金嗓子控股集團有限公司

GOLDEN THROAT HOLDINGS GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 06896

ANNUAL REPORT 2017

清清嗓子
让世界听我的
金嗓子™
草本植物饮料
净含量:300mL
金嗓子喉宝荣誉出品
金嗓子
净含量:300mL

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OTC
金嗓子喉片
Golden
Golden Throat
Lozenge
Golden
金嗓子喉宝
GOLDEN THROAT CANDY

COMPANY PROFILE

Golden Throat Holdings Group Company Limited (the "Company", together with its subsidiaries, the "Group") is a leading manufacturer of lozenges in China. In December 2017, the Group's flagship product, Golden Throat Lozenges (OTC) was awarded No. 1 amongst Chinese traditional medicines (Throat) in 2017 by CNMA. The Group's history dates back to 1956 when Liuzhou No. 2 Sweet Factory (柳州市糖果二廠), the predecessor of Guangxi Golden Throat Co., Ltd. (an indirect wholly owned subsidiary of the Company), was established. Currently, the Group has developed into a comprehensive modern group mainly engaging in the manufacture and sale of lozenges and other pharmaceutical and food products.

The Company was incorporated in the Cayman Islands on 2 September 2014 as an exempted company with limited liability. The Company's Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15 July 2015.

CORPORATE INFORMATION

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Ms. JIANG Peizhen

EXECUTIVE DIRECTORS

Mr. ZENG Yong
Mr. HUANG Jianping
Mr. ZENG Kexiong
Mr. LU Xinghong
Mr. HE Jinqiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LI Hua
Mr. ZHU Jierong
Mr. CHENG Yiqun

AUDIT COMMITTEE

Mr. ZHU Jierong *(Chairman)*
Mr. LI Hua
Mr. CHENG Yiqun

REMUNERATION COMMITTEE

Mr. LI Hua *(Chairman)*
Mr. CHENG Yiqun
Mr. HE Jinqiang

NOMINATION COMMITTEE

Ms. JIANG Peizhen *(Chairman)*
Mr. ZHU Jierong
Mr. CHENG Yiqun

COMPANY SECRETARY

Ms. NG Wingshan

AUTHORISED REPRESENTATIVES

Mr. HE Jinqiang
Ms. NG Wingshan

REGISTERED OFFICE

Cricket Square
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P.O. Box 2681
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KY1-1111
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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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16/F, Kinwick Centre
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COMPANY'S WEBSITE

www.goldenthroat.com

STOCK CODE

06896

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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KY1-1111
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LEGAL ADVISER

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47th Floor, Jardine House
One Connaught Place
Central, Hong Kong

AUDITOR

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

PRINCIPAL BANK

Agricultural Bank of China Limited
Liuzhou Lixin Sub-branch
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Liuzhou
Guangxi Zhuang Autonomous Region
China

FINANCIAL HIGHLIGHTS

- Revenue decreased by RMB144.1 million or 18.8% to RMB624.1 million, as compared to the year ended 31 December 2016.

- Gross profit decreased by RMB119.3 million or 21.5% to RMB435.6 million, as compared to the year ended 31 December 2016, and gross profit margin reached 69.8%.

- Earnings before interest, taxes, depreciation and amortisation decreased by RMB82.9 million or 43.8% to RMB106.2 million, as compared to the year ended 31 December 2016.

- Profit attributable to equity holders decreased by RMB41.5 million or 40.3% to RMB61.4 million, as compared to the year ended 31 December 2016.

- The Board recommends the payment of a final dividend of HK$0.06 per share for the year ended 31 December 2017 to the shareholders of the Company. The final dividend is subject to the approval of shareholders of the Company at the forthcoming annual general meeting and, if approved, will be payable on or before 7 June 2018.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I would like to take this opportunity to report the Group's performance for the year ended 31 December 2017, and at the same time provide a brief outlook for the Group's operations in 2018.

The Group is a leading manufacturer of lozenges in China. In December 2017, Golden Throat Lozenges (OTC), the Group's flagship product, was again ranked No. 1 amongst Chinese traditional medicines (Throat) in 2017 by CNMA, and in November 2017, our "Golden Throat" brand was selected as the "World's Famous Brand" at China America Branding Strategy Forum.

The Group's products have been widely sold throughout China covering all provinces, cities and autonomous regions and exported to the United States, Canada, Russia, the European Union, Australia, Southeast Asia, Middle East, Mexico, Peru and Africa, with export coverage in five continents around the world. The Group actively responded to the government's "One Belt, One Road" initiative, the top-level strategy of the PRC in which the 10 ASEAN countries played an important role. So far, the Company has successfully entered into agency agreement with all the 10 ASEAN countries with products exporting to 8 of them (except Vietnam and Laos). During the 2017 China Import and Export Fair, Golden Throat delivered exceptionally outstanding performance. In addition to contracts signed with clients from regions where we have established presence such as America, Lebanese, Mexico and Sweden, the Group also secured orders or intent for transaction with clients from new markets such as Sri Lanka and Kazakhstan in Asia and Croatia in Europe. It has even closed the single largest order in the history with export of 1,800 pieces of Golden Throat Lozenge Series Products. We will see continuous growth of the Group's export business in 2018 as we actively expand our presence in the overseas markets and further enhance international recognition of the Group's products.

