Group has insisted on campus recruitment since 1998, selecting and cultivating outstanding candidates who are suitable for development within the company. The Group provides a clear career development path for employees after years of summarization and optimization. The Group started its 23rd Campus Recruitment in September 2017, and it continues to find fresh talent for the professional promotional team through the "Undergraduates Growth Plan". Meanwhile, the Group recruited graduates with a master's degree or above from medical or pharmaceutical schools via its "Professional Candidates Plan", providing new talent for the rapid development of the Group.

As at 31 December 2017, the Group's Direct Network had covered over 47,000 hospitals and medical institutions in China with around 2,800 professional marketing and promotional related staff.

Agency Network

In 2017, facing severe impact from industry policies on Agency Network, the Group confronted the headwind and responded actively. In response to the "two-invoice system", the Group has successively adjusted other products in the Agency Network to the promotional service model by learning from XiDaKang's successful transformation experience. Meanwhile, by holding various national and regional training conferences, the Group enhanced the trainings for its agents, formulating a larger scale and more normalized training system. Supported by the increasingly sophisticated information management system and mobile internet tools, the Group achieved optimized communication and cooperation internally and with agents.

As at 31 December 2017, the Group had signed agreements with around 510 agencies or third-party sales representatives, and covered around 9,600 hospitals and medical institutions across the country.

Production Development

During the Reporting Period, the solid preparation workshop (including TCM extraction) of Kangzhe Hunan of the Group received new GMP certification.

Outlook and Future Development

In recent years, various reform policies in the areas of pharmaceuticals, healthcare, medical insurance and circulation, have been issued and implemented. The Chinese healthcare and pharmaceutical industry has now moved into a stage of quality and efficiency. At the same time, as people's living standards continue to improve and they pay more attention to their health, the Group continues to have strong prospects in the healthcare and pharmaceutical industry. The Group is confident that it can deliver solid sustainable development by adhering to its two core development strategies: continuous product introduction and development, and promotional network expansion.

As for product introduction, the Group will apply its strict product selection criteria, and continue to search for and acquire high-quality products that meet the characteristics of China's market and the Group's development strategy, to continuously supplement the quality products and enrich the product portfolio. In terms of developing existing products, the Group will continue to explore the academic advantages of products, and create a more professional and standardized promotional environment through academic information storage and transmission.

With respect to the expansion of the promotional network, the Group will continue its efforts in refining and penetrating the low-tier market, which will further enhance the capacity of its network. The Group will continue to upgrade its cooperation policies with agents, under the premise of complying with the national policies, to strengthen the academic supports of products for agents, and maximise the scale effect of the Agency Network.

In the future, the Group will follow industry trends and keep pace with the development of the industry. We will view any challenges we face as a chance to boost our development, and we will be ready to receive the dividends released from the reform. At the same time, the Group will continue to strengthen its internal management by optimizing the structure of its operational organization. The Group will remain committed to innovation and make steady progress in the development of patented products in the research stage by combining in-house R&D and collaborative research, accumulating the power for boosting its sustainable growth. In addition, the Group will continue to serve customers with professional academic knowledge, and work together with its staff to reach common goals: create greater value for customers, and shoulder more responsibility for society.

Financial Review

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

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

Turnover

Turnover increased by 9.1% from RMB4,900.8 million for the year ended 31 December 2016 to RMB5,348.8 million for the year ended 31 December 2017. Excluding the effect of the "two-invoice system", turnover increased by 21.2% to RMB5,578.6 million for the year ended 31 December 2017 from RMB4,603.1 million for the year ended 31 December 2016, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 19.5% from RMB2,911.9 million for the year ended 31 December 2016 to RMB3,478.3 million for the year ended 31 December 2017; excluding the effect of the "two-invoice system", gross profit increased by 19.1% to RMB3,272.2 million for the year ended 31 December 2017 from RMB2,746.3 million for the year ended 31 December 2016, primarily reflecting an increase in turnover. Gross profit margin increased by 5.6 percentage points to 65.0% for the year ended 31 December 2017 from 59.4% for the year ended 31 December 2016; excluding the effect of the "two-invoice system", gross profit margin decreased by 1.0 percentage point to 58.7% for the year ended 31 December 2017 from 59.7% for the year ended 31 December 2016, mainly due to an decrease in selling price of products and a change in sales weight of products.

Selling Expenses

Selling expenses increased by 17.8% from RMB1,173.8 million for the year ended 31 December 2016 to RMB1,382.2 million for the year ended 31 December 2017; selling expenses as a percentage of turnover increased by 1.8 percentage points to 25.8% for year ended 31 December 2017 from 24.0% for year ended 31 December 2016. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover decreased by 0.8 percentage point to 21.1% for the year ended 31 December 2017 from 21.9% for the year ended 31 December 2016, primarily reflecting the Group's effective control over expenses and a benefit from economics of scale of the Direct Network.

Administrative Expenses

Administrative expenses increased by 0.1 % from RMB221.7 million for the year ended 31 December 2016 to RMB222.0 million for the year ended 31 December 2017; administrative expenses as a percentage of turnover decreased by 0.4 percentage point to 4.1% for year ended 31 December 2017 from 4.5% for year ended 31 December 2016. Excluding the effect of the "two-invoice system", administrative expenses as a percentage of turnover decreased by 0.8 percentage point to 4.0% for the year ended 31 December 2017 from 4.8% for the year ended 31 December 2016, primarily reflecting the Group's effective control over expenses and benefiting from economies of scale.

Other Gains and Losses

Other gains and losses increased by 177.3% from a loss of RMB22.1 million for the year ended 31 December 2016 to a loss of RMB61.2 million for the year ended 31 December 2017, mainly due to an exchange loss on bank borrowings in foreign currencies.

Share of Result of Associates

Share of result of associates increased by 59.9% from RMB48.6 million for the year ended 31 December 2016 to RMB77.7 million for year ended 31 December 2017, mainly reflecting an increase in the profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs increased by 93.4% from RMB42.5 million for the year ended 31 December 2016 to RMB82.3 million for the year ended 31 December 2017, mainly reflecting an increase in the use of bank borrowings.

Profit for the Year

Profit for the year increased by 21.2% from RMB1,377.9 million for the year ended 31 December 2016 to RMB1,669.9 million for the year ended 31 December 2017; excluding exchange loss net of income tax effect, profit for the year would have increased by 23.6% to RMB1,766.2 million for year ended 31 December 2017 from RMB1,428.7 million for the year ended 31 December 2016, mainly due to the continuous growth in turnover and excellent control over cost and expense.

Inventories

Inventories decreased by 9.5% from RMB509.0 million as at 31 December 2016 to RMB460.4 million as at 31 December 2017. Average inventory turnover days increased from 82 days for the year ended 31 December 2016 to 95 days for the year ended 31 December 2017, mainly due to a decrease in cost of goods sold with effect of "two-invoice system".

Trade Receivables

Trade receivables decreased by 7.0% from RMB1,068.5 million as at 31 December 2016 to RMB993.8 million as at 31 December 2017. Average trade receivables turnover days increased to 71 days for the year ended 31 December 2017 from 68 days for the year ended 31 December 2016, mainly due to a decrease in sale of goods sold with effect of "two-invoice system".

Trade Payables

Trade payables decreased by 5.5% from RMB137.6 million as at 31 December 2016 to RMB130.0 million as at 31 December 2017. Average trade payables turnover days increased to 26 days for the year ended 31 December 2017 from 21 days for the year ended 31 December 2016, mainly due to a decrease in cost of goods sold with effect of "two-invoice system".

Liquidity and Financial Resources

As at 31 December 2017, the Group's bank balances and cash amounted to RMB855.6 million while readily realizable bank acceptance bills amounted to RMB349.6 million. As at 31 December 2016, our bank balances and cash amounted to RMB482.5 million while readily realizable bank acceptance bills amounted to RMB423.6 million.

As at 31 December 2017, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("US$"), Euro ("EURO") and Hong Kong Dollars ("HK$").

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

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net cash from operating activities	2,071,798	1,162,044
Net cash used in investing activities	(354,099)	(1,533,258)
Net cash (used in) from financing activities	(1,345,062)	621,981
Net increase (decrease) in cash and cash equivalent	372,637	250,767
Cash and cash equivalent at beginning of the year	482,451	229,336
Effect of foreign exchange rate changes	541	2,348
Cash and cash equivalent at end of the year	855,629	482,451

Net cash from operating activities

The Group's net cash generated from operating activities was RMB2,071.8 million for the year ended 31 December 2017 compared with RMB1,162.0 million for the year ended 31 December 2016, an increase of 78.3% mainly due to an increase in sales and a decrease in occupation of working capital.

Net cash used in investing activities

For the year ended 31 December 2017, the Group's net cash used in investing activities was RMB354.1 million compared with RMB1,533.3 million for the year ended 31 December 2016, a decrease of 76.9% mainly due to the collection back of a loan to an associate which was granted in the year of 2016.

Net cash (used in) from financing activities

For the year ended 31 December 2017, the Group's net cash used in financing activities was RMB1,345.1 million compared with net cash from financing activities of RMB622.0 million for the year ended 31 December 2016, a decrease of 316.3% mainly due to a payment in the current year for the remaining consideration of the exclusive license for the commercialization of Plendil in China which was acquired in the year of 2016, and a decrease in net bank borrowings used during the current year compared with that used during the year of 2016.

Net Current Assets

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Current Assets		
Inventories	460,401	509,004
Trade receivables	993,812	1,068,481
Other receivables	493,580	613,939
Tax recoverable	5,135	14,240
Amount due from an associate	151,023	862,803
Bank balances and cash	855,629	482,451
	2,959,580	3,550,918
Current Liabilities		
Trade payables	130,011	137,590
Other payables	376,815	441,532
Bank borrowings	65,000	1,612,398
Deferred consideration payables	8,802	1,096,424
Tax payable	77,516	108,223
	658,144	3,396,167
Net current assets	2,301,436	154,751

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

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Purchase of intangible assets	-	1,080,651
Deposits for acquisition of intangile assets	-	16,150
Purchase of property, plant and equipment	76,624	48,891
Capital injection to an associate	1,000,000	-
Purchase of an available for sale investment	26,291	-
	1,102,915	1,145,692

Capital Structure and Gearing Ratio

The Company reviews the capital structure on a regular basis, and considers the cost of capital and the risks associated with each class of capital, for maximising the return to shareholders of the Company.The following table shows the Group's debts:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Interest bearing bank borrowings	2,105,048	1,612,398

The Group had bank borrowings of RMB2,105.0 million as at 31 December 2017 (31 December 2016: RMB1,612.4 million). During the year ended 31 December 2017, the newly raised bank loans of the Group was mainly used to pay the remaining consideration for acquisition of the exclusive license for the commercialization of Plendil in China. The details of bank borrowings are set out in note 25 to the consolidated financial statements.

As said above, along with the increase in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, increased by 4.2 percentage points to 20.7% as at 31 December 2017 from 16.5% as at 31 December 2016.

Interest in Associates

Interest in associates of the Group as at 31 December 2017 were RMB2,412.4 million (31 December 2016: RMB1,363.4 million), the increase was mainly due to a capital injection to the associate Tibet Pharmaceutical.

On 3 May 2017, Tibet Kangzhe Enterprise Management Co. Ltd., a wholly-owned subsidiary of the Group, subscribed for and was allotted 27,412,280 shares for a total subscription amount of RMB1.0 billion in the share placing of Tibet Pharmaceutical.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in note 32 to the consolidated financial statements.

The Group is mainly exposed to currency risk of the US$, Euro and HK$. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the foreign currency risk management strategy from time to time, the management will consider hedging foreign currency exposure as appropriate. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk.

The Group will closely monitor the interest rate movements so as to mitigate the expected interest rate risk.

Pledge of Assets

As at 31 December 2017, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB73,247,000 and RMB28,289,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

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

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

On 20 June 2017, Sky United Trading Limited, a wholly-owned subsidiary of the Company (as borrower)(the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as original lender, mandated lead arranger and bookrunner and agent) in respect of a US$300,000,000 term loan facility (the "Facility") as been made available to the Borrower for a term of 36 months from the first utilisation date under the Facility Agreement.

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) of the Company (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii)ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the agent (acting on the instructions of the majority lenders under the Facility) may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 31 December 2017, Mr. Lam Kong (directly and indirectly) holds approximately 43.53% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2017, the Group paid an interim dividend for 2017 and a final dividend for 2016 of RMB321.6 million and RMB289.5 million, respectively. For the year ended 31 December 2016, the Group paid an interim dividend for 2016 and a final dividend for 2015 of RMB261.7 million and RMB201.2 million, respectively.

DIRECTOR AND SENIOR MANAGEMENT

Executive Director

Mr. Lam Kong, aged 53, is Chairman, Chief Executive and President of the Group and was appointed as an executive Director on 18 December 2006. Mr. Lam is responsible for the creation, implementation and management of the Group's development and growth strategy. Mr. Lam has had very rich experience in marketing, promotion, sales and other value-added services for pharmaceutical products in China. He received his bachelor's degree in medicine from Zhanjiang Medical College in 1986, which was renamed to Guangdong Medical University. Mr. Lam is a member of the Nomination Committee of the Company and sole director of Treasure Sea Limited, the controlling shareholder of the Company.

Mr. Lam is the controlling shareholder of the Company and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of the Securities and Futures Ordinance ("SFO"), the details of which are set out on page 32 of this annual report.

Mr. Chen Hongbing, aged 51, is Chief Operating Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. He joined the Group in 1995 and has remained with the Group since then. Mr. Chen is responsible for the operation of the Group's marketing, promotion and sale business and management of product manufacturing. He had acquired about 4 years' clinical experience as a resident doctor with Nanjing Gulou Hospital from 1990 to 1994 prior to joining the Group in 1995. He received his bachelor's degree in clinical medicine from Nanjing Medical College in 1990, which was renamed to Nanjing Medical University.

Mr. Chen is sole director of Viewell Limited (a shareholder of the Company) and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 32 of this annual report.

Ms. Chen Yanling, aged 47, is Chief Financial Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. She joined the Group in 1995 and has remained with the Group since then. Ms. Chen is responsible for the Group's financial management, investor relations affairs and office administration. She holds an EMBA degree and is a senior accountant with extensive experience in financial management. Ms. Chen was awarded the Top Place of 2017 "All-Asia Best CFO (Overall) in Healthcare and Pharmaceutical Industry" by the Institutional Investor magazine in July 2017. She earned the honour for the sixth time consecutively.

Ms. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 32 of this annual report.

Ms. Sa Manlin, aged 57, was appointed as an executive Director on 11 December 2012. Ms. Sa joined the Group in 1995. Ms. Sa is responsible for the products' marketing and promotion strategy of Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"). She had acquired about 10 years' clinical experience prior to joining the Group in 1995. Ms. Sa received a bachelor's degree in medicine from Shanghai University of Traditional Chinese Medicine in 1984 and a master's degree in Business Administration from the Asia International Open University (Macau) in 2003, which was renamed as City University of Macau. Ms. Sa resigned as an executive Director on 17 October 2017.

Ms. Sa is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 32 of this annual report.

Independent Non-Executive Directors

Mr. Cheung Kam Shing, Terry, aged 55, was appointed as an independent non-executive Director of the Company on 18 August 2010. Mr. Cheung has more than 30 years' experience in securities broking, investment banking, fund management, private equity and other financial areas. The companies he worked for after graduating from the University of Hong Kong in 1984 included Sanyo Securities (Asia) Limited, Fidelity International Investment Management Limited, Kerry Securities Limited, Sassoon Securities Limited, and Core-Pacific Yamaichi International (HK) Limited from 1984 to 2000. Mr. Cheung served as Managing Director at Culturecom Holdings Limited (a company listed on the Stock Exchange with stock code 0343) from 2000 to 2005. He later served as Managing Director of Nouveau Investment Group Limited from 2005 to mid-2010. He served as Chief Operating Officer of GreaterChina Professional Services Limited (a company listed on the Stock Exchange with stock code 8193) from July 2010 until March 2015. Mr. Cheung was an independent non-executive director of Greens Holdings Limited (a company listed on the Stock Exchange with stock code 1318) from December 2014 and subsequently appointed as executive director until October 2015. Mr. Cheung was CEO of a private company engaging in investment of technology since November 2015. He has served as executive director of Pearl Oriental Oil Limited (a company listed on the Stock Exchange with stock code 632) since October 2016 until now.

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

Mr. Wu Chi Keung, aged 61, was appointed as an independent non-executive Director on 25 June 2010. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently managing director of a family-owned private company engaging in property and other investment activities. He is also an independent non-executive director of Jinchuan Group International Resources Co., Ltd (stock code: 2362), Zhong Fa Zhan Holdings Limited (stock code: 475), Huabao International Holdings Ltd. (stock code: 336) and YuanShengTai Dairy Farm Ltd. (stock code: 1431), Huajin International Holdings Limited (stock code: 2738), and Zhou Hei Ya International Holdings Company Limited (stock code: 1458), all the shares of which are listed on the Stock Exchange. Mr. Wu was also an independent non-executive director of COFCO Meat Holdings Limited (stock code: 1610) from 23 June 2016 to 12 December 2017.

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

Mr. Huang Ming, aged 53, was appointed as an independent non-executive Director of the Company on 9 October 2013. Mr. Huang was an Assistant Professor and Associate Professor of Finance at Stanford Graduate School of Business, Stanford University from 1998 to 2002, and was Associate Dean and Visiting Professor of Finance and Professor of Finance at Cheung Kong Graduate School of Business from 2004 to 2005 and from 2008 to 2010 respectively, and was Head of School of Finance of Shanghai University of Finance and Economics from 2006 to April 2009. He has been a Professor of Finance at the Johnson Graduate School of Management at Cornell University since July 2005, and has been a Professor of Finance at China Europe International Business School since July 2010. He has been a non-executive director of Yingli Green Energy Holding Company Limited (stock code: YGE), a company listed on the New York Stock Exchange, since 2008. He has been an independent non-executive director of Fantasia Holdings Group Co., Ltd. (stock code: 1777), a company listed on the Stock Exchange, since 2009. On 16 July 2014, Mr. Huang was appointed as an independent director of WH Group Limited (HKEX Stock Code: 00288) and the effective date of the appointment was 5 August 2014, since which Mr. Huang has been an independent director of WH Group Limited. Mr. Huang is currently an independent non-executive director of 360buy Group.

Mr. Huang graduated from Peking University in 1985 majoring in physics, and then obtained his doctorate degree in physics and finance from Cornell University and Stanford University respectively. Mr. Huang resigned as an independent non-executive Director of the Company on 13 December 2017, he also resigned as the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company.

Mr. Leung Chong Shun, aged 52, was appointed as an independent non-executive Director of the Company on 13 December 2017. Mr. Leung became a practicing lawyer since 1991 and was the Chief Representative of Woo Kwan Lee & Lo Beijing Office. He is currently a Partner of Woo Kwan Lee & Lo. Mr. Leung is familiar with corporate finance, M&A and IPO legal services and has been involved in various listing and acquisition transactions of Chinese H Share companies and red chip companies. Mr. Leung is currently an Attesting Officer appointed by the PRC. Mr. Leung was an independent non-executive director of China Communications Construction Company Limited (HKEX stock code: 01800) from January 2011 to November 2017. He is currently an independent non-executive director of SSY Group Limited (formerly known as Lijun International Pharmaceutical (Holding) Co., Ltd., HKEX stock code: 02005), China National Materials Company Limited (HKEX stock code: 01893) and China Coal Energy Company Limited (HKEX stock code: 01898).

Mr. Leung graduated from the University of Hong Kong in 1988 and obtained a bachelor's degree in laws with honors. He is qualified as a solicitor in Hong Kong and England. Mr. Leung is the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company.

Senior Management

Dr. Wong Wai Ming, aged 57, has been Chief Technical Officer of the Group since 2010. He first joined the Group in 2000 and then became Chief R&D Officer in 2007. He is responsible for dealing with technical issues in introducing products and providing technical advice to the Group for selecting pharmaceutical products. Prior to this, Dr. Wong worked as manager of China pharma department for Jebsen Co. Ltd. He studied bio-chemistry and received his bachelor's degree in science and a PhD from the University of Hong Kong in 1983 and 1993, respectively.

Company Secretary

Ms. Wu Sanyan, aged 36, joined the Group in 2009 and currently holds the position of Company Secretary and Director of the Legal Department. Ms. Wu is primarily responsible for overseeing the legal and regulatory compliance matters of the Group (including compliance with the Listing Rules). The responsibilities of Ms. Wu since her joining of the Group include advising on compliance of laws and regulations applicable to the Group (including the Listing Rules). Ms. Wu obtained a double bachelor's degree in history and law in 2004, and a master's degree in international law in 2008, both from the Wuhan University. During the Reporting Period, Ms. Wu had received the professional training for no less than 15 hours to promote her skill and knowledge.

DIRECTORS' REPORT

The Board of the Company is pleased to present the "Directors' Report" and audited consolidated financial statements of the Group for the year ended 31 December 2017.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 41 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 72.

Business Review

Business review of the Group for the year ended 31 December 2017 can be found in the section headed "Management Discussion and Analysis" of this annual report, the discussion of which forms part of this "Directors' Report".

Reserves

Movements in reserves for the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 75 and note 30 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2017, the Company had distributable reserves of RMB3,945.9 million available for distribution to our shareholders.

Property, Plant and Equipment

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

Share Capital

Movements in the share capital of the Company are set out in note 29 to the consolidated financial statements.

Final Dividend

The Board is pleased to recommend a final dividend of RMB0.1393 (equivalent to HK$0.173) per Share for the year ended 31 December 2017 to shareholders whose names appear on the register of members of the Company on Thursday, 3 May 2018. The register of members of the Company will be closed on Thursday, 3 May 2018. The final dividend will be paid to shareholders about Thursday, 10 May 2018 after the shareholders' approval at the AGM scheduled for Thursday, 26 April 2018.

Pre-emptive Rights

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

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

None of the Company or its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2017.

Directors

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

Executive Directors:

Mr. LAM Kong (Chairman and Chief Executive)
Mr. CHEN Hongbing (Chief Operating Officer)
Ms. CHEN Yanling (Chief Financial Officer)
Ms. SA Manlin (resigned on 17 October 2017)

Independent Non-Executive Directors:

Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung
Mr. HUANG Ming (resigned on 13 December 2017)
Mr. LEUNG Chong Shun (appointed on 13 December 2017)

Pursuant to Article 16.2 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following AGM of the Company and shall be eligible for re-election at that meeting. Mr. Leung Chong Shun was appointed by the Board on 13 December 2017 as an independent non-executive Director. Accordingly, Mr. Leung shall retire from his office at the AGM and, being eligible, will offer himself for re-election at the AGM.

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

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Mr. Lam Kong, Mr. Chen Hongbing, Mr. Wu Chi Keung and Mr. Leung Chong Shun. Details of these retiring Directors are set out in the circular issued on 23 March 2018.

Annual Confirmation of Independence

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

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and the senior management are set out on pages 25 to 28 of this annual report.

Directors' Service Contracts

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

Management Contracts

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

Employee Benefit Scheme

During the Reporting Period, approved by Benefit Scheme Executive Committee of the Company, there were 7 employees participating in the CMS Key Employee Benefit Scheme. Details of the Employee Benefit Scheme are set out in note 39 to the consolidated financial statements.

Directors' interests in Transactions, Arrangements or Contracts of Significance

During the Reporting Period and as at 31 December 2017, none of the Directors or entities connected with the Directors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or its holding company or any of its subsidiaries was a party.

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

As at 31 December 2017, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Name of Corporation	Nature of Interest	Class of Shares and Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,082,719,000 (L) (Note 2)	43.53%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225(L)	0.81%
		Interest in controlled corporation	45,000,000 (L) (Note 3)	1.81%
Ms. Chen Yanling	The Company	Beneficial owner	7,246,250(L)	0.29%
Ms. Sa Manlin (Note 4)	The Company	Beneficial owner	6,074,237(L) (Note 5)	0.24%
		Family interest	750,000 (L) (Note 6)	0.03%

Notes:

1. The letter "L" denotes long positions in the Shares.
2. These Shares are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
3. These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.
4. Ms. Sa resigned as an executive Director on 17 October 2017.
5. The situation of these Shares was on 17 October 2017.
6. These Shares are held by Mr. Zhang Ziqiang, the spouse of Ms. Sa Manlin, in respect of which Ms. Sa Manlin is deemed to be interested in. Ms. Sa Manlin ceased to be an executive director upon her resignation on 17 October 2017.

Directors' Right to Acquire Shares or Debentures

At no time during the Reporting Period were 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 minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

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

As at 31 December 2017, the Directors were not aware of any other person (other than the Directors or the Chief Executive of the Company) who held interest and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Connected Transactions

Details of connected transactions are set out in note 37 and note 39 to the consolidated financial statements.

Employees

As at 31 December 2017, the Group had about 3600 employees. The Group has initiated organizational reform and speeded up the cultivation and recruitment of talents through optimizing the current human resources and innovating the way of management to enhance the development of the Group. The Group has adopted a series of measures to facilitate employees' work efficiency, regularly assessed their performance and adjusted their salaries and bonuses accordingly. Additionally, the Group has offered training programs to employees from different business units.

Directors and Management's Emoluments

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

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

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

Key Relationship with Employee, Customers and Suppliers

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

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

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

Environmental Policies and Performance

The Group has strictly enforced the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), Law of the People 's Republic of China on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪音污染防治法》), and other laws and regulations. The Group has set up environmental management organizations, equipped with full-time environmental management personnel, established and improved the environmental management system, and developed the comprehensive risk-defensive measure and emergency plan for accidents which guard against environmental risk accidents in business management and production processes. We also require our suppliers to operate in strict compliance with the relevant environmental regulations and rules and obtain all necessary permission and approval from the relevant government authorities.

Compliance with Laws and Regulations

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

Principal Risks and Uncertainties

There are a number of risks and uncertainties which may affect the performance and operation of the Company. The following is a summary of principal risks and uncertainties identified by the Company:

Compliance with GMP and GSP standards

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

Product Liability

As the insurance is not mandatorily required, the Group has not covered effective product liability insurance in respect of the manufacture and distribution of pharmaceutical products in the PRC. In the event of any product liability claim or proceedings pertaining to the products of the Group which couldn't be solved through negotiation or any other ways, the Group may suffer major cost and damage to its relationship with customers.

Healthcare Reform in China

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

Tender and Price Control

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

There may be other principal risks and uncertainties in addition to those shown above which are not known to the Company or which may not be material now but could turn out to be material in the future.

Major Customers and Suppliers

For the year ended 31 December 2017, the percentage of sales to the Group's five largest customers was approximately 16.7% of the Group's total sales, and sales to the top customer accounted for approximately 6.3% of the total sales.

For the year ended 31 December 2017, the percentage of purchases from the Group's five largest suppliers was approximately 88.1% of the Group's total purchases, and purchase from the top supplier accounted for approximately 30.4% of the total purchases.

Except as disclosed in note 37 to the consolidated financial statement, none of the Group's directors, their close associates or shareholders had an interest in supplier or customer.

Corporate Governance

A report for the corporate governance principles and practices adopted by the Company is set out on pages 38 to 47 of this annual report.

Sufficiency of Public Float

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

Non-competition and Indemnity Agreements

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

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

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

Donation

During the Reporting Period, the Group had made donations of RMB10.2 million for charitable and other purposes, please refer to Community Activity Investment on page 64 for details.

Permitted Indemnity Provision

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

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

Equity-Linked Agreements

The Company has not entered into any equity-linked agreement during the year ended 31 December 2017.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules from 1 January 2017 to 31 December 2017, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual. The details of the Company's compliance with the CG Code are set out on pages 38 to 47 of this annual report.

Competing Interests

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

Audit Committee

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

Auditors

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

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

Shenzhen, 19 March 2018

Corporate Governance Report

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

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the revised CG Code as set out in Appendix 14 to the Listing Rules from 1 January 2017 to 31 December 2017, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual.

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

Directors' Securities Transactions

The Company adopted the Model Code (amended from time to time) as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2017. The Model Code also applies to other specified senior management of the Company.

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

Operation of the Board

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

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

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

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

Composition of the Board

As at the date of this annual report, the Board consists of six Directors, including three executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling; three independent non-executive Directors, namely Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Leung Chong Shun. Biographical details of the Directors are set out on pages 25 to 27 of this annual report. Save as disclosed in the section headed "Directors and Senior Management" of this annual report, none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

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

Board Attendances and Time Commitment

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

Name	Title	Attendance Rate	
		Board Meeting	AGM
Mr. Lam Kong	Chairman and Chief Executive	5/5	1/1
Mr. Chen Hongbing	Chief Operating Officer	5/5	1/1
Ms. Chen Yanling	Chief Finance Officer	5/5	1/1
Ms. Sa Manlin*	Executive Director	4/5	1/1
Mr. Cheung Kam Shing, Terry	Independent Non- Executive Director	5/5	1/1
Mr. Wu Chi Keung	Independent Non- Executive Director	4/5	1/1
Mr. Huang Ming*	Independent Non- Executive Director	5/5	1/1
Mr. Leung Chong Shun*	Independent Non- Executive Director	0/5	0/1

*Notes:

1. Ms. Sa Manlin resigned on 17 October 2017.

2. Mr. Huang Ming resigned on 13 December 2017.

3. Mr. Leung Chong Shun was appointed on 13 December 2017.

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

Chairman and Chief Executive

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

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

Independent Non-executive Directors

For the year ended 31 December 2017, three independent non-executive Directors were appointed, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

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

Directors' Continuous Professional Development

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

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

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

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

*Notes:

1. Ms. Sa Manlin resigned on 17 October 2017.
2. Mr. Huang Ming resigned on 13 December 2017.
3. Mr. Leung Chong Shun was appointed on 13 December 2017.

Committees

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

Audit Committee

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

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual results announcement and annual report for the year ended 31 December 2017 of the Company have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2017, the Audit Committee has held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2016 with the external auditors, the interim results for 2017, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	**Attendance Rate of the Meeting for the Year ended 31 December 2017**
Mr. Wu Chi Keung	3/3
Mr. Cheung Kam Shing, Terry	3/3
Mr. Huang Ming*	3/3
Mr. Leung Chong Shun*	0/3

*Notes:

1. Mr. Huang Ming resigned on 13 December 2017.

2. Mr. Leung Chong Shun was appointed on 13 December 2017.

Remuneration Committee

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

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

For the year ended 31 December 2017, the Remuneration Committee has held three meetings. At the meetings, the Remuneration Committee reviewed remuneration of the Directors and senior management, and thought that the remunerations of whom were reasonable and appropriate. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2017
Mr. Huang Ming*	3/3
Mr. Leung Chong Shun*	0/3
Mr. Cheung Kam Shing, Terry	3/3
Mr. Wu Chi Keung	3/3

*Notes:

1. Mr. Huang Ming resigned on 13 December 2017.

2. Mr. Leung Chong Shun was appointed on 13 December 2017.

Nomination Committee

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

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

For the year ended 31 December 2017, the Nomination Committee has held three meetings. At the meetings, the Nomination Committee reviewed the composition and structure of the Board in order to determine whether it is in compliance with requirements under the relevant laws, regulations and rules. In addition, the committee reviewed the elements in respect of Board diversity (including professional skills, experience, culture and education background, ethnicity, gender, age, etc.). The committee is of the view that the current composition and structure of the Board comply with the applicable regulations and the Board is experienced and have diversified perspectives and views. Below is the attendance rate of the committee members:

Committee Members	**Attendance Rate of the Meeting for the Year ended 31 December 2017**
Mr. Cheung Kam Shing, Terry	3/3
Mr. Lam Kong	3/3
Mr. Wu Chi Keung	3/3
Mr. Huang Ming*	3/3
Mr. Leung Chong Shun*	0/3

*Notes:

1. Mr. Huang Ming resigned on 13 December 2017.

2. Mr. Leung Chong Shun was appointed on 13 December 2017.

Corporate Governance Functions

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

Auditor's Remuneration

For the year ended 31 December 2017, we have appointed Deloitte Touche Tohmatsu as our independent external auditor to provide the annual performance auditing service, the remuneration for the service was HK$2.8 million.

Directors' and Auditor's Responsibilities for Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2017. In preparing these financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

The responsibility of auditor is set out in the independent auditor's report in page 69.

Risk Management and Internal Controls

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

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

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

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

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

Shareholders' Rights

Convening an Extraordinary General Meeting

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

Shareholders' Enquiries

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

Articles of Association

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

Communications with Shareholders and Investors

The company understands the importance of open communication and fair disclosure. Since listed in the Stock Exchange, the Company has been committed to prompt, timely and objective disclosure of important information for shareholders and investors, actively and effectively updating the latest developments to the capital market. The Company communicates with its shareholders and investors through multiple channels as shown below: (i) the Annual General Meeting and Extraordinary General Meetings, which provide a platform for shareholders and investors to communicate with the board of directors of the Company; (ii) the timely release of the latest news and updates of the Company on the official website and Investor Relations Wechat public page; and (iii) the replying of various questions related to the Company's business raised by shareholders and investors of the Company via various ways.

During the Reporting Period, the Company has been committed to establishing and enhancing a scientific and systematic management system for investor relations, achieving multi-channel communication. The Company attended different forms of investors' communication activities, mainly including face to face dialogue with investors, telephone conference, email and road shows activities organized by sell-side institutions, in order to increase the Company's transparency with the hope that investors can thoroughly understand the business model and latest development strategy of the Company. For the year ended 31 December 2017, the management of the Company has received more than 1,000 domestic and overseas institution representatives or individual investors. In addition, with the engagement of professional Hong Kong institution as consultant of investor relations, we have effectively improved and propelled investor relations affairs.

The active and persistent communication with shareholders and investors is recognized by third parties. During the Reporting Period, the Company won Golden HK Listed Companies Awards: "The Most Valuable Pharmaceutical Company" and "The Best Investor Relations Management". Moreover, in July 2017, the Group was honored to be recognized as the "All-Asia Most Honored" company by "Institutional Investor" Magazine ("II Magazine"). Mr. Lam Kong, Executive Director, Chairman and Executive Officer of CMS, was awarded the Second Place of "All-Asia Best CEO (Overall) in Healthcare and Pharmaceutical Industry" for the second time. Ms. Yanling Chen, the Executive Director, Vice President and CFO of CMS, won the First Place of "All-Asia Best CFO (Overall) in Healthcare and Pharmaceutical Industry" for the sixth year consecutively. In addition, CMS's Investor Relations Team won the Second Place of "All-Asia Best Investor Relations (Overall) in Healthcare and Pharmaceutical Industry". In December 2017, the Company was once again awarded BIVA "the Listed Company with the Best Investment Value". In 2016, CMS Investor Relations Team won the Third Place of "All-Asia Best IR Team (Buy-Side) in Healthcare and Pharmaceutical Industry" for the second year consecutively, and the Second Place of "All-Asia Best Analyst Days (Overall) in Healthcare and Pharmaceutical Industry" in an event organized by II Magazine. In 2015, the Company was awarded "The Best Listed Company" at "The 5th Chinese Securities Golden Bauhinia" Award Ceremony held by Ta Kung Pao in Hong Kong; the Company was awarded the "Best Investor Relations" - Healthcare Industry at IR Magazine Awards - Greater China. In 2014, the Company was awarded "The Listed Company with the Best Information Disclosure" at "The 4th Chinese Securities Golden Bauhinia" Award Ceremony held by Ta Kung Pao in Hong Kong.