In 2017, the Group achieved an operating income of RMB624.1 million, representing a year-on-year decrease of 18.8%; gross profit of RMB435.6 million, representing a year-on-year decrease of 21.5%; and profit attributable to shareholders in 2017 of RMB61.4 million, representing a year-on-year decrease of 40.3%. The decrease in net profit of the Group was mainly due to the decrease in sales of flagship products such as Golden Throat Lozenges (OTC) Products, Golden Throat Lozenge Series Products and other products. Currently, the policy of "two-invoice system" is implemented for the pharmaceutical industry in China in accordance with the form of hospital, which has resulted in significant adjustments in the operation model of pharmaceutical distribution companies, and the operation model of the wholesale business of nonprescription medicines has also changed at the same time. The existing three-tier distribution system of the Group is no longer applicable under this situation. In the second half of 2017, the Group adjusted its operation policy and the structure of distributors and promoters. It also rolled out pilot projects in certain provinces and cities with an aim to restructuring and adjusting its channel and price, which has in turn resulted in short term negative impact on the Group's revenue from sales. The Group plans to complete the restructuring of national channel and price of Golden Throat Lozenges (OTC) in the first half of 2018, which will hence form a more comprehensive and efficient distribution system.

The Group's two production bases have passed China's new GMP accreditation. As at the end of 2017, all major plants and workshops of new medicines production and research and development base has completed the main external structures and has entered into the phase of interior decoration. However, the construction of some of the auxiliary facilities has not been commenced as they are still pending for approval. It is planned that the main buildings will be relocated at the end of 2018. After the relocation, the bottleneck problems in production will be preliminarily resolved by the new plant. The Group expects that its annual manufacturing capacity of Golden Throat Lozenges (OTC) will increase by approximately 57% when compared with the current capacity.

The Group is expected to enter into a stage of rapid development in 2018. In general, by adhering to the concept of healthy living and continuing to pursue the core value of benefiting human beings, the Group will continue to optimize the marketing strategies for over-the-counter (OTC) products and increase the market share of Golden Throat Lozenges (OTC). Furthermore, in early March 2018, the Group launched a new classical and modern Chinese style for its series products to make the products more youthful and fashionable. The Group launched creative packaging for products under the series with designs tailored for different types and products, and main ingredients of different product flavors were adopted as the main theme so as to better cater to the demand for personalized products of consumers nowadays. Meanwhile, the Group will increase its investment in the marketing channels of supermarkets and step up its efforts in advertising and promotional campaigns with a view to further expanding into the international and domestic market. In addition, the Group will seek to expand its market share of reserved medicines through cooperation with other market leaders to realize continuous growth of its main businesses.

In 2018, the Group will endeavour to accomplish breakthroughs in both pharmaceutical products and fast-moving consumer goods with the concerted efforts of staff at all levels and we are confident in the Group's ability in fulfilling this goal.

I, on behalf of Golden Throat Holdings Group Company Limited, would like to express my sincere gratitude to all our shareholders for their care and support!

JIANG Peizhen
Chairman
29 March 2018

DEFINITIONS

Unless otherwise defined, capitalised terms in this report shall have the meanings ascribed to them below:

"AGM"	the annual general meeting of the Company.
"Articles" or "Articles of Association"	the amended and restated articles of association of the Company, conditionally adopted by the Company on 24 June 2015, which became effective upon the Listing, and as amended from time to time.
"Audit Committee"	the audit committee of the Board, established on 13 February 2015.
"Board"	the board of Directors of the Company.
"Board Committees"	the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company.
"Cayman Companies Law" or "Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised from time to time) of the Cayman Islands.
"CFDA"	China Food and Drug Administration (國家食品藥品監督管理總局).
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules.
"CNMA"	China Nonprescription Medicines Association (中國非處方藥物協會).
"Company", "we", "us" and "our"	Golden Throat Holdings Group Company Limited (金嗓子控股集團有限公司), an exempted company incorporated with limited liability in the Cayman Islands on 2 September 2014.

"Controlling Shareholders"	has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, refers to Mr. ZENG Yong, the Family Trust, Jin Jiang Global and Golden Throat International.
"Director(s)"	director(s) of the Company.
"ED"	executive Director of the Company.
"Family Trust"	an irrevocable discretionary trust settled by Mr. ZENG Yong as the settlor pursuant to a trust arrangement dated 25 February 2015 in respect of the shares in Jin Jiang Global.
"Framework Agreement"	a framework agreement on strategic cooperation dated 15 February 2016 entered into between the Company and Jointown.
"GMP"	Good Manufacturing Practice.
"Golden Throat Company" and "Guangxi Golden Throat"	廣西金嗓子有限責任公司 (Guangxi Golden Throat Co., Ltd.), a company with limited liability established in China on 18 September 1998 and an indirect wholly owned subsidiary of the Company.
"Golden Throat Health Food"	廣西金嗓子保健品有限公司 (Guangxi Golden Throat Health Food Co., Ltd.), a company with limited liability incorporated in China on 23 April 2012 and a direct wholly-owned subsidiary of the Company.
"Golden Throat International"	Golden Throat International Holdings Limited, a company incorporated in the British Virgin Islands on 3 April 2012 and beneficially and wholly owned by Jin Jiang Global, and one of the Controlling Shareholders.

"Golden Throat Import & Export Company"	廣西金嗓子進出口貿易有限公司 (Guangxi Golden Throat Import & Export Trading Co., Ltd.*), a company with limited liability established in China on 31 March 2016 and a wholly-owned subsidiary of Golden Throat Company.
"Golden Throat Lozenges (OTC)"	金嗓子喉片, one of the Group's key products and approved as a type of over-the-counter medicine.
"Golden Throat Lozenge Series Products"	金嗓子喉寶系列產品, one of the Group's key products and approved as food products.
"Golden Throat Medical"	廣西金嗓子醫藥有限公司 (Guangxi Golden Throat Medical Co., Ltd.), a company with limited liability established in China on 11 November 2004 and an indirect wholly-owned subsidiary of the Company.
"Golden Throat Pharmaceutical"	廣西金嗓子藥業股份有限公司 (Guangxi Golden Throat Pharmaceutical Corporation), a company with limited liability established in China on 21 December 2006 and an indirect wholly-owned subsidiary of the Company.
"Golden Throat Herbal Vegetable Beverages Series Products"	金嗓子植物飲料系列產品, a series type of the Group's pipeline products and approved as a type of food.
"Group"	the Company and its subsidiaries.
"Herbal Vegetable Beverage"	Golden Throat Herbal Vegetable Beverage (金嗓子草本植物飲料), a series of products under Golden Throat Herbal Vegetable Beverages Series Products.
"HKD" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong.
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC.
"INED"	independent non-executive Director of the Company.
"IPO Proceeds"	the net proceeds from the listing of the Shares on the Stock Exchange.

"Jin Jiang Global"	Jin Jiang Global Investment Company Limited, a company incorporated in the British Virgin Islands on 23 September 2014 and its issued shares are held by Sovereign Trust International Limited as trustee for the benefit of Mr. ZENG Yong and his children and descendants, and one of the Controlling Shareholders.
"Jointown"	九州通醫藥集團股份有限公司 (Jointown Pharmaceutical Group Co., Ltd.), a company listed on the Shanghai Stock Exchange (stock code: 600998) and an independent third party of the Group.
"Listing" or "IPO"	the listing of the Shares on the Main Board of the Stock Exchange.
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange, as amended from time to time.
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
"NED"	non-executive Director of the Company.
"Nomination Committee"	the nomination committee of the Board, established on 13 February 2015.
"OTC"	relating to pharmaceutical products which may, upon receiving the CFDA approval, be sold over the counter in China at dispensers, pharmacies or retail outlets without requiring a prescription by a medical practitioner.
"Peizhen Investment"	廣西佩珍投資諮詢有限公司 (Guangxi Peizhen Investment Consulting Co., Ltd.), a company with limited liability established in China on 30 July 2014 and controlled by Ms. JIANG Peizhen, and which is not a member of the Group.
"PRC" or "China"	the People's Republic of China, for the purpose of this report only, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

"Prospectus"	the prospectus of the Company dated 30 June 2015 in respect of the global offering of its shares.
"Remuneration Committee"	the remuneration committee of the Board, established on 13 February 2015.
"RMB"	Renminbi, the lawful currency of the PRC.
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time.
"Shareholder"	a holder of any Share(s).
"Shares"	ordinary shares in the capital of the Company with a nominal value of US$0.000025 each.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"Weikete"	廣西維科特生物技術有限公司 (Guangxi Weikete Biological Technology Co., Ltd.), a company with limited liability established in China on 7 November 2001 and indirectly controlled by Ms. JIANG Peizhen.
"Well-known Trademark"	the trademark of "Golden Throat Lozenge (金嗓子喉寶)" with the registration number 1969118.

Unless otherwise specified, all numerical figures are rounded to one decimal place.

The English names of companies established in China are translations of their Chinese names and are included for identification purposes only.

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis is prepared as of 29 March 2018. It should be read in conjunction with the audited consolidated financial statements and notes thereto of the Group for the year ended 31 December 2017.

BUSINESS REVIEW

The Group is a leading manufacturer of lozenges in China. In December 2017, the Group's flagship product, Golden Throat Lozenges (OTC) was awarded No. 1 amongst Chinese traditional medicines (Throat) in 2017 by CNMA. In November 2017, "Golden Throat (金嗓子)" brand was selected as a world famous brand by the China America Branding Strategy Forum and was ranked amongst the Best Listed Companies Category on the Forbes China Up-and-Comers List. Currently, the Group has developed into a comprehensive modern group mainly engaging in the manufacture and sale of lozenges and other pharmaceutical and food products.

Key Products

The Group reports its revenue by three product categories, consisting of Golden Throat Lozenges (OTC), Golden Throat Lozenge Series Products and other products.

For the year ended 31 December 2017, the Group's revenue decreased by 18.8% as compared to the corresponding period in 2016.

Golden Throat Lozenges (OTC) – over-the-counter medicine

The Group's flagship product is Golden Throat Lozenges (OTC), which was launched in 1994. It is a type of lozenge mainly designed to relieve symptoms of sore and dry throat and hoarse voice caused by acute pharyngitis. Golden Throat Lozenges (OTC) was approved as over-the-counter medicine by the CFDA, as such they can be purchased by the public in pharmacies without requiring the prescription of a qualified medical professional.

As of 31 December 2017, Golden Throat Lozenges (OTC) has been exported to the United States, Canada, Russia, the European Union, Australia, Southeast Asia, Middle East, Mexico, Peru and Africa, with export coverage in five continents across the world.

For the year ended 31 December 2017, the Group's revenue of Golden Throat Lozenges (OTC) accounted for 89.0% of its total revenue.

Golden Throat Lozenge Series Products – Food

The Group's other key products are Golden Throat Lozenge Series Products, which include seven products comprising of Dule Lozenges (都樂含片), sugar-free Dule Lozenges and five other sugar-free flavours of this series, namely orange (香橙), fructus momordicae (羅漢果), chrysanthemum (桑菊), American ginseng (西洋參) and hawthorn (山楂).

A major difference between Golden Throat Lozenges (OTC) and Golden Throat Lozenge Series Products is that the former is approved as over-the-counter medicine, whereas the latter are approved as food products. The sugar-free series of Golden Throat Lozenge Series Products was launched in 2013, which supplements the Group's original channel and provides consumers with more diversified choices in response to consumer group differentiation.

As of 31 December 2017, Golden Throat Lozenge Series Products were exported to eight countries and regions.

For the year ended 31 December 2017, the Group's sales of Golden Throat Lozenge Series Products accounted for 8.3% of the Group's total revenue.

Other Products

Sales of the Group's other products accounted for 2.7% of the Group's revenue for the year ended 31 December 2017. Two of the Group's other products are Yinxingye Tablet (銀杏葉片) and Herbal Vegetable Beverages. Yinxingye Tablet is mainly designed to facilitate blood circulation, remove blood stasis and dredge energy channels and was approved as a prescription medicine by the CFDA, while the main function of Herbal Vegetable Beverages is soothing voice and relieving sore throats.