The company strictly complied with the Listing Rules, disclosing all necessary data to shareholders through various channels, and maintained good communication with them to ensure that shareholders' rights were respected and guaranteed. In the future, we will continue to maintain close, sincere and effective communication and interaction with investors, listen attentively to feedbacks and voices in capital markets, and further optimize investor relations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Being one of the well-known enterprises in the Chinese pharmaceutical industry, the Group actively fulfills its environmental and social responsibilities. Through the establishment of the sustainable development strategy, the Group continues to create values for its stakeholders and is determined to continuously lower its impact on the environment. With the goal to carry out a sustainable development strategy from top to bottom, the Board of Directors will take full responsibility in ensuring the effectiveness of the Group's environmental, social and governance ("ESG") policies. The Group has assigned designated staff members in relevant departments and subsidiaries to coordinate ESG related matters and to monitor the implementation of the relevant policies. The Group regularly reviews and adjusts its sustainability policies to satisfy the ever-changing demands from its stakeholders. Details of the Group's management approach in environmental and social aspects can be found in different sections of this ESG Report. The Group firmly believes that sustainability is essential to the Group's overall long-term development.

Based on the goal set out at the time the Group published its first ESG report in 2016, the Group will integrate environmental protection and social responsibility into its daily work throughout the entire organization. The Group hopes to improve every year in terms of reducing energy consumption, emissions, and fulfilling social responsibilities. In the Group's 2017 ESG Report (this "Report"), the Group made a more comprehensive disclosure with regard to the environmental aspect.

This ESG Report covers the environmental and social performance within the operational boundaries of the Group that include the Group's office in Shenzhen and the subsidiary in Tianjin that engage in the pharmaceutical promotion and network management business, the subsidiaries that engage in the pharmaceutical production business in Hunan Province and Hebei Province, and the subsidiary that engages in agricultural and livestock business in Hunan Province. The Reporting Period for this ESG report is the 2017 financial year, dating from 1 January 2017 to 31 December 2017.

Stakeholder Engagement

In order to achieve the Group's goal of sustainable development and performance improvement, the Group highly values opinions from both its internal and external stakeholders. The Group actively collects feedback from its stakeholders, and builds trustful and supportive relationships with each stakeholder. The Group connects with its stakeholders through their preferred communication channels as listed in the table below.

Stakeholders	Expectations and Concerns	Communication Channels
Government and Regulatory Authorities	- Comply with laws and regulations - Support economic development	- Compliance operation - Routing reports and taxes paid
Shareholders	- Return on investments - Corporate governance - Business compliance	- Listed company periodic reports and announcements - General meetings - Official website, various meetings and conference, roadshows
Employees	- Employees' compensation and benefits - Career development - Healthy and safe working environment	- Employee performance review, employee satisfaction survey - Meetings and trainings - Emails, hotline, trainings
Customers	- High quality products and services - Ensure customers' rights	- Customer satisfaction survey - Face-to-face meetings and site visits - Customer service hotline and emails
Suppliers	- Fair and open procurement - Win-win cooperation	- Open tendering - Suppliers' satisfactory assessment - Face-to-face meetings and onsite visits - Industry seminars
General public	- Involvement in communities - Environmental protection awareness	- Public welfare activities - Face-to-face interview

The Group undertakes an annual review to identify and understand its stakeholders' main concerns and their material interests for the ESG Report. During the Reporting Period, the Group engaged its stakeholders to conduct a materiality assessment survey. Stakeholders with a high level of influence and dependence on the Group were selected internally and externally, and invited the representatives to express their views on a list of sustainability issues via an online survey. As a result, the Group prioritised the issues deemed of high importance for discussion.

With respect to this ESG Report, the Group has identified the protection of customer information and privacy, product quality assurance and recalls, product safety, and environmental protection measures as the issues of high importance to the Group's stakeholders. This review has helped the Group in prioritising the sustainability issues, highlighting the material and relevant aspects, so to fulfill stakeholders' expectations.

Environmental

During the Reporting Period, the Group continued to set environmental protection as its target and made efforts to integrate the concept of sustainable development into drugs operation, production, and agricultural and livestock business of the Group. The Group has stringently controlled its emissions and consumption of resources, and complied with all relevant environmental laws and regulations in the PRC in its daily operation. All offices, factories, and farms of the Group have implemented effective energy conservation measures to reduce emissions and resource consumption.

This section primarily discloses the Group's policies and practices on emissions, use of resources, and environment and natural resources during the Reporting Period.

1. Emissions

During the Reporting Period, the Group strictly complied with relevant laws and regulations such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》). It is the Group's environmental policy to reduce the impact of emissions on the environment through measures such as controlling the Group's energy consumption, performing special treatment to wastewater before discharge, and switching to the use of more environmentally friendly fuel source.

As summarised in Table 1 below, the Group's emissions during the Reporting Period included: exhaust gas, greenhouse gas ("GHG") emissions, hazardous wastes and non-hazardous wastes.

Table 1：Total Emissions of the Group in 2017 Financial Year

Emissions		Unit	Amount	Intensity* (Tonnes/million RMB)
Exhaust Gas	Sulfur Dioxide (SO_2)	Kg	1,981	-
	Nitrogen Oxide (NO_x)	Kg	5,391	-
	Particulate Matter (PM)	Kg	392	-
GHG Emissions	Direct Emissions (Scope 1)	Tonnes CO_2e	7,157	-
	Energy Indirect Emissions (Scope 2)	Tonnes CO_2e	3,761	-
	Total GHG Emissions (Scope 1 & 2)	Tonnes CO_2e	10,918	2.0412
Hazardous Wastes	Medical Waste	Tonnes	0.3	0.0001
Non-hazardous Wastes	Wastewater	Tonnes	83,690	15.6465
	Solid Waste	Tonnes	123	0.0230

* (The calculation for Intensity is the emissions amount divided by turnover in the Group's Reporting Period)

During the Reporting Period under review, the Group did not violate any relevant laws and regulations that have a significant impact on the Group, relating to exhaust gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Pharmaceutical Promotion and Network Management Business
Emissions for the pharmaceutical promotion and network management business include indirect GHG emissions from the use of electricity and non-hazardous wastes, namely domestic wastewater and solid waste, generated by staff in the office.

This business segment does not directly emit GHG, which are indirectly emitted through the use of purchased electricity in the office. Specific measures have been taken to reduce electricity consumption in the office, and thus GHG emissions. The measures are further described in the next section, Use of Resources under Electricity.

The Group is committed to protecting the environment in its daily office operations. To reduce the amount of municipal solid waste generated, the Group has implemented the following practices:

- When handling solid waste, the office cleaning staff would sort out the rubbish and recycle those recyclable waste;
- The Group encourages all employees to reduce the use of disposable items such as plastic tableware; and
- The Group advocates saving paper by minimising unnecessary printing and using both sides of the paper.

Since the amount of wastewater generated in the office is highly dependent on the amount of water used by employees during the daily work, the Group has adopted specific measures to reduce water consumption as further described in the next section Use of Resources under Water. Municipal wastewater generated in the office is managed by the property management and is directly discharged into the sewage pipe of the building.

Pharmaceutical Production Business
The Group is very prudent in controlling all discharges by the Group's pharmaceutical production business. Exhaust gas, hazardous waste, wastewater, solid waste and noise from the Group's pharmaceutical production process all meet the national safety emission standards. Owing to the strict monitoring system, processing equipment and measures, the Group did not receive any notification of non-compliance with regard to emissions during the Reporting Period. As a responsible pharmaceutical manufacturer, the Group constantly looks for better manufacturing methods to further reduce its impact on the environment.

Exhaust Gas
Exhaust gas directly generated from the Group's pharmaceutical manufacturing business includes flue gas from the boiler and soot from the canteen. All exhaust gases are strictly monitored, controlled and treated up to standard, before being discharged into the atmosphere. Concentrations of sulfur dioxide, nitrogen oxides and particulate matters in the pre-discharge exhaust gas must meet both the Integrated Emission Standard of Air Pollutants (《大氣污染物綜合排放標準》) and Emission Standard of Air Pollutants for Boiler (《鍋爐大氣污染物排放標準》).

During the Reporting Period, the Group continued to operate its boilers by burning natural gas in its Hunan factory and alcohol-based liquid fuel in its Hebei factory. Both natural gas and alcohol-based liquid fuel are clean energy sources, effectively reducing air pollutants generated from the operation of the boiler.

GHG Emissions

The Group has included its GHG emissions data during the Reporting Period in Table 1 of this Report. The Group's GHG emissions came mainly from the use of energy (including electricity). As the pharmaceutical production business segment contributes most to the Group's overall GHG emissions, the Group has planted trees around its pharmaceutical factory in Hunan to reduce GHG emissions and for air purification.

Hazardous Waste

The hazardous waste generated from this business segment is a small amount of medical waste produced during the production process. The Group uses special containers for storing the medical waste to ensure that it doesn't leak or evaporate. The Group has hired professional environmental protection companies for the collection and disposal of medical waste.

Wastewater

The wastewater generated in this business segment includes domestic wastewater and industrial wastewater. The Group's pharmaceutical manufacturing facilities have installed a wastewater treatment system. Industrial wastewater and domestic wastewater not directly discharged through the local sewerage system undergoing Anaerobic/Anoxic/Oxic ("A2O") biochemical treatment, is strictly tested before being discharged to the local municipal sewerage network. Pre-discharge wastewater must meet both the Integrated Wastewater Discharge Standard (《污水綜合排放標準》) and the Wastewater Quality Standards for Discharge to Municipal Sewers (《污水排入城鎮下水道水質標準》). In addition, the Group is committed to maximising the usage efficiency of water resources to reduce wastewater produced. The Group's pharmaceutical production factories have implemented rain sewage diversion, and have installed cooling water recycling system.

Solid Waste

The solid waste generated in this business segment includes non-hazardous industrial solid wastes and domestic solid wastes. The method for treating solid waste is to collect and categorise first, then sell the recyclable solid waste, including waste plastic packaging materials from the production, to the recycling station. For the remaining non-recyclable non-hazardous solid waste, the Group entrusted the Local Sanitation Department for disposal at landfill or at incinerator.

Noise Management

This business segment generates noise from the operation of machinery and equipment during the pharmaceutical manufacturing process. During the Reporting Period, according to the factory's monitoring result, the noise level was in compliance with the Industrial Enterprise Boundary Noise Emission Standards (《工業企業廠界環境噪聲排放標準》), and it did not cause any evident negative impact on the surroundings.

Agricultural and Livestock Business

The Group's agricultural and livestock business in Hunan Province primarily cultivates high-end fruits and breeds green-shell eggs. Emissions from the business segment include GHG emissions from electricity consumption, animal manure, and domestic wastewater and solid waste generated by the staff.

The Group continues its sustainable development policy of "green farming". The Group's automatic collection device is used to collect animal manure and delivers it to the organic fertilizer fermentation tank. Through biological fermentation, animal manure in the organic fertilizer fermentation tank is then made into organic fertilizer, to be used in the crops grown by the Group. Apart from the utilization of animal manure, the Group also collects green plants (such as field weeds), which are used as animal livestock feed. This ensures the reuse of organic waste, thereby maximising the recycling of the resource.

Domestic wastewater generated in this business segment is directly discharged into the local sewer, while municipal solid waste is included in the town's solid waste management plan, centrally collected and disposed. The Group inspects and monitors the environmental conditions of the operation areas regularly to ensure wastewater and solid waste generated by the business meet the local emission standards.

2. Use of Resources

Summarised in Table 2 below, the resources used by the Group during the Reporting Period were energy, water, paper and packaging materials.

Table 2: Total Resources Consumption of the Group in 2017 Financial Year

Resources		Unit	Amount	Intensity* (Unit/million RMB)
Energy	Electricity	KWh	6,462,835	1,208.2776
	Gasoline	Litres	82,757	15.4721
	Diesel	Litres	3,896	0.7284
	Natural gas	M^3	651,197	121.7464
	Alcohol-based liquid fuel	Tonnes	2,494	0.4663
	R-22 refrigerant	Kg	68	0.0127
Water	Water	Tonnes	133,140	24.8916
Paper	Paper	Tonnes	8	0.0015
Packaging Materials	By plastic	Tonnes	137	0.0256
	By paper	Tonnes	315	0.0589

* (The calculation for Intensity is the resources consumption amount divided by turnover in the Group's Reporting Period)

Electricity

All subsidiaries of the Group strictly abide by the Group's energy saving policy. The Group also regularly educates its employees about energy conservation and emission reduction. As the Group reduces electricity consumption, within the same volume of business, the Group strives to reduce, or at least maintain the indirect GHG emissions from the use of electricity.

The Group's electricity consumption comes from regular operation of the factories and offices. To ensure effective use of electricity, the Group has conducted the following practices:

- Turn off all idle lighting and air conditioning systems;
- Place "Save electricity, turn off the lights when you leave" poster in prominent place to encourage staff to save energy;
- Replace high electricity consumption lamps with the installation of electricity saving lamps in factories and offices;
- Clean office equipment (such as refrigerators, air-conditioners, paper shredders) regularly to maintain operating efficiency;
- Encourage walking up stairs instead of taking the elevator;
- Use electric appliances with energy saving label;
- Install timers for electrical appliances in public areas to turn off at certain times;
- Replace old electric appliances with energy saving ones; and
- Set the temperature of air conditioners in the offices at room temperature.

During the Reporting Period, the Group replaced more than two hundred traditional lamps with energy-saving LED lamps at its office in Shenzhen. The Group also conducted a monthly electricity consumption analysis to monitor and compare the electricity consumption of the entire office. Within the same volume of business, the Group strives to keep annual electricity consumption at the lowest level. In its agricultural and livestock business, the Group effectively reduced its use of purchased electricity with the installation of solar panels.

Energy use

During the Reporting Period, the Group consumed gasoline, diesel, natural gas, alcohol-based liquid fuel and R-22 refrigerant for transportation and production purposes. The Group encourages energy saving through simple measures, such as making the best use of space to avoid unnecessary transportation, encouraging its employees to take public transportation for commuting and replacing highly polluting vehicles with more environmentally-friendly vehicles. In terms of selecting fuel source and refrigerants, the Group prioritises the use of eco-friendly fuels and refrigerants (natural gas, alcohol-based liquid fuel, and R-22 refrigerant are more environmentally-friendly than traditional fuels and refrigerant).

Water

The Group educates its employees to save water in their daily work. To improve the utilization efficiency of water resources, the Group has included the following measures into the Group's internal regulatory policies:

- Place posters "Saving water resource" in prominent places to encourage water conservation;
- Fix dripping taps immediately and avoid any leakage of the water supply system;
- Inspect and maintain water taps, gaskets and water supply system periodically;
- Require employees to strictly comply with company's water saving policy;
- Collect used water for cooling recycle purposes to be used to clean the floor and public area; and
- Install the water recycling systems in the manufacturing factories, which could effectively reduce water used per unit of production.

The offices of the Group conducted a similar analysis to monitor and compare monthly water consumption as it did for electricity. During the Reporting Period, the Group's pharmaceutical manufacturing factories adopted cooling water recycling to reduce the use of groundwater. As for the agriculture and livestock business, the Group has repaired pipe ditches in the farm to enable the collection of natural precipitation. The collected natural precipitation is used for plants watering. The Group has also installed droppers in the Group's greenhouse to make more efficient use of natural precipitation. Within the same volume of business, the Group strives to maintain or reduce annual water consumption.

Paper Use

During the Reporting Period, the Group mainly consumed paper in its offices, and the Group has adopted the following practices to reduce paper consumption:

- Carefully review the content and format before printing to reduce the printing errors;
- Use double-sided printing for internal documents with the exception of official documents;
- Promote the use of paperless conferencing system, use multimedia smart conferencing system for presentation, reducing paper use during conferences;
- Use email to reduce fax paper consumption, scan the paper fax into electronic version for email delivery;
- Separate used single-sided and double-sided paper to allow easier reuse; and
- The back of single-sided paper can be used for printing or as draft paper.

Packaging Materials

The Group pays great attention to the consumption of packaging materials, as it tries to use green packaging materials as often as possible. The Group also encourages its customers to apply for the whole package of goods, reducing the amount of scattered packing materials. With the concept of being environmentally-friendly in mind, the Group's agricultural and livestock business has hired professional packaging designers to design its packaging, reasonably minimising the waste of packing materials.

3. The Environment and Natural Resources

Pharmaceutical Promotion and Network Management Business

The main environmental impact of the pharmaceutical promotion and network management business is the indirect GHG emissions from the use of purchased electricity. The Group has taken measures to reduce electricity consumption and thus the GHG emissions in its office.

Pharmaceutical Production Business

The main environmental impact of the pharmaceutical production business is the use of boiler and electricity in its manufacturing process. The operation of the boiler and the use of electricity generate both direct and indirect GHG emissions. To minimise the impact, the Group has planted trees around the pharmaceutical factory in Hunan to remove GHG.

Agricultural and Livestock business

The main environmental impact of the agricultural and livestock business is the animal manure from its livestock. The Group has implemented two levels of protection in the livestock area to maintain a clean and healthy environment. The Group has planted reed, mulberry and other plants around the animal pens and the entire project area to purify the outdoor residual animal waste or dirty water. The plants can also prevent the outdoor faeces and other residuals from being washed into the surrounding waters, and from polluting the environment. In addition, the Group also has planted various trees and plants on both sides of the road and on the barren slopes. The plants serve the dual purposes of reducing airborne carbon dioxide and soil erosion, which helps the Group in developing sustainable agricultural and livestock business. During the Reporting Period, the Group repaired about two kilometers of protective ditches for collecting natural precipitation, thereby reducing the use of valuable groundwater.

SOCIAL

Employment and Labour Practices

1. Employment

The Group cherishes its talents as the most valuable assets, and the key to driving the success and maintaining the sustainable development of the Group. The Group strives to provide a safe and suitable career development platform for its employees.

The Group's human resources policies strictly abide by the applicable employment laws and regulations in the PRC, the main law being the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) and the Labour Law of the PRC (《中華人民共和國勞動法》). The Group also abides by the labour law in the PRC by providing employees with the five statutory social insurance schemes (including basic endowment insurance, basic medical insurance, employment injury insurance, maternity and unemployment insurance). The Human Resources Department of the Group reviews and updates the relevant company policies regularly in accordance with the latest laws and regulations.

As talent hiring is crucial to the future business development, through its "Annual Recruitment Plan", the Group has taken measures such as utilising the internet, institutional recruitment seminars and intermediaries to attract high-quality talent with competitive and fair remuneration package. The Group determines its employee's benefits based on the candidate's past performance, personal attributes, work experiences and career aspirations. In order to retain talents, the Group also regularly reviews its remuneration system, making timely adjustments, providing its employees with a fair and reasonable remuneration. In early 2017, the Group reorganised the "CMS Employee Benefit Scheme" (康哲員工福利計劃) to recognise the contributions made by core staff to the Group and to reward employees for their continuous service and contribution towards the Group's yearly growth. Any appointment, promotion or termination of employment contract will be based on reasonable, lawful grounds and internal policies. The Group strictly prohibits any kinds of unfair or unreasonable dismissals.

The Group has formulated its internal policy such as the Implementing Rules for Attendance Management and others based on the local employment laws for determining working hours and leaves for its employees. If an employee works overtime during non-office hours, the employee could receive appropriate overtime pay or compensatory leave in accordance with the labour regulations.

As an equal opportunity employer, the Group is committed to creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all its human resources and employment decisions. For instance, in all business units of the Group, training and promotion opportunities, dismissals and retirement policies are based on factors irrespective of the employees' age, sex, marital status, pregnancy, family status, disability, race, skin color, ancestry, nationality, religion or any other non-job related factors. In accordance with local ordinances and regulations, the equal opportunity policy allows zero tolerance in relation to any workplace discrimination, harassment or vilification. Employees are encouraged to report any incidents involving discrimination to the Human Resources Department of the Group. The Human Resource Department of the Group ensures that the Group complies with the national and local laws and regulations, and takes responsibilities for assessing, handling, recording and taking any necessary disciplinary actions in relation to such incidents.

To cultivate a sense of belonging among employees, the Group provides its employees with various welfares such as annual physical examination, afternoon tea, overtime allowance, working uniforms, well-equipped dormitories, and rich self-produced agricultural products as holiday gifts. To enrich the leisure time of employees and enhance collective identity, during the Reporting Period, the Group organised a variety of activities for its staff, such as the International Women's Day party, spring tours, gatherings, basketball games, travels and an annual dinner. Furthermore, the Group conducted a "corporate culture" (組織氛圍) satisfaction survey for all its employees. The survey covered issues such as working environment, career development and collective identity, which helped the Group understands more about its employees. Based on the employee's feedback, the Group took immediate action on improving and adjusting, to create a better working atmosphere for its employees.

During the Reporting Period, the Group complied with relevant laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, leave, equal opportunity, diversity, anti-discrimination, and other benefits and welfare that have a significant impact on the Group.

2. Health and Safety

To provide and maintain good working conditions and a safe and healthy working environment for its employees, the Group has established work safety and health policies that are in line with various laws and regulations as stipulated by the Chinese government. The main laws and regulations related to health and safety are the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Production Safety Law of the PRC (《中華人民共和國安全生產法》) and the Regulation on Work-Related Injury Insurance (《工傷保險條例》).

In its daily work, the management and staff must strictly follow the internal guidelines regarding occupational health and safety, which include a series of measures such as fire safety, labour protection, production site safety and safety warning signs management. Workers for a special type of work must be specially trained and have obtained the special work permit, along with wearing protective shoes and a safety helmet while working. The Group also posts safety notices, banners, slogans and warning signs in conspicuous workplaces to remind employees of preventing accidents. The Group conducts regular inspections and reviews to ensure that the work safety measures are effective.

The Group prohibits employees from smoking and drinking in the workplace, regularly cleans and disinfects its air-conditioning systems, and conducts safety inspections and emergency drills for its employees. All production-related new employees must undergo a series of trainings on safety production provided by the Group prior to working. The focus of the training is on safety laws and regulations, the safety production management system and related safety knowledge. The purpose of the training is to enhance employee's awareness on safety, committing to achieving zero accidents in the workplace. The Group organises an annual health examination for all its employees and the result of the health examination is kept for recording, paying close attention to employee's work health.

During the Reporting Period, the Group did not violate any of the relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards that have a significant impact on the Group. And no accidents and major adverse health and safety related negative incidents happened.

3. Development and Training

The Group offers comprehensive trainings and development programmes to its staff in order to strengthen their work-related skills and knowledge. The Group's pharmaceutical plant located in Pingshan, Shenzhen is used as a training base for new employees and promotional staff. Taking advantage of the development of the internet, the Group has set up various mobile network training platforms such as "The Training Master" (培訓寶), and "The Training Public Account" (培訓公眾號) for employees to learn and revisit the related course materials anywhere, anytime. Through theoretical training, mentorship programmes, case sharing sessions, seminars and self-study, the Group aims to provide various in-house trainings to all departments and employees at all levels, including: induction training, advanced training, technical and business operation training, policies training and management training.

In order to realise focused training, each set of the Group's training courses is designed for a specific class of employees. Employee training covers product academic knowledge, promotion skills, corporate culture, industry compliance, company organisation and business scope, employee development and benefits, regional management policies, GSP, business etiquette, business ethics etc. For professional promotional staffs, the Group organises regular and irregular training in the area of medical knowledge, pharmaceutical academic knowledge and compliance. All promotional staff members are obliged to receive timely and complete professional training in accordance with the Group's arrangement in order to have sufficient medical expertise to provide accurate, responsible pharmaceutical academic information to medical professionals. The Group also actively organises its staff to attend related pharmaceutical operation training and assessment, in order to enhance employees' knowledge and skills in performing their job duties.

The Group also encourages outstanding employees to attend external training courses to enhance their own competitiveness and expand their capabilities through continuous learning. The Group can arrange external organisations and experts to provide job-related trainings to its employees.

4. Labour Standards

The Group strictly abides by the Labour Law of the PRC (《中華人民共和國勞動法》), the Provisions on the Prohibition of Child Labour of the PRC (《中華人民共和國禁止使用童工規定》), the Law of the PRC on the Protection of Minors (《中華人民共和國未成年人保護法》) and other related labour laws and regulations in the PRC. The Group will never hire any child laborers or engage in forced labor.

To combat the illegal employment of child labour, underage workers and forced labour, the Group's Human Resources Department requires job applicants to provide valid identity documents before the confirmation of employment, to ensure that the applicants are lawfully employable. Throughout the recruitment process, the Group requires that all personal information provided by the applicant be real and valid. At any time, if the applicant is found to have provided false information during the recruitment process, the Group has the rights to terminate its labour relationship with the applicant in accordance with relevant laws and regulations. The Group's Human Resources Department is responsible for monitoring and ensuring the Group complies with the latest relevant laws and regulations that prohibit child labour and forced labour.

During the Reporting Period, the Group did not violate any of the relevant laws and regulations that have a significant impact on the Group, in relation to the prevention of child and forced labour.

Operating Practices

5. Supply Chain Management

As a socially responsible enterprise, the Group believes its scope of management should not only be limited to its subsidiaries, but must also include suppliers that have a connection with the Group. Suppliers in the Group's supply chain should also be enterprises that would actively undertake environmental and social responsibilities. Each of the operating subsidiaries within the Group should monitor the quality and supply chain practices of its suppliers on a strict and continuous basis.

The Group's main suppliers are professional manufacturers from Germany, Denmark, Ireland, France, Switzerland, Japan and Mainland China, providing products such as raw materials and finished goods. The practices, standards and bases adopted by the Group in selecting suppliers include: the qualifications of enterprise's operation and production, product quality, technical capability, market prospect, service quality, concept of environmental protection, business ethics and social responsibility, etc. The products purchased by the Group are mainly manufactured drugs. When selecting suppliers, the Group will primarily examine the supplier's size, history, production status, product types, quality reputation, quality management, and whether it is certified in terms of production, operation and sales according to its national standards. Before exporting drugs, overseas suppliers with export qualification must provide qualified delivery inspection reports to ensure product quality. For domestic suppliers, the Group obtains and verifies the following certificates which include but not limited to, Drug Production License (藥品生產許可證) or Drug Operation License (藥品經營許可證), Business License (營業執照), and GMP or GSP quality control system certificate. During the course of transportation, the Group strictly follows the product requirement on temperature and humidity, and buys the necessary transportation insurance.

To promote better cooperation and communication between the Group and its suppliers, suppliers are required to promptly update their product information, stock information and price status via email, telephone and other communication tools. The Group's Purchasing Department, Marketing and Sales Department, and Management of the Company are in close contact with its suppliers, regularly updating its medium and long-term procurement plan. Meanwhile, Suppliers need to actively position themselves ahead based on the Group's estimated demand, including the expansion of production lines, seeking more upstream raw material suppliers, and replacement of equipment with a large capacity to ensure they meet the Group's production needs. According to the relevant laws and regulations, the Supply Chain Management Department shall contact the relevant departments to conduct product sampling and only those which have obtained the qualification report can be sold. If the products provided by suppliers do not meet the requirements upon formal delivery, the Group reserves the right to return the products and ask for corresponding compensation from the supplier. In order to cope with the possible delay, the Group has set up reasonable stock storage based on the information of different products. Given the Group's solid and steady relationships with its suppliers, the Group did not experience any material delays in receiving supplies from its suppliers last year.

The Group has set up a procurement management team responsible for monitoring, reviewing and confirming supply records. The procurement management team conducts on-site vendor assessments on a regular basis to ensure that suppliers comply with local laws and regulations in the country of operation and adhere to their corporate ethics such as the prohibition of child labor and forced labor. The Group has a list of qualified suppliers and re-evaluates them annually.

Pharmaceutical Production Business

The suppliers in the Group's pharmaceutical production business mainly provide raw materials for production and packaging materials for the manufactured pharmaceuticals. When selecting suppliers, the supplier must be a legitimate production/operating enterprise approved by the relevant government sectors, while also have solid technical capabilities and a sound quality management system. In order to reduce the environmental impact of procurement activities, the Group prefers suppliers with convenient transportation as this could reduce both costs of logistics and the emissions from transportation. At the same time, the Group sets forth product quality specifications and clarifies its environmental requirements to its suppliers, which will be audited by the Group every year.

The Group also strictly controls the selected suppliers in terms of their post-management. Specifically, the Group traces and monitors the quality of material in the stage of acceptance, inspection and production. Once any quality problem is found, the Quality Management Department will file a Material Quality Complaint Form (物料品質投訴通知單) and provide corresponding evidence to the supplier. After the supplier receives the quality complaint, the Quality Management Department will ask the supplier to respond before the deadline as set out in the quality agreement and track the rectification status. The supplier can only continue to supply the goods after figuring out the cause of the problem and making corrections accordingly.

Agricultural and Livestock Business

The major suppliers for the Group's agricultural and livestock business are in Hunan Province, mainly providing animal feed such as corn, soybean meal and wheat bran to the Group. The Group expects its suppliers to meet the following requirements, including but not limited to:

- Be legally qualified, and independently fulfil its obligations and shoulder its responsibilities;
- Have no major adverse records or other serious dishonesty;
- Supply high-quality products that meet the Group's requirement in time;
- Provide products with inspection report from authoritative organisations；and
- Meet the raw materials requirements for green food production

When purchased goods arrive, the Quality Management Department of the Group's agricultural and livestock business is responsible for carrying out an internal inspection, sampling inspection and record keeping. The Group requires the purchased goods to meet the Group's expectation in satisfying daily production. As for losses caused by force majeure, the Group will negotiate with the supplier in terms of the compensation agreed upon in the contract.

6. Product Responsibility

In the pharmaceutical promotion and other various businesses, the Group strictly abides by the relevant laws and regulations of the PRC, including but not limited to the PRC Drug Administration Law (《中華人民共和國藥品管理法》), the PRC Drug Administration Law Implementation Regulations (《中華人民共和國藥品管理法實施條例》), the Provisions for Adverse Drug Reaction Reporting and Monitoring (《藥品不良反應報告和監測管理辦法》), the Provisions for Drug Registration (《藥品註冊管理辦法》), the Administrative Regulations for Insert and Packaging Labels of Drug (《藥品說明書和標籤管理規定》), the Measures for the Supervision and Administration of Drug Production (《藥品生產監督管理辦法》), the Drug Licensing Management Methods (《藥品經營許可管理辦法》), the Good Supply Practice for Pharmaceutical Products (《藥品經營質量管制規範》), the Administrative Measures for the Import of Drugs (《藥品進口管理辦法》), the Measures for the Administration of Drug Information Services Via Internet (《互聯網藥品信息服務管理辦法》), and the Interim Measures for the Administration of Internet Advertising (《互聯網廣告管理暫行辦法》).

All the promoted and sold drugs from the Group are nationally registered products, while the subsidiaries involved in pharmaceutical operations have all passed the latest GSP certification. Imported products promoted and sold by the Group are checked and accepted based on the imported drug inspection report issued by the imported drug ports, while domestic pharmaceuticals are checked and accepted based on the factory inspection report. After the drugs have been imported and placed in the storage room, the Warehouse Department and the Quality Control Department are responsible for the acceptance of the drugs and will check if there is any unqualified packaging. The Group strictly controls the environment and temperature of the storage room, and properly stores each drug based on its requirement, and ensures that the quality of the drugs will not be affected during storage. Before the delivery of drug, the Group conducts an outgoing check according to the laws and regulations to ensure the completeness of the package and to prevent any problematic drugs from entering the market.

The adverse drug reaction reports received by the Group are domestic adverse reaction reports and overseas adverse reaction reports. Domestic adverse reaction reports are mainly from the Group's marketing personnel, patient/ consumer telephone reports and domestic articles of adverse reaction, while overseas adverse reaction reports are from the cooperative pharmaceutical manufacturers in other countries/ regions. The Group has set up a Drug Alert Group for regulating the management and monitoring of the adverse drug reactions reports while taking the initiative in collecting the information of adverse drug reactions. The Drug Alert Group strictly follows the national regulations and the Group's working procedure. After discovering the case of adverse drug reactions, the Drug Alert Group will record, analyse, investigate and deal with the adverse drug reactions. Details of the adverse drug reactions will be reported to CFDA's Drug Adverse Reaction Monitoring Center/ Provincial Drug Adverse Reaction Detection Center in accordance with the regulations. The Drug Alert Group will also immediately inform the pharmaceutical manufacturers of the situation, to effectively control the risks associated with the adverse drug reactions, thereby ensuring public safety. The Group has stipulated the Rules for the Recall of Drugs (藥品召回操作規程) in accordance with the Measures for the Administration of Drug Recall (《藥品召回管理辦法》), the Code for Quality Management of Pharmaceutical (《藥品經營質量管理規範》), the Provisions for Adverse Drug Reaction Reporting and Monitoring (《藥品不良反應報告和監測管理辦法》) issued by the CFDA. According to the results of the investigation on potential safety hazards, the Group's quality manager will set up a recall team and make the decision on the level of recall and whether to recall the products. To protect the health and safety of the public, most of the drugs can be tracked through the drug regulatory code.

The Group strictly abides by the Advertising Law of the PRC (《中華人民共和國廣告法》) and relevant laws and regulations. The advertising content must be designed according to the needs of academic promotion. Only with the approval from relevant departments of the government, can the Group publish corresponding advertising contents on medical academic journals designated by both the Ministry of Health and the CFDA. Meanwhile, the Group strictly abides by the Administrative Regulations for Insert and Packaging Labels of Drug (《藥品說明書和標籤管理辦法》), and the Legal Department in the Group provides real-time communication and assistance on such matters.

Pharmaceutical Production Business

The Group requests employees who have engaged in the product manufacturing to deliver products with zero-defect to clients in a timely manner. To ensure product quality, the Group strengthens its quality audit of the materials providers. Starting from the raw materials, the Group strictly follows the national quality standards in inspecting the material, and ensuring it meets relevant standards before putting on production. The Group's production workshop has passed the latest GMP certification of drugs, which provides strict guidance in terms of GMP standards and approved manufacturing technologies to the Group in organising production and monitoring each aspect of the production process.

The Group has established a sound quality and safety mechanism. The Group's subsidiaries involving in production have quality management departments to monitor and carry out quality inspections of the samples of materials and products. After the inspection, all finished products and their associated packages are issued with inspection report to ensure that relevant national drug quality standards have been met. In respect to product storage, the Group strictly abides by the relevant national regulations and requirements, to ensure drugs are stored under the storage conditions as indicated in the drug labels. The Group's storage rooms are equipped with automatic temperature and humidity detection system, along with other functions such as light traps, light prevention, ventilation, moisture-proof, pest control, rat prevention and safety monitoring, to ensure drugs are stored in a good condition.

Agricultural and Livestock Business

The crop products (such as green shell eggs, earthy eggs, strawberries, muskmelons, etc.) produced by the Group have complied with the Regulations of the PRC on Food Safety (《中華人民共和國食品安全條例》) and have passed the professional quality institutions' inspection. The soil, water and nutrient matrices used in the Group's agricultural and livestock business have all passed the SGS test to ensure crops are grown under an excellent agricultural environment. The Group also engages professional testing organisations to conduct strict tests on the chemical substances within crop products to ensure that all crop products are safe and healthy. The Group implements a traceable system for monitoring its products, and takes record of the entire production process for future reference.