Research and Development

The Group's business has significantly benefited from its strong track record in research and development. Since 1994, the Group has successfully developed 31 new products for which it has obtained manufacturing permits, amongst which, 8 are pharmaceutical products (including Jinyin Sanqi Capsule (金銀三七膠囊)), 21 are food products, one is a health food product and one is medical apparatus product.

The Group's research and development activities are conducted both in-house and through collaborations with external research institutions, such as hospitals, institutes for drug research and other companies. As of 31 December 2017, the Group's research and development team consists of approximately 280 people.

The Group will continue its co-operation with external institutions in product research, development and commercialisation with the aim to improving production quality and efficiency. The Group intends to incur an aggregate of approximately RMB60.0 million on research and development activities in the future. For the year ended 31 December 2017, the Group has incurred RMB2.1 million on research and development activities.

PIPELINE PRODUCTS

The Group seeks to develop new pharmaceutical products and food products addressing selected key medical and health needs, with the objective of contributing to the improvement of the public health and capturing market share in new markets, as well as enriching its product portfolio.

Sales, Marketing and Distribution

Branding

The Group believes that strong brand recognition and customer loyalty are key to the recognition of the "Golden Throat (金嗓子)" brand. The Group's principal brand, "Golden Throat (金嗓子)" was awarded "Brand China – Huapu Award" (品牌中國－華譜獎) by Brand China Industry Union and China Chamber of International Commerce in 2011 and "CCTV China Annual Brand" (中央電視台中國年度品牌) by CCTV in 2012. In December 2017, the Group's flagship product, Golden Throat Lozenges (OTC) was awarded No. 1 amongst Chinese traditional medicines (Throat) in 2017 by CNMA. In November 2017, "Golden Throat (金嗓子)" brand was selected as a world famous brand by the China America Branding Strategy Forum and was ranked amongst the Best Listed Companies Category on the Forbes China Up-and-Comers List.

Distribution Network

The Group has established an extensive and structured sales and distribution network throughout China for its (i) over-the-counter medicines, (ii) food products and (iii) prescription medicines and medical apparatus. During the year ended 31 December 2017, substantially all of the Group's revenue was generated from sales to distributors.

As of 31 December 2017, the Group's distribution network had no substantial change, with over 280 distributors directly engaged by it and covering all the provinces, autonomous regions and municipal cities throughout China. In addition, the Group has also engaged promoters to further facilitate its product promotion and advertising, communication with its customers and monitoring of the activities of its distributors. In 2018, the Group will conduct reshaping of the sales system. After reorganisation of the Group's distribution network by distribution areas, the number of secondary agents will increase.

As mentioned above, the Group also has a presence in various overseas markets for its products, including the United States, Canada, Russia, the European Union, Australia, Southeast Asia, Middle East, Mexico, Peru and Africa, with export coverage in five continents across the world. The Group has actively responded to China's top-level strategy – the national "Belt and Road" initiative, of which 10 ASEAN countries play a vital role in its strategy. Up to now, the Company has successfully entered into agency agreements with all of the 10 ASEAN countries, and its products have exported to eight countries, except Vietnam and Laos. The Group has also sold its products to the overseas markets through Golden Throat Import & Export Company and local distributors.

As disclosed in the Company's announcement dated 16 February 2016, the Company has entered into a framework agreement on strategic cooperation on 15 February 2016 with Jointown based on both parties' mutual desire for joint development. Pursuant to the Framework Agreement, the Company shall grant exclusive agency rights to Jointown for the sales and distribution of the Group's certain types of products within the mainland China through Jointown's pharmaceutical distribution network, but such rights shall not include Jointown's right to engage any sub-distributors outside of its distribution network. The term of the Framework Agreement is six years, commencing from 1 January 2016 till 31 December 2021.

The above is a summary of the Group's distribution network. For further details, please refer to the section headed "Business – Distribution Network and Infrastructure" in the Prospectus.

Promoters

As of 31 December 2017, the Group has entered into products promotion cooperation agreements with 11 promoters. The primary reasons for engaging the promoters in certain regions are: (i) their knowledge of local markets and substantial experience in promoting products; and (ii) their familiarity with local municipal level agents and that the Group benefits from their facilitation and ongoing feedback of such local markets.

Market Review

In recent years, the PRC's nominal gross domestic product ("GDP") has grown steadily. With the growth of China's economy and increase of people's disposable income, as well as the increasing public focus on health, the pharmaceutical and lozenge market in China is expected to continue growing rapidly in the foreseeable future.

PRC consumers' health awareness has been increasing year by year, which resulted in higher spending on health related products including, amongst others, health food and medicines. Consumers nowadays care more about life quality and health than before, and are getting more familiar with many brands of OTC medicines. In addition, the inconvenience and time needed for seeing doctors due to shortage of medical resources also drives consumers to treat themselves at home by purchasing OTC medicines when they encounter common ailments or chronic diseases.

After the implementation of "two-invoice system" for the pharmaceutical industry in China, it requires the industry to strictly execute the unified management of purchase, sales and stock, and sell goods with invoice. This not only increases the operating cost of the pharmaceutical industry, which in turn requires pharmaceutical factories in the industry to bear the distribution cost of pharmaceutical products and earn more profit for drug sales, but at the same time causes the original marketing system no longer be able to adapt to new trend.

In this regard, the Group has adjusted its operation policy to roll out a pilot project in three regions including Hebei, Taihe, Anhui and Guangdong in 2017, which mainly consists of (i) re-selection of primary distributors and sub-distributors, and (ii) price management and control for primary distributors, sub-distributors and terminal providers. The objective is to expand channels and increase types, number and profit of drugs to be sold, which aims to improve the distribution system.