The Customer Service Department in the Group's agricultural and livestock business has set up a hotline to collect customer feedback and provide immediate response to customers. During the Reporting Period, the Group's agricultural and livestock business received no products/ services related complaints. If any complaint upon the product is filed, the Group will immediately conduct an investigation on the problem, strengthens the subsequent quality testing, and shortens the delivery time to its customers, to ensure the freshness of products. If any complaint about the service quality is filed, the Group will investigate and supervise the immediate change in the personnel's act.

Protection of Intellectual Property and Data Confidentiality

The Group is dedicated to protecting and enforcing its intellectual property rights. Intellectual property rights are crucial to the Group's sustainable business growth and its ability to differentiate itself from its competitors. The Group's intellectual property rights (such as trademarks and patents) have been registered in accordance with the laws and regulations of the PRC (including Hong Kong SAR, Macau SAR, and Taiwan) and the European Union. The Group makes sure that the protection of its intellectual property rights through registration, maintenance and enforcement measures is effective. The Group has established the following internal measures for data confidentiality in its daily operation:

- Classify and define the scope of commercial secret, and keep the related documents in designated security area;
- Strictly implement the Group's internal confidential rules and regulations by signing confidentiality agreements with internal and external parties; and
- Educate employees and enhance their awareness in relation to the confidential maintenance of trade secrets and other proprietary intellectual properties.

The Group is committed to abiding by the laws in relation to customer privacy, such as the Law of the PRC on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) and other relevant laws and regulations to ensure customers' rights are strictly protected. All collected personal data of customers during the course of business are treated as confidential. The Group has an internal privacy policy to ensure clients' transactions and information are protected. Through internal trainings and confidentiality agreements with its employees, the Group stresses the importance of fulfilling the duties in confidentiality and the legal consequences of violating the agreements to its employees. The IT Department of the Group strictly controls the installation of relevant software, and adopts a stringent network behavior management mechanism in the office network to prevent data loss and data leakage. Within the business system, employees at all levels can inquire and maintain customer information according to authorisations. Unauthorised people cannot use, export or copy customer information.

During the Reporting Period, the Group did not violate any relevant laws and regulations regarding health and safety, advertising, labeling and privacy matters of its products that may have a significant impact on the Group.

7. Anti-corruption

The Group strictly adheres to the Law of the PRC on Anti-money Laundering (《中華人民共和國反洗錢法》) and relevant laws and regulations regarding health and pharmaceutical products, including but not limited to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), the Regulations of the PRC on Drug Administration Law (《中華人民共和國藥品管理法實施條例》) and the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》). The Group highly values honesty, responsibility, morality in employees, and the employee's ability to abide by the code of conduct.

The Group does not tolerate corruption of any kind. The Group strictly enforce its internal regulations, CMS Employee Code of Professional Ethics (CMS 員工職業道德守則). All employees must abide by the principles of honesty and self-discipline when performing their duties and shall not engage in bribery or take advantage of his or her position to carry out any activity that undermines the interests of the Group. At the same time, the Group has established the CMS Anti-Fraud Management Policy (CMS 反舞弊管理制度), where employees can report any suspected wrongdoing, misconduct or irregularities. The Group has established the internal Compliance Department to monitor and investigate any acts of violations of professional ethics. The Group has also stipulated the Code of Conduct for Promotional Personnel (從業人員推廣行為準則) to ensure the legality of sales promotion provided to medical professionals by the Group's employees.

The Group has formulated the functional division of labour and departmental operation standards for different departments to prevent internal and external corruption, money laundering, bribery, fraud and blackmail etc., to ensure the normal operation of the Group's business. The Group allows employees to communicate with their supervisors or relevant departments when they encounter or suspect a violation of the Code. Employees can also use fax, mail or internal ERP platform to report directly or anonymously to the Chief Executive. The Group treats all reported information as confidential in order to protect the whistleblowers from unfair dismissal or injury.

During the Reporting Period, the Group did not violate any of the relevant laws and regulations in relation to bribery, extortion, fraud and money laundering that have a significant impact on the Group.

Community

8. Community Investment

The Group understands well the importance of making a positive contribution to the communities where the Group operates, and sees the interests of the communities as one of its social responsibilities. The Group actively participates in social welfare activities and community care projects to understand the needs of the communities where the Group operates. Participation in such projects helps the Group formulate its policies and objectives to be in line with the needs and interests of the communities. The Group is keen to support social welfare activities and community care projects, and encourages its employees to participate in these activities and projects.

Below is a list of social benefit activities the Group participated in during the Reporting Period:

Shenzhen Kangzhe again funded and supported the "Rusticating" (三下鄉) activity held by "Warm Wind China" (暖風中國) volunteer service teams from Guangdong Medical University. Since 2015, CMS has been involved in this "Relay of Love" (愛心接力) for three years. To uphold the voluntary activities in remote mountain areas of Sichuan and Yunnan Provinces held by "Warm Wind China" (暖風中國), CMS actively made donations and provided medicines.

Shenzhen Kangzhe was one of the "Top 100 Enterprises of Shenzhen in 2017" (2017 年深圳企業100強), and awarded the "Green Channel Enterprise in Nanshan District" (南山區綠色通道企業). Achieving those two honours reflected the recognition and compliment on the Group's operation and the contribution to local prosperity from the community.

The pharmaceutical factory of the Group located in Hunan Province has made many donations to local Hope Primary Schools over the last several years. The donations have helped with the development of local education. During the Reporting Period, the Group once again donated an educational fund to the department of education in the county of Lixian in Hunan Province.

The agriculture and livestock business of the Group made contributions to the employment of local peasant households, economic development of local agriculture, and the income level of local farmers. To solve the problem of local unemployment, the Group always keeps a positive attitude. Specifically, the Group firstly considered to using the agricultural machines from local farmers. Besides, the Group offered free agricultural products to the villagers and school canteens in the neighbourhood on a regular basis. In addition, every year the Group sponsored two middle schools in the countryside where the Group operated.

To support the local education, Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd. donated an educational fund to the Education Burau of Xinglong County in Hebei Province.

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of China Medical System Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 72 to 145, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance ("CO").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Goodwill	
We identified the impairment of goodwill as a key audit matter due to the involvement of significant judgment of the management in determining the impairment of goodwill. The impairment of goodwill is determined based on the higher of fair value less costs to sell and value in use of the cash-generating units, which is based on the cash flow forecasts prepared by the management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on the management's view of future business prospects. As at 31 December 2017, the carrying value of goodwill was RMB1,385 million. Details relating to the Group's goodwill and key sources of estimation uncertainty are set out in Note 18 and Note 4 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill included: • Making inquiries with the management on their bases and assumptions used in relation to the preparation of the value in use calculation; • Checking the mathematical accuracy of the value in use calculation; • Evaluating the reasonableness of the key assumptions including growth rates, discount rates and the forecast performance used by the management with reference to the historical performance; • Checking the inputs used in the cash flow forecasts against supporting documentations; and • Evaluating the sensitivity analysis prepared by the management on discount rates and growth rates to assess the extent of impact on the value in use calculation.

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

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Interest in an Associate	
We identified the impairment of interest in Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical"), an associate of the Group as a key audit matter due to the involvement of significant judgment of the management in determining the impairment of interest in Tibet Pharmaceutical and its significance to the consolidated financial statements. The impairment of interest in Tibet Pharmaceutical is determined based on the higher of fair value less costs to sell and value in use, which is based on the cash flow forecast prepared by the management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on the management's view of future business prospects. As at 31 December 2017, the carrying value of the Group's interest in Tibet Pharmaceutical was RMB2,411 million. Details relating to the Group's interest in Tibet Pharmaceutical and key sources of estimation uncertainty are set out in Note 16 and Note 4 to the consolidated financial statements.	Our procedures in relation to the impairment of interest in an associate included: • Obtaining an understanding of the management's bases and assumptions used in relation to the preparation of the value in use calculation reviewed by an independent external valuer; • Checking the mathematical accuracy of the value in use calculation; • Assessing the reasonableness of key inputs and assumptions used by management in estimations of value in use, including growth rates, discount rate and the forecast performance used by the management with reference to the historical performance; • Checking the inputs used in the cash flow forecast against supporting documentations; • Evaluating the independent external valuer's competence, capabilities and objectivity; and • Evaluating the sensitivity analysis prepared by the management on discount rate and growth rates to assess the extent of impact on the value in use calculation.

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

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
Turnover	5	5,348,838	4,900,812
Cost of goods sold		(1,870,537)	(1,988,911)
Gross profit		3,478,301	2,911,901
Other gains and losses	6	(61,216)	(22,078)
Selling expenses		(1,382,150)	(1,173,760)
Administrative expenses		(221,974)	(221,714)
Finance costs	7	(82,250)	(42,520)
Share of results of associates		77,722	48,612
Profit before tax		1,808,433	1,500,441
Income tax expense	10	(138,494)	(122,524)
Profit for the year	11	1,669,939	1,377,917
Other comprehensive (expense) income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive (expense) income of associates		(5,157)	315
Fair value loss on available-for-sale investments		(3,271)	-
Change in fair value on cash flow hedges			
- fair value gain		12,023	-
- deferred tax relating to change in fair value		(1,984)	-
Other comprehensive income for the year, net of income tax		1,611	315
Total comprehensive income for the year		1,671,550	1,378,232
Profit (loss) for the year attributable to:			
Owners of the Company		1,674,807	1,375,936
Non-controlling interests		(4,868)	1,981
		1,669,939	1,377,917
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		1,676,418	1,376,251
Non-controlling interests		(4,868)	1,981
		1,671,550	1,378,232
		RMB	RMB
Earnings per share	13		
Basic		0.6734	0.5532

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	14	479,080	361,724
Prepaid lease payments	15	58,868	60,541
Interests in associates	16	2,412,387	1,363,361
Intangible assets	17	2,720,326	2,885,597
Goodwill	18	1,384,535	1,384,535
Available-for-sale investments	19	23,020	-
Deposits paid for acquisition of property, plant and equipment and intangible assets		72,142	143,413
Interest-bearing and secured loan receivable		-	10,960
Derivative financial instruments	28	12,023	-
Deferred tax assets	27	26,882	30,544
		7,189,263	6,240,675
Current assets			
Inventories	20	460,401	509,004
Trade and other receivables	21	1,487,392	1,682,420
Tax recoverable		5,135	14,240
Amount due from an associate	22	151,023	862,803
Bank balances and cash	23	855,629	482,451
		2,959,580	3,550,918
Current liabilities			
Trade and other payables	24	506,826	579,122
Bank borrowings	25	65,000	1,612,398
Deferred consideration payables	26	8,802	1,096,424
Tax payable		77,516	108,223
		658,144	3,396,167
Net current assets		2,301,436	154,751
Total assets less current liabilities		9,490,699	6,395,426
Capital and reserves			
Share capital	29	85,200	85,200
Reserves	30	7,189,483	6,124,182
Equity attributable to owners of the Company		7,274,683	6,209,382
Non-controlling interests		53,574	58,442
		7,328,257	6,267,824

	NOTES	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Deferred tax liabilities	27	104,498	105,563
Deferred consideration payables	26	17,896	22,039
Bank borrowings	25	2,040,048	-
		2,162,442	127,602
		9,490,699	6,395,426

The consolidated financial statements on pages 72 to 145 were approved and authorised for issue by the Board of Directors on 19 March 2018 and are signed on its behalf by:

LAM Kong
DIRECTOR

CHEN YanLing
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQULITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to the owners of the Company											
	Share capital	Share premium	Capital reserve	Surplus reserve fund	Translation reserve	Hedging reserve	Investments revaluation reserve	Accumulated profits	Dividend reserve	Sub-total	Attributable to non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note 30)	RMB'000 (Note 30)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	85,200	2,444,296	19,545	149,749	(9,205)	-	-	2,405,204	201,218	5,296,007	56,461	5,352,468
Profit for the year	-	-	-	-	-	-	-	1,375,936	-	1,375,936	1,981	1,377,917
Share of other comprehensive income of associates	-	-	-	-	315	-	-	-	-	315	-	315
Total comprehensive income for the year	-	-	-	-	315	-	-	1,375,936	-	1,376,251	1,981	1,378,232
Dividends paid (Note 12)	-	-	-	-	-	-	-	(261,658)	(201,218)	(462,876)	-	(462,876)
Dividends proposed (Note 12)	-	-	-	-	-	-	-	(289,516)	289,516	-	-	-
Transfer of reserves	-	-	-	26,688	-	-	-	(26,688)	-	-	-	-
Balance at 31 December 2016	85,200	2,444,296	19,545	176,437	(8,890)	-	-	3,203,278	289,516	6,209,382	58,442	6,267,824
Profit (loss) for the year	-	-	-	-	-	-	-	1,674,807	-	1,674,807	(4,868)	1,669,939
Share of other comprehensive expense of associates	-	-	-	-	(5,157)	-	-	-	-	(5,157)		(5,157)
Fair value loss on available-for-sales investments	-	-	-	-	-	-	(3,271)	-	-	(3,271)	-	(3,271)
Change in fair value on cash flow hedges												
- fair value gain	-	-	-	-	-	12,023	-	-	-	12,023	-	12,023
- deferred tax relating to change in fair value	-	-	-	-	-	(1,984)	-	-	-	(1,984)	-	(1,984)
Total comprehensive (expense) income for the year	-	-	-	-	(5,157)	10,039	(3,271)	1,674,807	-	1,676,418	(4,868)	1,671,550
Dividends paid (Note 12)	-	-	-	-	-	-	-	(321,601)	(289,516)	(611,117)	-	(611,117)
Dividends proposed (Note 12)	-	-	-	-	-	-	-	(346,474)	346,474	-		
Transfer of reserves	-	-	-	56,833	-	-	-	(56,833)	-	-	-	-
Balance at 31 December 2017	85,200	2,444,296	19,545	233,270	(14,047)	10,039	(3,271)	4,153,177	346,474	7,274,683	53,574	7,328,257

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES		
Profit before tax	1,808,433	1,500,441
Adjustments for:		
Amortisation of intangible assets	165,271	150,883
Impairment loss on intangible assets	-	20,000
Interest expenses	79,524	39,040
Depreciation of property, plant and equipment	31,147	24,976
Allowance for inventories	2,952	2,940
Loss on disposal of property, plant and equipment	21	314
Release of prepaid lease payments	1,673	1,672
Imputed interest expense on deferred consideration payables	2,726	3,480
Allowance for bad and doubtful debts	3,732	2,313
Share of results of associates	(77,722)	(48,612)
Interest income	(17,654)	(20,005)
Net foreign exchange loss	98,534	43,916
Operating cash flows before movements in working capital	2,098,637	1,721,358
Decrease (increase) in inventories	45,651	(126,767)
Decrease (increase) in trade and other receivables	192,040	(519,139)
Increase in amount due from an associate	(30,682)	(34,996)
(Decrease) increase in trade and other payables	(73,823)	170,129
Cash generated from operations	2,231,823	1,210,585
People's Republic of China (the "PRC") Enterprise Income Tax paid	(155,478)	(46,313)
Hong Kong Profits Tax paid	(4,547)	(2,228)
NET CASH FROM OPERATING ACTIVITIES	2,071,798	1,162,044

	NOTE	2017 RMB'000	2016 RMB'000
INVESTING ACTIVITIES			
Receipt of structured deposits		-	279,180
Interest received		6,615	7,515
Dividends received from associates		23,539	7,361
Purchase of property, plant and equipment		(76,624)	(48,891)
Purchase of intangible assets		-	(1,080,651)
Proceeds from disposal of property, plant and equipment		898	1,643
Loan to an associate		-	(683,265)
Repayment of loan from an associate		717,764	-
Purchase of available-for-sale investments		(26,291)	-
Subscription of additional ordinary shares of an associate		(1,000,000)	-
Deposits for acquisition of property, plant and equipment and intangible assets		-	(16,150)
NET CASH USED IN INVESTING ACTIVITIES		(354,099)	(1,533,258)
FINANCING ACTIVITIES			
New bank borrowings raised		4,368,836	2,861,695
Repayment of deferred consideration payables		(1,072,889)	(8,000)
Interest paid		(79,524)	(39,751)
Dividends paid		(611,117)	(462,876)
Repayment of bank borrowings		(3,950,368)	(1,729,087)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	33	(1,345,062)	621,981
NET INCREASE IN CASH AND CASH EQUIVALENTS		372,637	250,767
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		482,451	229,336
Effects of exchange rate changes on the balance of cash held in foreign currencies		541	2,348
CASH AND CASH EQUIVALENT AT THE END OF YEAR REPRESENTED BY BANK BALANCES AND CASH		855,629	482,451

1. GENERAL

China Medical System Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by The Stock Exchange on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 6F - 8F, Block B, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the PRC.

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries (collectively referred to as the "Group").

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

Amendments to IFRSs that are mandatorily effective for the current year

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

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014 - 2016 Cycle

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

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

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 33. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 33, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendements[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014 - 2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015 - 2017 Cycle[2]

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 2021

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

IFRS 9 *Financial Instruments*

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

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

- all recognised financial assets that are within the scope of IFRS 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 fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 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, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS *39 Financial Instruments: Recognition and Measurement.* 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.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

IFRS 9 *Financial Instruments* - continued

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement:

Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 19: these securities qualified for designation as measured at FVTOCI under IFRS 9, however, the fair value loss accumulated in the investments revaluation reserve amounting to approximately RMB3,271,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income.

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that are subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would not be materially increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade and other receivables and amount due from an associate. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

Hedge accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9. Accordingly, the directors of the Company anticipate that the application of the new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting.

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

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

IFRS 16 *Leases*

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

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

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

IFRS 16 *Leases* - continued

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately RMB15,538,000 as disclosed in Note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of approximately RMB1,130,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the CO.

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 IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

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 into line with the Group's accounting policies.