Future Expansion and Upgrading Plan

For 2018, the Group will continue to strengthen its leading position in the lozenge market and continue to expand its market share in the PRC pharmaceutical and food products markets.

The Group has commenced its strategic expansion into new geographic markets such as Qinghai, Jilin and Inner Mongolia through the establishment of its refined distribution network back in 2013 and will continue both to expand into new markets and further penetrate its existing markets through the expansion of its sales team to provide more distribution and sales support to its distributors at the pharmacy level. In addition, by evaluating its experience in adjusting the operational policy in 2017, the Group plans to complete the restructuring in respect of channel and price in the first half of 2018, so as to form a more comprehensive and efficient distribution system.

To further enhance the popularity of its products and awareness of its brand and image in China, the Group will continue to maintain and promote its "Golden Throat (金嗓子)" brand with the goal of establishing it as a well-known household brand recognised for effective, safe and curative lozenge products in China. The Group plans to expand and enhance its media marketing and promotion efforts, which historically have mainly been advertising on television networks, by increasingly advertising via internet media that have broader coverage. The Group's dedicated marketing team will continue to work closely with its distributors to design and carry out effective and targeted marketing campaigns and promotional activities.

The Group also intends to increase its production capacity by constructing a new production base to meet the market demand for its Golden Throat Lozenges (OTC). The Group has acquired a new plot of land in Luowei Industrial Concentration Area, Liuzhou, Guangxi Zhuang Autonomous Region for the purpose of constructing a new medicines production and research and development base. As of the end of 2017, all major plants and workshops of new medicines production and research and development base has completed the main external structures and has entered into the phase of interior decoration. However, the construction of some of the auxiliary facilities has not been commenced as they are still pending for approval. It is planned that the main buildings will be relocated at the end of 2018. After the expansion, the Group expects to have an increase in its annual production capacity of Golden Throat Lozenges (OTC), representing an increase of approximately 57% of the current capacity.

In addition, the Group plans to convert its current headquarters at No. 28, Yuejin Road, Liuzhou, Guangxi Zhuang Autonomous Region into a food production plant, as well as a food research and development centre, in order to enhance its food business and capture more customers and sales. Its current base in Laibin, Guangxi Zhuang Autonomous Region will be used to establish a Chinese herbs processing base.

RISK FACTORS

We depend on distributors for most of our turnover. If we fail to maintain relationships with, or monitor the distribution by, our existing distributors or expand our distribution network, and our distributors fail to promote or sell our products, our business or results of operations could be adversely affected.

Changes in consumer preferences, perception of the effectiveness of our products or demand for herbal lozenges could adversely affect our reputation, revenues and profitability, including but not limited to the factors of a change in consumers' belief that lozenges based on Chinese herbal medicines may be effective in achieving their claimed benefit or a general decrease in preferences for Chinese herbal medicines-based lozenges.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, the Group's revenue amounted to approximately RMB624.1 million, as compared to RMB768.2 million for the year ended 31 December 2016, representing a decrease of approximately RMB144.1 million, or 18.8%. The decrease is mainly attributable to the decrease in sales of Golden Throat Lozenges (OTC) products, Golden Throat Lozenges Series Products and other products.

For the year ended 31 December 2017, the Group's revenue from sales of Golden Throat Lozenges (OTC) decreased to RMB555.5 million, as compared to RMB668.7 million for the year ended 31 December 2016, representing a decrease of approximately RMB113.2 million, or 16.9%, primarily attributable to the fact that currently, the policy of "two-invoice system" is implemented for the pharmaceutical industry in China and the existing three-tier distribution system of the Group is no longer applicable under this system. In the second half of the year, the Group adjusted its operational policy and the structure of distributors and promoters. The Group rolled out pilot project in certain provinces and cities with an aim to restructuring and adjusting its channel and price, which has resulted in short-term negative impact on the Group's revenue from sales.

For the year ended 31 December 2017, the Group's revenue from sales of Golden Throat Lozenge Series Products decreased to RMB51.7 million, as compared to RMB55.0 million for the year ended 31 December 2016, representing a decrease of approximately RMB3.3 million, or 6.0%, primarily because of the decrease in sales volume of Golden Throat Lozenge Series Products.

For the year ended 31 December 2017, the Group's revenue from sales of other products decreased to RMB16.9 million, as compared to RMB44.5 million for the year ended 31 December 2016, representing a decrease of approximately RMB27.6 million, or 62.0%. This was due to the decrease in sales of the Group's Herbal Vegetable Beverages in 2017.

The table below sets forth, for the periods indicated, the sales volume, revenue, cost, gross margin, unit price and unit cost of the Group's key products.

	Year ended 31 December 2017					
	Sales Volume boxes'000	**Revenue RMB'000**	**Cost RMB'000**	**Gross margin %**	**Unit price RMB**	**Unit cost RMB**
Golden Throat Lozenges (OTC)	**100,527**	**555,479**	**142,880**	**74.3**	**5.5**	**1.4**
Golden Throat Lozenge Series Products	**10,517**	**51,714**	**21,497**	**58.4**	**4.9**	**2.0**

	Year ended 31 December 2016					
	Sales Volume boxes'000	Revenue RMB'000	Cost RMB'000	Gross margin %	Unit price RMB	Unit cost RMB
Golden Throat Lozenges (OTC)	123,700	668,725	157,981	76.4	5.4	1.3
Golden Throat Lozenge Series Products	12,425	54,964	22,110	59.8	4.4	1.8

Cost of Sales

The Group's cost of sales consists primarily of cost of packaging materials, labour costs, cost of raw materials, depreciation and other costs relating to the production of Golden Throat Lozenges (OTC), Golden Throat Lozenge Series Products and other products.

The Group's cost of sales decreased from approximately RMB213.2 million for the year ended 31 December 2016 to approximately RMB188.5 million for the year ended 31 December 2017, which accounted for approximately 30.2% of the Group's total revenue for the same period. The decrease in the Group's cost of sales was primarily due to the decrease in sales volume of Golden Throat Lozenges (OTC).

The table below sets forth, for the periods indicated, the components of its cost of sales and the components as a percentage of total cost of sales.

	Year ended 31 December 2017		Year ended 31 December 2016	
	RMB'000	**% of total**	RMB'000	% of total
Packaging materials	**78,308**	**41.5%**	89,794	42.1%
Raw materials	**42,976**	**22.8%**	42,642	20.0%
Labor costs	**41,532**	**22.0%**	50,755	23.8%
Depreciation	**4,891**	**2.6%**	4,308	2.0%
Commission processing fee	**540**	**0.3%**	3,047	1.4%
Write-down of inventories to net realisable value	**8,935**	**4.7%**	125	0.1%
Other costs	**11,313**	**6.1%**	22,560	10.6%
Total	**188,495**	**100%**	213,231	100%

Gross Profit

Gross profit represents the excess of revenue over cost of sales.

For the year ended 31 December 2017, the Group's gross profit decreased to RMB435.6 million, as compared to RMB554.9 million for the year ended 31 December 2016, representing a decrease of approximately RMB119.3 million, or 21.5%. The decrease in the Group's gross profit was mainly due to the decrease in revenue. The Group's gross profit margin decreased to 69.8% for the year ended 31 December 2017 from 72.2% for the corresponding period of 2016.

Other Income and Gains

The Group's other income and gains mainly comprised government grants, bank interest income and net exchange gains. For the year ended 31 December 2017, the Group's other income and gains decreased to RMB27.0 million, as compared to RMB30.3 million for the year ended 31 December 2016, representing a decrease of approximately RMB3.3 million. The decrease was mainly due to the fact that no income arising from investments in bonds was recorded for the year and the disposal of bonds resulted in an investment loss.

Selling and Distribution Expenses

The Group's selling and distribution expenses primarily consisted of (i) advertising expenses, (ii) promotion expenses, (iii) transportation expenses, (iv) employee benefit expenses, (v) travel and office expenses, (vi) marketing expenses; and (vii) other miscellaneous expenses. For the year ended 31 December 2017, the Group's selling and distribution expenses amounted to approximately RMB305.5 million, as compared to RMB319.0 million for the year ended 31 December 2016, representing a decrease of approximately RMB13.5 million, or 4.2%. The decrease was mainly due to the decrease in the Group's advertising expenses of Herbal Vegetable Beverages for the year.

Administrative Expenses

The Group's administrative expenses primarily consisted of (i) salary and welfare expenses for management and administrative personnel, (ii) travel and office expenses, (iii) research and development costs, (iv) depreciation and amortisation costs relating to its office equipment, (v) amortisation of land use rights, (vi) professional services fees incurred for legal, tax and other services; and (vii) other miscellaneous expenses. For the year ended 31 December 2017, the Group's administrative expenses amounted to approximately RMB56.2 million, as compared to RMB69.2 million for the year ended 31 December 2016, representing a decrease of approximately RMB13.0 million, or 18.8%. The decrease was mainly due to the decrease in the Group's consultation fee as compared to 2016, as well as the decrease in salaries of management and administrative staff for the year.

Other Expenses

The Group's other expenses primarily consisted of (i) investment loss on disposal of bonds; and (ii) write off of raw materials. For the year ended 31 December 2017, the Group's other expenses amounted to approximately RMB1.9 million, as compared to RMB14.4 million for the year ended 31 December 2016, representing a decrease of approximately RMB12.5 million or 86.8%. The decrease was mainly due to exchange gains arising from the effect of the Group's exchange rate fluctuations for the year, as opposed to exchange losses arising from the effect of exchange rate fluctuations for 2016.

Finance Costs

For the year ended 31 December 2017, the Group's finance costs amounted to RMB4.8 million, as compared to RMB7.3 million for the year ended 31 December 2016, representing a decrease of approximately RMB2.5 million or 34.3%. The decrease was mainly due to the reduction in average interest-bearing bank borrowings and the fall of interest rate as compared to 2016.

Income Tax Expense

For the year ended 31 December 2017, the Group's income tax expense amounted to RMB32.8 million, as compared to RMB72.4 million for the year ended 31 December 2016, representing a decrease of RMB39.6 million or 54.7%. The effective tax rate for the year ended 31 December 2017 and the corresponding period of 2016 was 34.8% and 41.3% respectively. The decrease in income tax expense was mainly due to the decrease in total profit for the year, and the decrease in effective tax rate was mainly attributable to the fact that the Group enjoys the new tax preferential policy for pre-tax deduction of advertising expenses and business promotion expenses of pharmaceutical manufacturers, which was launched in May 2017.

Net Profit

The Group's net profit for the year ended 31 December 2017 was approximately RMB61.4 million, as compared to RMB102.9 million for the year ended 31 December 2016, representing a decrease of approximately RMB41.5 million or 40.3%. The decrease in net profit of the Group was mainly due to the decrease in revenue. For the reasons for decrease in revenue, please refer to the section headed "Revenue" above.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Net Current Assets

As of 31 December 2017, the Group had net current assets of approximately RMB758.2 million, as compared to RMB857.9 million as of 31 December 2016. The current ratio of the Group decreased to approximately 2.8 as of 31 December 2017 from 3.0 as of 31 December 2016. The decrease in net current assets was mainly attributable to the increase in the Group's capital used in the construction of Luowei base for the year.

Borrowings and the Pledge of Assets

As of 31 December 2017, the Group had aggregate interest-bearing bank borrowings of approximately RMB86.0 million, as compared to approximately RMB66.0 million as of 31 December 2016. All the bank borrowings are repayable within one year. As of 31 December 2017, the bank borrowings were made up of bank loans.