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

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits respectively;*

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based payment at the acquisition date; and*

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable amount 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 are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

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

Goodwill

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

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates - continued

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

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets - research and development expenditure

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

Property, plant and equipment

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

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

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

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

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

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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

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.

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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

Prepaid lease payments

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into AFS financial assets 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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss ("FVTPL").

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Loans and receivables

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

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

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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 a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

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

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities at amortised cost

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

Bank borrowings

Bank borrowings are recognised initially at fair value of proceeds received, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Bank borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss over the period of the bank borrowings using the effective interest method.

Deferred consideration payables

The deferred consideration payables are initially measured at the present value of the contractual future payments that are not paid at that date. Deferred consideration payables 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Hedge accounting - continued

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 hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity (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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Derecognition - continued

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

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

Revenue recognition

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

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

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

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

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

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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

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

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

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies - continued

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

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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 lessee

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

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing - continued

Leasehold land and building - continued

To the extent the allocation of the relevant 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 payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Borrowing costs

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

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

Retirement benefit costs

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

Payments to employee benefit schemes including Key Employee Benefit Scheme (the "2009 Scheme"), CMS Key Employee Benefit Scheme (the "New KEB Scheme") and CMS Employee Incentive Scheme (the "Bonus Scheme"), which are classified as defined contribution schemes, are recognised as an expense in the reporting period in which the Board of Directors approve for the contribution to a trust.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 IFRS 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, 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 on-going 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 following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on the management's view of future business prospects. If the recoverable amount of an intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. During the year ended 31 December 2016, an impairment loss of RMB20,000,000 (2017: nil) was recognised in profit or loss. As at 31 December 2017, the carrying amount of intangible assets is approximately RMB2,720,326,000 (2016: RMB2,885,597,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to the five (2016: five) cash generating units ("CGU"s) (see Note 18). The impairment assessment is based on the higher of fair value less costs of disposal and value in use of the CGUs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on the management's view of future business prospects. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, a material impairment loss / further impairment loss may arise. In the opinion of the directors of the Company, no impairment of goodwill is required for the years ended 31 December 2017 and 2016. As at 31 December 2017, the carrying amount of goodwill is approximately RMB1,384,535,000 (2016: RMB1,384,535,000).

Estimated impairment of interest in Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical")

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of the recoverable amount of interest in Tibet Pharmaceutical which is the higher of fair value less costs to sell and value in use. The Group has carried out impairment testing to determine whether the Group's interest in Tibet Pharmaceutical is impaired. As at 31 December 2017, the recoverable amount of interest in Tibet Pharmaceutical was determined by value in use (2016: fair value less costs to sell). The value in use as at 31 December 2017 was performed by Vigers Appraisal & Consulting Limited, an independent valuer. The value in use calculation requires the Group to estimate the future cash flows expected to arise from interest in Tibet Pharmaceutical and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on the management's view of future business prospects. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. The fair value less costs of disposal for 2016 was determined based on the quoted market price of the shares of Tibet Pharmaceutical as the directors of the Company considered that the costs of disposal were insignificant. As at 31 December 2017, the carrying amount of interest in Tibet Pharmaceutical was approximately RMB2,410,965,000 (2016: RMB1,360,425,000). In the opinion of the directors of the Company, no impairment of interest in Tibet Pharmaceutical is recognised for the years ended 31 December 2017 and 2016. Details of the interest in Tibet Pharmaceutical are disclosed in Note 16.

Deferred tax assets

As at 31 December 2017, a deferred tax asset of approximately RMB25,681,000 (2016: RMB29,343,000) in relation to unrealised profits on inventories has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or there is a change in facts and circumstances which results in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the profit or loss in the period in which such a reversal or further recognition takes places.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Estimated impairment of trade receivables

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). If the financial condition of the customers of the Group deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2017, the carrying amounts of trade receivables (net of allowance for bad and doubtful debts) and allowance for bad and doubtful debts are approximately RMB993,812,000 (2016: RMB1,068,481,000) and RMB9,828,000 (2016: RMB6,096,000), respectively.

Estimated allowance for inventories

As at 31 December 2017, the carrying amount of the Group's inventories is approximately RMB460,401,000 (2016: RMB509,004,000). The management of the Group reviews an aging analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete and slow-moving items. The management also estimates the net realisable value for finished goods, work-in progress and raw materials based primarily on the latest invoice prices and current market conditions.

5. TURNOVER AND SEGMENT INFORMATION

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

An analysis of the Group's turnover for the year is as follows:

	2017 RMB'000	2016 RMB'000
Sales of goods	4,798,270	4,508,769
Promotion income	550,568	392,043
	5,348,838	4,900,812

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

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

5. TURNOVER AND SEGMENT INFORMATION - continued

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

The Group primarily operates in the PRC. All revenue from external customers is attributed to the PRC. 99% (2016: 99%) of non-current assets excluding AFS investments, derivative financial instruments, interest-bearing and secured loan receivable and deferred tax assets of the Group are located in the PRC.

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

6. OTHER GAINS AND LOSSES

	2017 RMB'000	2016 RMB'000
Interest income	17,654	20,005
Government subsidies (Note a)	26,499	25,330
Loss on disposal of property, plant and equipment	(21)	(314)
Net foreign exchange loss	(101,475)	(50,776)
Impairment loss on intangible assets (Note 17)	-	(20,000)
Others	(3,873)	3,677
	(61,216)	(22,078)

Note:

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

7. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings	79,524	39,040
Imputed interest on deferred consideration payables	2,726	3,480
	82,250	42,520

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Year ended 31 December 2017								
	Executive Directors (Note b)			Independent Non-executive Directors (Note c)				Executive Director and chief executive (Note b)	
	Chen Hong Bing RMB'000	Chen Yan Ling RMB'000	Sa Man Lin RMB'000 (Note d)	Wu Chi Keung RMB'000	Cheung Kam Shing, Terry RMB'000	Leung Chong Shun RMB'000 (Note f)	Huang Ming RMB'000 (Note e)	Lam Kong RMB'000 (Note a)	Total RMB$'000
Fees	156	156	124	156	156	8	148	156	1,060
Other emoluments									
Salaries and other benefits	654	525	419	-	-	-	-	610	2,208
Contributions to retirement benefits schemes	52	52	-	-	-	-	-	16	120
Total emoluments	862	733	543	156	156	8	148	782	3,388

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

Notes:

(a) Mr. Lam Kong is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

(b) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

(c) The independent non-executive director's emoluments shown above were mainly for their services as directors of the Company.

(d) Ms. Sa Man Lin has resigned as the executive director of the Company with effective from 17 October 2017.

(e) Mr. Huang Ming has resigned as the independent non-executive director of the Company with effective from 13 December 2017.

(f) Mr. Leung Chong Shun was appointed as the independent non-executive director of the Company with effective from 13 December 2017.

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

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2017 included nil directors (2016: three), details of whose emoluments are set out in Note 8. The emoluments of the remaining five (2016: two) individual for the year ended 31 December 2017 were as follows:

	2017 RMB'000	2016 RMB'000
Employees		
- basic salaries and allowances	7,909	1,372
- retirement benefits scheme contributions	95	89
	8,004	1,461

The number of the highest paid individuals who are not the directors of the Company whose remuneration fell within the following bands is as follows:

Number of employees	2017	2016
Nil to Hong Kong dollars ("HK$") 1,000,000 (Nil to approximately RMB865,900)	-	2
HK$1,000,001 to HK$1,500,000 (approximately RMB865,900 to RMB1,298,900)	1	-
HK$1,500,001 to HK$2,000,000 (approximately RMB1,298,900 to RMB1,731,800)	3	-
HK$2,000,001 to HK$2,500,000 (approximately RMB1,731,800 to RMB2,164,800)	1	-

During the year, no emoluments were paid by the Group to the directors or the highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax:		
The PRC Enterprise Income Tax	134,328	127,831
Hong Kong Profits Tax	3,208	3,258
Malaysia Corporate Income Tax	37	39
	137,573	131,128
Underprovision in prior years:		
The PRC Enterprise Income Tax	95	-
Hong Kong Profits Tax	213	87
	308	87
Deferred taxation (Note 27):		
- Current year	613	(8,691)
	138,494	122,524

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

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

Starting from 1 January 2009, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% granted by the local tax authority until 7 December 2018. Starting from 15 October 2014, 康哲(湖南)制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% granted by local tax authority until 4 September 2020. Starting from 1 January 2015, 西藏康哲醫藥科技有限公司 (Tibet Kangzhe Pharmaceutical Technology Co., Ltd.) ("Tibet Kangzhe Technoloy") and 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") are entitled to a reduced tax rate of 9% granted by local tax authority until 31 December 2017.

Pursuant to the EIT Law, enterprises engaged in prescribed agriculture projects are exempted from EIT. In 2016 and 2017, 湖南康哲農牧業發展有限公司 (Hunan Kangzhe Agricultural Development Co., Ltd.) ("Kangzhe Agricultural") is eligible for such tax concession.

10. INCOME TAX EXPENSE - continued

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharma Co., Ltd ("CMS Pharma") (formerly known as CMS Pharmaceutical Agency Co., Ltd.) is eligible to elect to pay a lump sum taxation charge of Malaysian ringgit ("MYR") 20,000 or 3% on net audited profits. For the years ended 31 December 2017 and 2016, CMS Pharma elected to pay a lump sum tax of MYR 20,000 (equivalent to approximately RMB37,000 and RMB39,000, respectively).

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

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

	2017 RMB'000	2016 RMB'000
Profit before tax	1,808,433	1,500,441
Tax at the applicable tax rate (Note)	452,108	375,110
Tax effect of share of results of associates	(19,431)	(12,153)
Tax effect of expenses that are not deductible in determining taxable profit	24,056	29,570
Tax effect of income that is not taxable in determining taxable profit	(3,932)	(3,993)
Tax effect of tax losses not recognised	1,261	1,350
Tax effect of deductible temporary differences not recognised	-	2,555
Tax effect of tax concession	(73,672)	(98,467)
Effect on different applicable tax rates of subsidiaries	(2,225)	(3,357)
Effect of tax benefit arising from Labuan Tax Act	(234,754)	(168,734)
Underprovision in prior years	308	87
Utilisation of tax losses previously not recognised	-	(1,431)
Utilisation of deducible temporary differences previously not recognised	(7,301)	-
Others	2,076	1,987
Income tax expense for the year	138,494	122,524

Note: The applicable the PRC EIT rate of 25% (2016: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group.

11. PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,060	1,092
Salaries and other benefits	2,208	2,332
Contribution to retirement benefits schemes	120	114
	3,388	3,538
Other staff costs	351,923	290,048
Contribution to retirement benefits schemes	21,316	18,141
Employee benefit expense (Note 39)	30,000	64,982
Total staff costs	406,627	376,709
Auditor's remuneration	2,333	2,295
Allowance for bad and doubtful debts	3,732	2,313
Allowance for inventories	2,952	2,940
Release of prepaid lease payments	1,673	1,672
Depreciation of property, plant and equipment	31,147	24,976
Amortisation of intangible assets (included in cost of goods sold)	165,271	150,883
Cost of inventories recognised as an expense	1,692,938	1,828,085
Minimum lease payment under operating lease in respect of property	10,584	8,835

12. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2017 Interim - RMB0.1293 (2016: 2016 interim dividend RMB0.1052) per share	321,601	261,658
2016 Final - RMB0.1164 (2016: 2015 final dividend RMB0.0809) per share	289,516	201,218
	611,117	462,876
Dividends proposed		
Dividends proposed during the year:		
2017 final - RMB0.1393 (2016: 2016 final dividend of RMB0.1164) per share	346,474	289,516

The Board of Directors have declared a final dividend of RMB0.1393 per ordinary share for the year ended 31 December 2017 (2016: RMB0.1164 per ordinary share).

13. EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	1,674,807	1,375,936

	Number of ordinary shares as at 31 December	
	2017	2016
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,487,247,512	2,487,247,512

The Group has no outstanding potential ordinary shares as at 31 December 2017 and 2016 and during the years ended 31 December 2017 and 2016. Therefore, no diluted earnings per share is presented.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2016	184,886	1,295	158,700	27,640	12,987	6,343	391,851
Additions	2,778	-	18,317	1,737	5,076	34,813	62,721
Disposals	(3,029)	-	(3,928)	(2,004)	(71)	-	(9,032)
Transfer	6,247	-	-	-	-	(6,247)	-
At 31 December 2016	190,882	1,295	173,089	27,373	17,992	34,909	445,540
Additions	95,253	-	4,752	3,925	3,670	41,822	149,422
Disposals	(291)	-	(2,237)	(3,900)	(1,335)	-	(7,763)
Transfer	12,253	26,034	7,804	-	-	(46,091)	-
At 31 December 2017	298,097	27,329	183,408	27,398	20,327	30,640	587,199
ACCUMULATED DEPRECIATION							
At 1 January 2016	23,770	1,295	12,533	20,672	7,645	-	65,915
Provided for the year	8,394	-	12,502	2,429	1,651	-	24,976
Eliminated on disposals	(1,711)	-	(3,504)	(1,802)	(58)	-	(7,075)
At 31 December 2016	30,453	1,295	21,531	21,299	9,238	-	83,816
Provided for the year	9,792	705	16,260	2,348	2,042	-	31,147
Eliminated on disposals	(175)	-	(1,919)	(3,510)	(1,240)	-	(6,844)
At 31 December 2017	40,070	2,000	35,872	20,137	10,040	-	108,119
CARRYING VALUES							
At 31 December 2017	258,027	25,329	147,536	7,261	10,287	30,640	479,080
At 31 December 2016	160,429	-	151,558	6,074	8,754	34,909	361,724

14. PROPERTY, PLANT AND EQUIPMENT - continued

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

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

The Group has pledged property, plant and equipment with a net book value of approximately RMB73,247,000 (2016: RMB6,365,000) to secure certain bank borrowings and banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	60,293	61,966
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables)	1,425	1,425
Non-current assets	58,868	60,541
	60,293	61,966

The Group has pledged leasehold land with a net book value of approximately RMB28,289,000 (2016: RMB29,017,000) to secure general banking facilities granted to the Group.

16. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	2,304,356	1,304,356
Unlisted	11,536	11,536
Share of post-acquisition profits and other comprehensive income, net of dividends received	96,495	47,469
	2,412,387	1,363,361
Fair value of listed investment (note)	2,219,538	2,097,591

16. INTERESTS IN ASSOCIATES - continued

Note: As at 31 December 2017, the fair value of the Group's interest in its listed associate, Tibet Pharmaceutical, of which its shares are listed on the Shanghai Stock Exchange, was approximately RMB2,220 million (2016: approximately RMB2,098 million) based on the quoted market price available on the Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13 Fair Value Measurement.

As at 31 December 2017 and 2016, details of the associates are as follows:

Name of associates	Place of establishment/ incorporation	Principal place of business	Proportion of ownership interest held by the Group		Principal activities
			2017	2016	
Ophol Limited ("Ophol")	Hong Kong	Hong Kong	24.49%	24.49%	Investment holding and provision of agency service
Tibet Pharmaceutical (note)	Tibet	Tibet	36.83%	26.61%	Production of medicines and sale of drugs

Note: On 3 May 2017, the Group subscribed additional 27,412,280 ordinary shares of Tibet Pharmaceutical at a price of RMB36.48 per share with total consideration of RMB999,999,974. As at 31 December 2017, the Group holds an aggregate of 66,156,114 (2016: 38,743,834) ordinary shares of Tibet Pharmaceutical. As the Group is able to exercise significant influence over Tibet Pharmaceutical in both years, it is accounted for as an associate of the Group. Included in the cost of investment in Tibet Pharmaceutical as at 31 December 2017 and 2016, there is a goodwill of approximately RMB1,654,481,000 (2016: RMB1,171,244,000).

In the opinion of the directors of the Company, as the recoverable amount is higher than the carrying amount at the end of both reporting periods, no impairment loss was recognised for the years ended 31 December 2017 and 2016. Details of the estimations and assumptions used in the impairment assessment of interest in Tibet Pharmaceutical are disclosed in Note 4.

Summarised financial information of associates

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

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

16. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Tibet Pharmaceutical

	31.12.2017 RMB'000	31.12.2016 RMB'000
Current assets	812,124	641,530
Non-current assets	1,517,921	1,649,150
Current liabilities	(264,264)	(1,604,722)
Non-current liabilities	(20,378)	(27,768)

	Year ended 31.12.2017 RMB'000	Year ended 31.12.2016 RMB'000
Turnover	915,626	796,807
Profit for the year	234,291	199,397
Other comprehensive (expense) income for the year	(13,772)	554
Total comprehensive income for the year	220,519	199,951
Dividends received from the associate during the year	21,963	7,361

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

	31.12.2017 RMB'000	31.12.2016 RMB'000
Net assets of Tibet Pharmaceutical	2,045,403	658,190
Non-controlling interests	(2,200)	2,445
	2,043,203	660,635
Proportion of the Group's ownership interest in Tibet Pharmaceutical	36.83%	26.61%
	752,512	175,795
Goodwill	1,654,481	1,171,244
Effect of fair value adjustment at acquisition	32,861	32,861
Effect of deferred tax relating to fair value adjustment at acquisition	(8,215)	(8,215)
Other adjustments	(20,674)	(11,260)
Carrying amount of the Group's interest in Tibet Pharmaceutical	2,410,965	1,360,425

16. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Ophol

	31.12.2017 RMB'000	31.12.2016 RMB'000
Current assets	5,817	6,426
Non-current assets	-	5,575
Current liabilities	(11)	(12)

	2017 RMB'000	2016 RMB'000
Turnover	354	623
Profit for the year	587	325
Other comprehensive (expense) income for the year	(339)	681
Total comprehensive income for the year	248	1,006
Dividends received from the associate during the year	1,576	-

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

	2017 RMB'000	2016 RMB'000
Net assets of Ophol	5,806	11,989
Proportion of the Group's ownership interest in Ophol	24.49%	24.49%
Carrying amount of the Group's interest in Ophol	1,422	2,936

17. INTANGIBLE ASSETS

	Exclusive distribution rights	Patent rights	Product rights	Total
	RMB'000 (Note a & Note b(i))	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000
COST				
At 1 January 2016	82,908	319,205	800,556	1,202,669
Additions (Note a(iii))	2,029,012	1,226	-	2,030,238
At 31 December 2016 and 31 December 2017	2,111,920	320,431	800,556	3,232,907
AMORTISATION				
At 1 January 2016	48,411	57,551	70,465	176,427
Charge for the year	87,503	21,370	42,010	150,883
At 31 December 2016	135,914	78,921	112,475	327,310
Charge for the year	103,135	19,448	42,688	165,271
At 31 December 2017	239,049	98,369	155,163	492,581
IMPAIRMENT LOSS				
At 1 January 2016	-	-	-	-
Charge for the year (Note a(ii))	20,000	-	-	20,000
At 31 December 2016 and 31 December 2017	20,000	-	-	20,000
CARRYING VALUES				
At 31 December 2017	1,852,871	222,062	645,393	2,720,326
At 31 December 2016	1,956,006	241,510	688,081	2,885,597

(a) Exclusive distribution rights

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

17. INTANGIBLE ASSETS - continued

(a) Exclusive distribution rights - continued

(i) - continued

Pursuant to the XinHuoSu Agreements, the Group obtained the exclusive distribution right of XinHuoSu for nil consideration and committed to handle the Phase IV clinical trials of XinHuoSu for 2,000 cases in the PRC to meet the drug safety standards set by the CFDA. The drug, XinHuoSu, to be used in the 2,000 case clinical trials would be provided by Tibet Pharmaceutical free of charge. All other costs of the 2,000 case clinical trials should be borne by the Group.