All of the Group's bank borrowings for the year ended 31 December 2017 were at fixed interest rates. For details of such borrowings, please refer to Note 22 of the Group's financial statements.

The Group continues to manage its balance sheet and capital structure with a solid equity base, adequate working capital and credit facilities. The Group has various policies governing accounting control, as well as credit and foreign exchange risks and treasury management. The Group has also been paying close attention to asset and liability management, including liquidity risks and currency risks.

Certain of the Group's leasehold lands with an aggregate net carrying value of RMB36.4 million were pledged to secure bank loans as of 31 December 2017, as compared to RMB16.7 million as of 31 December 2016.

Certain of the Group's buildings with an aggregate net carrying value of RMB1.4 million were pledged to secure bank loans as of 31 December 2017, as compared to RMB1.6 million as of 31 December 2016.

Gearing Ratio

As of 31 December 2017, the gearing ratio of the Group, which is calculated by dividing total borrowings by total equity, increased to approximately 9.1% from approximately 6.7% as of 31 December 2016. The increase was primarily attributable to the increase in the Group's bank borrowings from RMB66.0 million as of 31 December 2016 to RMB86.0 million as of 31 December 2017 and the decrease in total equity from RMB986.8 million as of 31 December 2016 to RMB944.5 million as of 31 December 2017.

Contingent Liabilities

For details of the contingent liabilities of the Group as at 31 December 2017, please refer to Note 28 of the Group's consolidated financial statements in this report.

Foreign Exchange Risk

The Group's transactions are mainly denominated and settled in RMB. The Group had certain amounts of deposits and available-for-sale investments in HKD and USD, amounting to HK$389.0 million and US$3.5 million as of 31 December 2017, respectively. Therefore, the Group has exposure to foreign exchange risk that may arise from fluctuations in the exchange rates of HKD to RMB and USD to RMB.

Since March 2016, the Group has commenced purchasing USD-denominated corporate bonds and notes. As of 31 December 2016, the balance of corporate bonds and notes amounted to US$45.4 million. As of 31 December 2017, the Company had no balance of the bonds and notes.

For the year ended 31 December 2017, the Group had not used any financial instruments to hedge its foreign exchange risk.

EMPLOYEES AND EMOLUMENTS POLICY

As of 31 December 2017, the Group employed a total of 970 full-time employees, as compared to a total of 1,005 full-time employees as of 31 December 2016. The staff costs, including Directors' emoluments but excluding any contributions to pension scheme, were approximately RMB60.9 million for the year ended 31 December 2017 as compared to RMB65.5 million for the corresponding period in 2016. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employees. In addition to a basic salary, year-end bonuses are offered to those staffs with outstanding performances to attract and retain capable employees of the Group.

SIGNIFICANT INVESTMENTS HELD

For the year ended 31 December 2017, the Group did not have any significant investments nor did it make any material acquisitions or disposals of subsidiaries, associates or joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of 31 December 2017, the Group committed to invest approximately RMB32.3 million for the purpose of constructing a new medicines production and research and development base in Luowei Industrial Concentration Area, Liuzhou, Guangxi Zhuang Autonomous Region. Save as mentioned above, the Group currently does not have other plans for material investments or capital assets.

PROSPECTS

The Group will continue to seek to strengthen its leading position in the lozenge market and continue to expand its market share in the PRC pharmaceutical and food markets. Moreover, the Group will aim to increase its production capacities, expand its product portfolio and strengthen its research and development capabilities. It will enhance its food and other pharmaceutical businesses and promote synergies across different product segments, at the same time enhancing its brand recognition through effective and targeted marketing. Furthermore, the Group will continue to expand its distribution network, refine associated infrastructure and leverage on existing distribution network to market different products.

USE OF NET PROCEEDS FROM LISTING

The IPO Proceeds (including those shares issued pursuant to the partial exercise of the over-allotment options), after deducting underwriting fees and related expenses, amounted to approximately HK$909.6 million, which are intended to be applied in the manner disclosed in the Prospectus. Details of the use of the IPO Proceeds are set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 31 December 2017, there was no change to the intended use of the IPO Proceeds as disclosed in the Prospectus.

As at 31 December 2017, the Group had utilised approximately HK$490.18 million, representing approximately 53.89% of the IPO Proceeds. Set out below is a summary of the utilisation of the IPO Proceeds:

Use of IPO Proceeds

	Utilised	
	HK$'000	% of IPO Proceeds
Construction in Luowei Industrial Concentration Area	106,778	11.74
Conversion of headquarters	–	–
Market expansion	278,820	30.65
Product development	9,022	0.99
Establishment of Chinese herbs processing base	–	–
Refinement and Upgrade of electronic code system	4,596	0.51
General working capital	90,960	10.00

DIRECTORS AND SENIOR MANAGEMENT

AN OVERVIEW OF DIRECTORS AND SENIOR MANAGEMENT

As at 29 March 2018, the Board of Directors of the Company consists of nine Directors, comprising five executive Directors, one non-executive Director and three independent non-executive Directors.

The table below sets forth certain information in respect of the Directors and our senior management as at 29 March 2018.