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

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

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

During the year ended 31 December 2016, as the market base of Three Products was relatively weak and the actual sales of Three Products was lower than previously expected, there was an impairment indicator. The management performed an impairment assessment by estimating the recoverable amount of Three Products. The recoverable amount of Three Products had been determined from a value in use, based on the expected free cash flow up to the end of the exclusive distribution right at a discount rate of 11%. The recoverable amount of approximately RMB5,850,000 was lower than the carrying amount of approximately RMB25,850,000, an impairment loss of RMB20,000,000 was recognised for the year ended 31 December 2016.

During the year ended 31 December 2017, management reviews the carrying amount of Three Products and determines that there is no further impairment.

The exclusive distribution rights are amortised over their expected useful lives of 20 years. As at 31 December 2017, the carrying amount was approximately RMB5,474,000 (2016: RMB5,850,000).

17. INTANGIBLE ASSETS - continued

(a) Exclusive distribution rights - continued

(iii) On 26 February 2016, the Group entered into an exclusive license agreement with AstraZeneca AB, an independent third party, pursuant to which AstraZeneca AB granted an exclusive license to the Group for the commercialisation of Plendil (Felodipine Sustained Release Tablet) in the PRC, at a consideration of United State dollar ("US$") 310,000,000 (equivalent to approximately RMB2,029,012,000). US$155,000,000 had been paid in 2016 and the remaining balance of US$155,000,000 had been paid in 2017. As at 31 December 2017, the carrying amount of the exclusive license right was approximately RMB1,843,019,000 (2016: RMB1,944,470,000).

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

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

(b) Acquisition of exclusive distribution rights and patent rights

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

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

As at the acquisition date, the major patent rights owned by Tianjin Kangzhe, the wholly owned subsidiary of Great Move, represented YiNuoShu and ShaDuoLiKa amounting to RMB137,917,000 and RMB8,287,000, respectively and the exclusive distribution rights owned by Tianjin Kangzhe amounted to RMB39,350,000. As at 31 December 2017, the carrying amounts of patent rights of YiNuoShu and ShaDuoLiKa and exclusive distribution rights owned by Tianjin Kangzhe were approximately RMB82,885,000, RMB4,996,000 and RMB1,278,000, respectively (2016: RMB91,313,000, RMB5,484,000 and RMB2,288,000).

17. INTANGIBLE ASSETS - continued

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

(i) - continued

The Group also acquired the exclusive distribution right and patent right of XiDaKang amounting to RMB5,813,000 and RMB7,715,000, respectively through the acquisition of a former subsidiary, Kangzhe Guangming. As at 31 December 2017, the exclusive distribution right and patent right of XiDaKang were approximately RMB3,100,000 and RMB2,399,000, respectively (2016: RMB3,401,000 and RMB2,629,000).

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

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming (the "Sellers") in connection with the transfer of the patent right of XiDaKang at a consideration of RMB40,000,000. The Sellers, who directly held 49% equity interest of Kangzhe Guangming, agreed to transfer the 49% interest in the patent right of XiDaKang to Kangzhe Hunan, a wholly-owned subsidiary of the Company. The consideration will be settled by the first payment of RMB30,000,000 and annual payment of RMB1,000,000 to the Sellers over the next ten years. The directors of the Company recognised the payable as a deferred consideration payable (see Note 26) in the amount of RMB6,145,000 at initial recognition which represents the present value of the annual consideration of RMB1,000,000 over next ten years discounted at 10%. Pursuant to the transfer agreement, the 51% interest in the patent right of XiDaKang was also transferred from Kangzhe Guangming to Kangzhe Hunan. Starting from 27 December 2013, Kangzhe Hunan has replaced Kangzhe Guangming as the patent right owner of XiDaKang. As at 31 December 2017, the carrying amount was approximately RMB26,058,000 (2016: RMB28,579,000).

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

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

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

17. INTANGIBLE ASSETS - continued

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

(iii) - continued

During the year ended 31 December 2016, Kangzhe Lengshuijiang was deregistered and merged with Kangzhe Hunan. The assets and liabilities held by Kangzhe Lengshuijiang were transferred to Kangzhe Hunan at the time of merger and Kangzhe Hunan is responsible for the production of GanFuLe after the merger. As at 31 December 2017, the carrying amount of the patent right of GanFuLe was approximately RMB9,421,000 (2016: RMB10,784,000).

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

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

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. As at the acquisition date, the patent right of DanShenTong owned by Xili Pharmaceutical, amounted to RMB114,489,000. As at 31 December 2017, the carrying amount was approximately RMB96,299,000 (2016: RMB102,719,000).

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

(c) Acquisition of product rights

(i) On 1 July 2014, the Group entered into a series of agreements related to Stulln with an independent third party, Pharma Stulln GmbH ("Pharma") in connection with the transfer of all assets related to Stulln for the Chinese market (including Hong Kong and Macau Special Administration Regions ("SAR")), including but not limited to the right of manufacturing Stulln for the Chinese market, marketing authorisation for the Chinese market and relevant intellectual property rights, including trademark in Chinese characters and know-how of Stulln, and has been licensed the exclusive right to utilise the trademark in English characters, at a consideration of EUR10,000,000 (equivalent to approximately RMB72,317,000). During the year ended 31 December 2014, the residual balance of the exclusive agency right of Stulln of approximately RMB14,625,000 was transferred to product right accordingly. As at 31 December 2017, the carrying amount of the product right was approximately RMB64,231,000 (2016: RMB73,110,000), which included a deferred consideration payable (see Note 26) in the amount of approximately EUR2,736,000 (equivalent to approximately RMB21,343,000) (2016: EUR4,487,000 (equivalent to approximately RMB32,785,000)), which represented the present value of the annual consideration of EUR1,000,000 (equivalent to approximately RMB7,307,000) over next three years discounted at 10%.

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

17. INTANGIBLE ASSETS - continued

(c) Acquisition of product rights - continued

(ii) On 17 December 2014, the Group entered into a series of agreements related to Lamisil Tablet and Parlodel Tablet (the "Products") with two independent third parties, Novartis AG and Novartis Pharma AG, the suppliers of the Products in Switzerland in connection with the transfer of all assets related to the Products, including the drug production license of Lamisil Tablet, co-marketing authorisation in Switzerland and imported drug license in the PRC of Parlodel Tablet, all know-how, books and records, commercial and medical information exclusively to the Products for Chinese market (For Lamisil Tablet, Chinese market refers to Chinese Mainland; For Parlodel Tablet, Chinese market refers to Chinese Mainland and Hong Kong SAR and Taiwan), at a consideration of US$25,000,000 (equivalent to approximately RMB152,972,000). As at 31 December 2017, the carrying amount was approximately RMB137,989,000 (2016: RMB146,106,000).

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

(iii) On 25 March 2015, the Group entered into a series of agreements related to Combizym and Hirudoid (the "Purchased Products") with an independent third party, DKSH International AG, in connection with the purchase of (i) all trademarks regarding the Purchased Products; (ii) all market authorisations or similar licenses, certificates or approvals regarding the Purchased Products and all rights, benefits or other interests obtained; (iii) the exclusive right and title to develop, manufacture, register, apply for registration, import, market, distribute, sell or otherwise use and/or exploit the Purchased Products; and (iv) all books and records, commercial information and medical information related to the Purchased Products, with respect to Combizym in the PRC, Hong Kong and Switzerland, and certain other designated countries or areas in Asia, and with respect to Hirudoid in the PRC, at a consideration of CHF76,600,000 (equivalent to approximately RMB486,019,000). As at 31 December 2017, the carrying amount was approximately RMB443,173,000 (2016: RMB468,865,000).

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

18. GOODWILL

For the purposes of impairment testing, the entire amount of goodwill has been allocated to five (2016: five) CGUs, representing five (2016: five) subsidiaries, namely Tianjin Kangzhe, Kangzhe Hunan, Sky United Trading Limited ("Sky United"), Xili Pharmaceutical and Tibet Kangzhe Development (2016: Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical and Tibet Kangzhe Development). Tianjin Kangzhe is engaged in marketing, promotion and sale of drugs. Sky United and Tibet Kangzhe Development are engaged in trading of drugs. Kangzhe Hunan and Xili Pharmaceutical are engaged in production of medicines. The carrying amounts of goodwill as at 31 December 2017 and 2016 allocated to these units are as follows:

	2017 RMB'000	2016 RMB'000
Tianjin Kangzhe	1,160,333	1,160,333
Kangzhe Hunan	21,295	21,295
Sky United	2,963	2,963
Xili Pharmaceutical	198,090	198,090
Tibet Kangzhe Development	1,854	1,854
	1,384,535	1,384,535

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

During the years ended 31 December 2017 and 2016, no impairment loss was recognised.

Tianjin Kangzhe

At 31 December 2017, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by the management covering a three-year period, and discount rate of 11% (2016: 11%). Tianjin Kangzhe's cash flows beyond the third-year period are extrapolated using a declining growth rate ranging from 4% to 3% (2016: 4% to 3%). This growth rate is based on the management's best estimate and past experience on the industry.

18. GOODWILL - continued

Kangzhe Hunan

At 31 December 2017, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by the management covering a three-year period, and discount rate of 11% (2016: 11%). Kangzhe Hunan's cash flows beyond the third-year period are extrapolated using a declining growth rate from 8% to 4% (2016: 10% to 5%). This growth rate is based on the management's best estimate and past experience on the industry.

Xili Pharmaceutical

At 31 December 2017, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by the management covering a three-year period, and discount rate of 11% (2016: 11%). Xili Pharmaceutical's cash flows beyond the third-year period are extrapolated using a declining growth rate from 17% to 9% (2016: 21% to 8%). This growth rate is based on the management's best estimate and past experience on the industry.

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

19. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Listed investments:		
- Equity securities listed on the London Stock Exchange	23,020	-

The investment is denominated in British Pound and its fair value is based on the quoted market prices. During the year ended 31 December 2017, change in fair value of RMB3,271,000 was recognised in other comprehensive income.

20. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	13,038	6,882
Work in progress	9,968	5,326
Finished goods	437,395	496,796
	460,401	509,004

21. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	1,003,640	1,074,577
Less: Allowance for bad and doubtful debts	(9,828)	(6,096)
	993,812	1,068,481
Bills receivables	349,633	423,624
Purchase prepayment	51,703	35,947
Value added tax receivable	35,237	88,479
Other receivables and deposits	57,007	65,889
Total trade and other receivables	1,487,392	1,682,420

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

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

	2017 RMB'000	2016 RMB'000
0 - 90 days	867,489	976,052
91 - 365 days	120,911	91,820
Over 365 days	5,412	609
	993,812	1,068,481

The bills receivables of the Group are of the age within six months at the end of the reporting period. As at 31 December 2016, RMB263,801,000 (2017: nil) was discounted to banks for cash proceeds, of which RMB224,297,000 (2017: nil) arose from intra-group transactions which had then been fully eliminated on consolidation.

Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customer. The trade and other receivables that are neither past due nor impaired are of good credit quality because of satisfactory repayment history.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB138,398,000 (2016: RMB108,993,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable due to the long term relationship and good repayment record. The Group does not hold any collateral over these balances.

21. TRADE AND OTHER RECEIVABLES - continued

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

	2017 RMB'000	2016 RMB'000
0 - 90 days	122,287	103,388
91 - 365 days	14,821	5,018
Over 365 days	1,290	587
	138,398	108,993

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

Movement in the allowance for bad and doubtful debts:

	2017 RMB'000	2016 RMB'000
Balance at beginning of the reporting period	6,096	3,914
Impairment losses recognised on receivables	3,732	2,313
Amount written off as uncollectible	-	(131)
Balance at end of the reporting period	9,828	6,096

22. AMOUNT DUE FROM AN ASSOCIATE

During the year ended 31 December 2016, the Group granted a loan of US$105,100,000 (equivalent to approximately RMB678,830,000) to its associate, Tibet Pharmaceutical, to be used for the settlement of first part of the consideration for the acquisition of Imdur Assets by the Tibet Pharmaceutical. The loan was for a term of one year expiring on 30 April 2017 and was unsecured and interest bearing at a rate of 2.2% or 2.4% per annum. As at 31 December 2016, the aggregate amount of the loan and its interest receivable due from Tibet Pharmaceutical was RMB742,463,000. The above loan and interest receivable were fully repaid by Tibet Pharmaceutical during the year ended 31 December 2017.

As at 31 December 2016, the balance of approximately RMB120,340,000 represented prepayments made to Tibet Pharmaceutical for purchases of inventories. The balance was fully untilised during the year ended 31 December 2017.

As at 31 December 2017, the balance of approximately RMB151,023,000 represented promotion income receivables from Tibet Pharmaceutical. The Group allows a credit period of 90 days to Tibet Pharmaceutical. The balance as at 31 December 2017 was aged within three months based on the invoice date.

23. BANK BALANCES AND CASH

The bank deposits carry interest at the prevailing market rate of approximately 0.35% to 3% (2016: 0.35% to 3.5%) per annum.

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

	2017 RMB'000	2016 RMB'000
US$	2,090	17,902
Euro ("EURO")	19,658	9,780
HK$	2,361	849

24. TRADE AND OTHER PAYABLES

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

	2017 RMB'000	2016 RMB'000
0 - 90 days	124,497	106,681
91 - 365 days	2,653	29,624
Over 365 days	2,861	1,285
Trade payables	130,011	137,590
Payroll and welfare payables	94,683	123,517
Other tax payables	28,518	28,424
Deferred promotion income	42,587	78,310
Payables for acquisition of property, plant and equipment	16,001	14,474
Other payables	66,511	78,378
Accrued promotion expenses	95,022	79,924
Accruals	33,493	38,505
	506,826	579,122

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

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

	2017 RMB'000	2016 RMB'000
EURO	16,069	7,663
US$	-	99,757

25. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Bank loans	2,105,048	1,348,597
Advance from banks on discounted bills receivables with recourse - repayable within one year (Note a)	-	263,801
	2,105,048	1,612,398
Analysed as:		
Secured	165,000	288,801
Unsecured	1,940,048	1,323,597
	2,105,048	1,612,398

Note:

(a) Balance represented bills receivable discounted to banks as at 31 December 2016 for cash proceeds of approximately RMB263,801,000. The receivables arose from intra-group transactions which had then been fully eliminated on consolidation. If the bills receivables were not paid at maturity, the banks had the right to request the Group to pay the unsettled balance.

	2017 RMB'000	2016 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	65,000	288,801
Within a period of more than one year but not exceeding two years	488,010	-
Within a period of more than two years but not exceeding five years	1,552,038	-
	2,105,048	288,801
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	-	962,045
Within a period of more than one year but not exceeding two years	-	142,150
Within a period of more than two years but not exceeding five years	-	219,402
	2,105,048	1,612,398
Less: Amounts due within one year shown under current liabilities	(65,000)	(1,612,398)
Amounts shown under non-current liabilities	2,040,048	-

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

25. BANK BORROWINGS - continued

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

	2017 RMB'000	2016 RMB'000
Fixed-rate borrowings		
Denominated in RMB (range from 4.99% to 5.23% per annum as at 31 December 2017 and from 2.91% to 5.22% per annum as at 31 December 2016)	165,000	563,935
Variable-rate borrowings (Note c)		
Denominated in US$ (3.53% as at 31 December 2017 and nil as at 31 December 2016) (Note b)	1,940,048	-
Denominated in EUR (nil as at 31 December 2017 and range from 1.5% to 2.25% as at 31 December 2016) (Note b)	-	1,048,463
Total	2,105,048	1,612,398

Notes:

(b) Variable rate at London Interbank Offered Rate ("LIBOR") plus 1.8% as at 31 December 2017 (2016: range from Euro Interbank Offered Rate plus 1.5% to 2.25%).

(c) As at 31 December 2017, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB1,940,048,000 (2016: nil). The principal amount of the variable-rate bank borrowings will be repayable by 10%, 10% and 80% on 30 June 2019, 31 December 2019 and 23 June 2020, respectively. Details of the interest rate swaps are disclosed in Note 28.

As at 31 December 2017, the Group had unutilised banking facilities of approximately RMB1,548,802,000 (2016: RMB919,916,000).

26. DEFERRED CONSIDERATION PAYABLES

	2017 RMB'000	2016 RMB'000
Non-current	17,896	22,039
Current	8,802	1,096,424
	26,698	1,118,463

During the year ended 31 December 2008, the Group acquired an agency right from Ophol which had become an associate of the Group during the year ended 31 December 2009 for a consideration of RMB60,000,000. The consideration is payable annually in the amount of RMB6,000,000 for 10 years commencing on 26 April 2008. The present value of the discounted consideration determined based on a discount rate of 5% amounting to RMB46,330,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2016, the carrying value amounting to RMB5,575,000 (2017: nil) was included in deferred consideration payables.

During the year ended 31 December 2013, the Group acquired 49% interest in the patent right of XiDaKang for a consideration of RMB40,000,000 (see Note 17(b) (ii)). In addition to the first payment of RMB30,000,000, further consideration is payable annually of RMB1,000,000 for 10 years commencing on 27 December 2014. The present value of the discounted consideration determined based on a discount rate of 10% amounting to RMB6,145,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2017, the carrying value amounting to RMB5,355,000 (2016: RMB4,868,000) was included in deferred consideration payables.

During the year ended 31 December 2014, the Group acquired all assets related to Stulln for the Chinese Market, part of the consideration is payable annually in the amount of EUR1,000,000 (equivalent to approximately RMB7,307,000) for five years since 2016. The present value of the discounted consideration determined based on a discount rate of 10% amounting to approximately EUR3,614,000 (equivalent to approximately RMB30,342,000) was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2017, the carrying value amounting to approximately EUR2,736,000 (equivalent to approximately RMB21,343,000) (2016: EUR4,487,000 (equivalent to approximately RMB32,785,000)) was included in deferred consideration payables.

During the year ended 31 December 2016, the Group entered into an exclusive license agreement with AstraZeneca AB, pursuant to which AstraZeneca AB grants an exclusive license to the Group for the commercialisation of Plendil (Felodipine Sustained Release Tablet) in the PRC, at a consideration of US$310,000,000 (equivalent to approximately RMB2,029,012,000). US$155,000,000 had been paid in 2016 with the remaining balance of US$155,000,000 (equivalent to approximately RMB1,075,235,000) being included in the deferred consideration as at 31 December 2016 which was settled in 2017.

27. DEFERRED TAX

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

	Unrealised profits on inventories RMB'000	Fair value adjustments to assets acquired in business combinations RMB'000	Unrealised profit of AFS investments RMB'000	Fair value gain on cash flow hedges RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	23,701	(44,649)	(63,964)	-	1,202	(83,710)
Credit (charge) to profit or loss for the year (Note 10)	5,642	3,050	-	-	(1)	8,691
At 31 December 2016	29,343	(41,599)	(63,964)	-	1,201	(75,019)
(Charge) credit to profit or loss for the year (Note 10)	(3,662)	3,049	-	-	-	(613)
Charge to other comprehensive income	-	-	-	(1,984)	-	(1,984)
At 31 December 2017	25,681	(38,550)	(63,964)	(1,984)	1,201	(77,616)

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets	26,882	30,544
Deferred tax liabilities	(104,498)	(105,563)
	(77,616)	(75,019)

At 31 December 2017, the Group had unused tax losses of approximately RMB19,550,000 (2016: RMB14,322,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2017 are tax losses of approximately RMB7,447,000 (2016: RMB4,743,000) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2017, tax losses of approximately RMB671,000 (2016: RMB778,000) was expired.

As at 31 December 2017, the Group had deductible temporary differences of RMB582,619,000 (2016:RMB624,418,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB102,724,000 (2016: RMB116,320,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB479,895,000 (2016: RMB508,098,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB2,834,141,000 (2016: RMB2,202,450,000) 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.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 RMB'000	2016 RMB'000
Derivative under hedging accounting		
Cash flow hedges - interest rate swaps	12,023	-

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to interest rate movements on its variable-rate bank borrowings. The interest rate swaps and the corresponding bank borrowings have the same terms, including principal amounts, interest rate spread, start dates, maturity dates, repayment dates and counterparties, and the directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps as at 31 December 2017 are set out below:

Initial notional amount (Note)	Contract date	Maturity date	Receive	Pay
US$140,000,000	23 June 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$32,000,000	10 July 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$113,000,000	18 August 2017	23 June 2020	LIBOR + 1.8%	3.54%
US$15,000,000	11 September 2017	23 June 2020	LIBOR + 1.8%	3.54%

Note: The notional amount will be reduced by 10%, 10% and 80% on 30 June 2019, 31 December 2019 and 23 June 2020, respectively, which are the same as corresponding bank borrowings.

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. All of the above interest rate swaps are designated and effective as cash flow hedges. As at 31 December 2017, the fair value gain of approximately RMB12,023,000, net of income tax of approximately RMB1,984,000, resulting in a net amount of approximately RMB10,039,000 have been recognised in other comprehensive income and accumulated in equity and are expected to be released to profit or loss at various dates during the lives of the swaps when the hedged interest expense is recognised in profit or loss.

29. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2016, 31 December 2016 and 31 December 2017	20,000,000	765,218
Issued and fully paid		
At 1 January 2016, 31 December 2016 and 31 December 2017	2,487,247	85,200

30. RESERVES

Capital reserve

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

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

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

Surplus reserve fund

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

31. CAPITAL MANAGEMENT

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

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

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

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Derivative instruments under hedge accounting (cash flow hedges-interest rate swaps)	12,023	-
Loans and receivables (including cash and cash equivalents)	2,370,309	2,848,319
AFS investments	23,020	-
Financial liabilities		
Other financial liabilities measured at amortised cost	(2,440,127)	(3,061,032)

Financial risk management objectives and policies

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

Market risk

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 25).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 23) and variable-rate bank borrowings (see Note 25). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates at LIBOR arising from the Group's US$ denominated borrowings. The Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flow of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rates swaps are designated as effective hedging instruments and hedge accounting is used (see Note 28).

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of each reporting period. For variable-rate bank borrowings which are not hedged by interest rate swaps, the analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year.

32. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Sensitivity analysis - continued

A 1% (2016: 1%) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2017 would decrease/increase by nil (2016: RMB238,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings which are not hedged by interest rate swaps.

Foreign currency risk management

Some subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 31.9% (2016: 41.5%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. The management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

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

	Assets		Liabilities	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
US$	2,090	746,981	1,940,048	1,150,077
EURO	19,658	20,741	37,412	1,058,911
HK$	2,361	849	-	-

32. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

The Group is mainly exposed to currency risk of the US$, Euro and HK$. The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2016: 5%) change in foreign currency rates. The sensitivity analysis includes loan receivable, amount due from an associate, bank balances, trade and other payables, bank borrowings and deferred consideration payables of which the foreign currency exposures are not hedged with hedging instruments. A positive/negative number below indicates an increase/decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 5% (2016: 5%) against the relevant foreign currencies. If there is a 5% (2016: 5%) weakening in functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year:

	2017 RMB'000	2016 RMB'000
RMB (as functional currency of the relevant group entities) against US$	72,673	15,116
RMB (as functional currency of the relevant group entities) against EURO	666	38,932
RMB (as functional currency of the relevant group entities) against HK$	(89)	(32)

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

Other price risk

The Group is exposed to equity price risk through its listed investments in equity securities. The Group's equity price risk is mainly concentrated on equity instruments operating in pharmaceutical industry sector quoted in the London Stock Exchange.

In management's opinion, the Group's exposure to other price risk is minimal and therefore, no sensitivity analysis is prepared.

32. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2017 and 2016 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in Note 40.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

The Group has concentration of credit risk on amount due from an associate. As at 31 December 2017, the carrying amount of the Group's amount due from an associate was RMB151,023,000 (2016: RMB862,803,000). The directors of the Company do not consider that the credit risk in relation to the amount due from an associate is significant because the associate is financially healthy.

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

The Group has concentration of credit risk by geographical location as majority of the customers are located in the PRC for both years.

Liquidity risk management

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

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

32. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk management - continued

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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

	Weighted average interest rate	Repayable ondemand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2017
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017						
Trade and other payables	-	308,381	-	-	308,381	308,381
Deferred consideration payables	10%	8,802	19,079	1,000	28,881	26,698
Fixed-rate bank borrowings	5.17%	68,358	122,325	-	190,683	165,000
Variable-rate bank borrowings	3.53%	68,581	2,033,286	-	2,101,867	1,940,048
		454,122	2,174,690	1,000	2,629,812	2,440,127

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2016
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016						
Trade and other payables	-	330,171	-	-	330,171	330,171
Deferred consideration payables	9.36%	1,096,424	26,227	2,000	1,124,651	1,118,463
Fixed-rate bank borrowings	2.91%	580,318	-	-	580,318	563,935
Variable-rate bank borrowings	2.39%	1,073,551	-	-	1,073,551	1,048,463
Financial guarantee contract (Note a) (Note 40)	-	624,330	-	-	624,330	-
		3,704,794	26,227	2,000	3,733,021	3,061,032

32. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk management - continued

Note:

(a) The amount included above for financial guarantee contract is the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above table. As at 31 December 2017 and 31 December 2016, the aggregate undiscounted principal amounts of these bank loans amounted to approximately nil and RMB1,367,352,000, respectively. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

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

	Less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2017	-	-	-	-	-
31 December 2016	986,887	380,465	-	1,367,352	1,323,597

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

32. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

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 techniques and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31/12/2017	31/12/2016		
1) Interest rate swaps classified as derivative financial instruments	Assets - RMB12,023,000;	-	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
2) Listed AFS investments	Listed equity securities on the London Stock Exchange - RMB23,020,000	-	Level 1	Quoted bid prices in an active market.

There were no transfers between Level 1 and 2 during the year.

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

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings RMB'000 (Note 25)	Deferred consideration payables RMB'000 (Note 26)	Dividend payables RMB'000 (Note 12)	Total RMB'000
At 1 January 2017	1,612,398	1,118,463	-	2,730,861
Financing cash flows	338,944	(1,072,889)	(611,117)	(1,345,062)
Dividends declared	-	-	611,117	611,117
Finance costs	79,524	2,726	-	82,250
Net foreign exchange loss (gain)	74,182	(10,088)	-	64,094
Others (Note 34)	-	(11,514)	-	(11,514)
At 31 December 2017	2,105,048	26,698	-	2,131,746

34. NON-CASH TRANSACTION

During the year ended 31 December 2017, the Group agreed with Pharma to settle the deferred consideration payable of EUR2,000,000 (equivalent to approximately RMB15,358,000) on a net basis, upon offsetting with the interest-bearing and secured loan receivable due from Pharma with a carrying amount of EUR1,500,000 (equivalent to approximately RMB11,514,000). The remaining balance of EUR500,000 (equivalent to RMB3,844,000) was settled by the Group in cash.

35. OPERATING LEASE

The Group as lessee

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:

	2017 RMB'000	2016 RMB'000
Within one year	5,066	4,700
In the second to fifth year inclusive	10,472	5,173
	15,538	9,873

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

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

36. CAPITAL COMMITMENTS

	2017 RMB'000	2016 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment and intangible assets contracted for but not provided in the consolidated financial statements	21,568	42,906

37. RELATED PARTY TRANSACTIONS

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

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

Name of related company	Relationship	Nature of transactions	2017 RMB'000	2016 RMB'000
Ophol	Associate	Interest expense	354	623
Tibet Pharmaceutical	Associate	Promotion income	305,612	289,335
Tibet Pharmaceutical	Associate	Purchase of goods	161,424	440,690
Tibet Pharmaceutical	Associate	Interest income	10,295	13,384

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

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

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

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

38. RETIREMENT BENEFITS SCHEMES

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

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

During the year, the total expense recognised in the profit or loss for the above schemes amounted to RMB21,436,000 (2016: RMB18,255,000).

39. EMPLOYEE BENEFIT SCHEME

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

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

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

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

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

39. EMPLOYEE BENEFIT SCHEME - continued

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

(a) The Bonus Scheme

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

(b) The New KEB Scheme

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

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

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

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

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

During the year ended 31 December 2017, the Company contributed cash amounting to nil (2016: RMB4,982,000) to the Fund and recognised an expense of RMB30,000,000 (2016: RMB60,000,000) on the Master Scheme based on the Group's financial performance. RMB30,000,000 (2016: RMB64,982,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

40. CONTINGENT LIABILITIES

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

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

During the year ended 31 December 2017, the balancing payment has been settled by Tibet Pharmaceutical and the related guarantee provided by the Group has expired accordingly.

41. SUBSIDIARIES OF THE COMPANY

As at 31 December 2017 and 31 December 2016, the details of the Company's subsidiaries are set as follows:

Name of subsidiaries (Note f)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2017	31 December 2016	31 December 2017		31 December 2016		
				Directly	Indirectly	Directly	Indirectly	
CMS International (Note a)	British Virgin Islands	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (wholly-owned domestic enterprise)	PRC	RMB36,750,000	RMB36,750,000	-	100%	-	100%	Production of medicines
Tibet Kangzhe Enterprise Management Co. Ltd. (wholly-owned domestic enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Investment holding
Kangzhe Pharmaceutical Industrial Ltd. (Note a)	British Virgin Islands	RMB21,288,000	RMB21,288,000	-	100%	-	100%	Investment holding
Shenzhen Kangzhe (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB350,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Sino Talent	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Sky United	Hong Kong	HK$10	HK$10	-	100%	-	100%	Trading of drugs
Changde Kangzhe Pharmaceutical Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB2,000,000	RMB2,000,000	-	100%	-	100%	Marketing and promotion of drugs
CMS Pharma (formerly known as CMS Pharmaceutical Agency Co. Ltd.)	Malaysia	US$1	US$1	-	100%	-	100%	Trading of drugs
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding
Great move	British Virgin Islands	US$10,000	US$10,000	-	100%	-	100%	Investment holding
Generous Wealth Limited	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding

41. SUBSIDIARIES OF THE COMPANY - continued

Name of subsidiaries (Note f)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2017	31 December 2016	31 December 2017		31 December 2016		
				Directly	Indirectly	Directly	Indirectly	
Tianjin Kangzhe (wholly foreign-owned enterprise)	PRC	RMB500,000,000	RMB500,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Kangzhe Lengshuijiang (wholly-owned domestic enterprise) (Note e)	PRC	-	-	-	-	-	-	Deregistered
Lengshuijiang Kangzhe Pharmaceutical Co., Ltd, (wholly-owned domestic enterprise) (Note c)	PRC	RMB6,000,000	-	-	100%	-	-	Production of medicines
Kangzhe Agricultural (wholly-owned domestic enterprise)	PRC	RMB20,000,000	RMB20,000,000	-	100%	-	100%	Agriculture
香港鼎成投資有限公司	Hong Kong	HK$10,000	HK$10,000	-	100%	-	100%	Investment holding
Bridging Pharma Limited	United Kingdom	GBP100	GBP100	-	100%	-	100%	Investment holding
Bridging Pharma GmbH (Note a)	Switzerland	CHF20,000	CHF20,000	-	100%	-	100%	Investment holding
Xili Pharmaceutical (sino-foreign equity joint venture)	PRC	RMB11,360,000	RMB11,360,000	-	52.01%	-	52.01%	Production of medicines
Tibet Kangzhe Technology (wholly-owned domestic subsidiary)	PRC	RMB3,000,000	RMB3,000,000	-	100%	-	100%	Marketing and promotion of drugs
Tibet Kangzhe Development (wholly-owned domestic subsidiary)	PRC	RMB100,000,000	RMB100,000,000	-	100%	-	100%	Trading of drugs
Everest Fortune Limited (Note b)	Hong Kong	HK$1	HK$1	-	100%	-	100%	Dormant
CMS Medical Venture Investment Limited (Note d)	British Virgin Island	US$50,000	-	-	100%	-	-	Investment holding

Notes:

(a) Being inactive subsidiaries.

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

(c) The subsidiary was established on 21 July 2017.

(d) The subsidiary was established on 31 July 2017.

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

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

42. EVENT AFTER THE REPORTING PERIOD

Subsequent to the year ended 31 December 2017, the Group entered into foreign currency forward contracts with notional amount of US$295 million with banks which require no initial net investment.

43. RECLASSIFICATION

Certain comparative figures have been reclassified in the consolidated financial statements, which have no effect on previous reported profit or equity, to conform with the current year's presentation.

44 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
Non-current assets		
Interests in subsidiaries	3,236,306	3,697,326
Current assets		
Amount due from a subsidiary	800,000	500,000
Amount due from an associate	-	742,463
Bank balances and cash	234	1,043
	800,234	1,243,506
Current liabilities		
Amount due to a subsidiary	2,958	2,958
Other payables and accruals	2,506	1,077,529
	5,464	1,080,487
Net current assets	794,770	163,019
Total assets less current liabilities	4,031,076	3,860,345
Capital and reserves		
Share capital (Note 29)	85,200	85,200
Reserves	3,945,876	3,775,145
Total equity	4,031,076	3,860,345

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Movement in reserves

	Share premium	Capital reserve	Accumulated profits	Dividend reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	2,444,296	6,960	800,352	201,218	3,452,826
Profit and total comprehensive income for the year	-	-	785,195	-	785,195
Dividends paid	-	-	(261,658)	(201,218)	(462,876)
Dividends proposed	-	-	(289,516)	289,516	-
Balance at 31 December 2016	2,444,296	6,960	1,034,373	289,516	3,775,145
Profit and total comprehensive income for the year	-	-	781,848	-	781,848
Dividends paid	-	-	(321,601)	(289,516)	(611,117)
Dividends proposed	-	-	(346,474)	346,474	-
Balance at 31 December 2017	2,444,296	6,960	1,148,146	346,474	3,945,876