Name	Age	Position	Date of appointment	Relationship with other Directors or senior management
Directors				
Ms. JIANG Peizhen (江佩珍)	72	Chairman of the Board and non-executive Director	10 February 2015	Mother of Mr. ZENG Yong
Mr. ZENG Yong (曾勇)	44	Vice Chairman of the Board, executive Director and General Manager	10 February 2015	Son of Ms. JIANG Peizhen
Mr. HUANG Jianping (黃建平)	55	Executive Director, Deputy General Manager and President of Labour Union	10 February 2015	None
Mr. ZENG Kexiong (曾克雄)	53	Executive Director and Deputy General Manager	10 February 2015	None
Mr. LU Xinghong (呂興鴻)	61	Executive Director and Deputy General Manager	10 February 2015	None
Mr. HE Jinqiang (何錦強)	48	Executive Director and Deputy General Manager	10 February 2015	None
Mr. LI Hua (李驊)	46	Independent non-executive Director	10 February 2015	None
Mr. ZHU Jierong (朱頡榕)	69	Independent non-executive Director	10 February 2015	None
Mr. CHENG Yiqun (程益群)	48	Independent non-executive Director	10 February 2015	None
Senior Management				
Ms. KE Xuening (柯學寧)	61	Assistant to General Manager	January 2014	None
Ms. LI Qing (李慶)	48	Assistant to General Manager	January 2014	None
Mr. WU Dong (吳東)	49	Assistant to General Manager	February 2015	None

DIRECTORS

Non-Executive Director

Ms. JIANG Peizhen (江佩珍), aged 72, is the Chairman of the Board and a non-executive Director. Ms. JIANG was appointed as a Director on 10 February 2015 and is primarily responsible for formulating the overall development strategies and business plan of the Group. Ms. JIANG is also a director of Golden Throat Company and Golden Throat Medical. From 1956 to 1998, Ms. JIANG had been working as a staff worker, workshop director, vice president, president and party secretary of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠). Ms. JIANG obtained a Diploma degree in journalism from Beijing Humanities University (北京人文大學) in Beijing, China in May 1987 and a Pharmaceutical Diploma from Guangxi School of Chinese Medicine (廣西中醫學院) (now known as Guangxi University of Chinese Medicine (廣西中醫藥大學)) in Nanning, Guangxi Zhuang Autonomous Region, China, in January 2001. Ms. JIANG is the mother of Mr. ZENG Yong. Ms. JIANG obtained the qualification certificate of senior economist conferred by the Bureau of Scientific and Technological Personnel, Guangxi Zhuang Autonomous Region (廣西壯族自治區科技幹部局) in 1992.

Executive Directors

Mr. ZENG Yong (曾勇), aged 44, is the Vice Chairman of the Board and an executive Director and General Manager. Mr. ZENG was appointed as a Director on 10 February 2015 and is primarily responsible for overseeing the management and strategic development of the Group. Mr. ZENG is also a director of Golden Throat Company and Golden Throat Pharmaceutical. Mr. ZENG joined Golden Throat Company in March 1995 and has gained over 18 years of experience in sales management. Prior to joining the Group, Mr. ZENG worked at the International Affairs Department of the Bank of Communications Guangxi Liuzhou Branch (交通銀行廣西柳州分行) from August 1994 to September 1995. From October 1995 to September 1998, Mr. ZENG also worked at the Advertising Department of the Guangxi Liuzhou Cable TV Network (廣西柳州市有線電視台). Mr. ZENG obtained a Diploma's degree in English from Guangxi Teachers Education University (廣西師範學院) in Nanning, Guangxi Zhuang Autonomous Region, China in June 1994. Mr. ZENG is the son of Ms. JIANG Peizhen.

Mr. HUANG Jianping (黃建平), aged 55, is an executive Director, the Deputy General Manager and President of Labour Union. Mr. HUANG was appointed as a Director on 10 February 2015 and is primarily responsible for providing strategic advice and guidance on the employee union related matter of the Group. Mr. HUANG is also a director of Golden Throat Company and Golden Throat Pharmaceutical. Mr. HUANG joined the Group in August 1985 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1985 to 1998, Mr. HUANG worked as a staff worker, communist party vice secretary and office chief of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Golden Throat Company. He graduated from Guangxi Light Industry Technician College (廣西輕工學校) in sugar refinery in Nanning, Guangxi Zhuang Autonomous Region, China in July 1985. Mr. HUANG obtained the qualification certificate of assistant engineer issued by the Liuzhou Municipal Qualification Reform Office (柳州市職稱工作改革辦公室) in 1994.

Mr. ZENG Kexiong (曾克雄), aged 53, is an executive Director and Deputy General Manager. Mr. ZENG was appointed as a Director on 10 February 2015 and is primarily responsible for production, technology and quality inspection related matters of the Group. Mr. ZENG is also a director of Golden Throat Company and Golden Throat Pharmaceutical. Mr. ZENG joined the Group in August 1984 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1984 to 1998, Mr. ZENG worked as a staff worker and department chief of Production and Technology Department of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Golden Throat Company. He graduated from Guangxi Light Industry Technician College (廣西輕工學校) in sugar refinery in Nanning, Guangxi Zhuang Autonomous Region, China in July 1984. Mr. ZENG obtained the qualification certificate of engineer conferred by the Liuzhou Municipal Leading Group of Qualification Reform (柳州市職改領導小組) in 1996.

Mr. LU Xinghong (呂興鴻), aged 61, is an executive Director and Deputy General Manager. Mr. LU was appointed as a Director on 10 February 2015 and is primarily responsible for power plants related matters of the Group. Mr. LU is also a director of Golden Throat Company and Golden Throat Pharmaceutical. He joined the Group in October 1988 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1988 to 1998, Mr. LU worked as a staff worker and department chief of Power Plants Department of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Golden Throat Company. He obtained a Bachelor's degree in mechanical maintenance from Guangxi University (廣西大學) in Nanning, Guangxi Zhuang Autonomous Region, China in August 1982. Mr. LU obtained the qualification certificate of senior engineer issued by the Personnel Department of Guangxi Zhuang Autonomous Region (廣西壯族自治區人事廳) in 1996.

Mr. HE Jinqiang (何錦強), aged 48, is an executive Director and Deputy General Manager. Mr. HE was appointed as a Director on 10 February 2015 and is primarily responsible for labour, personnel and warehouse related matters of the Group. Mr. HE is also a director of Golden Throat Company, Golden Throat Health Food and Golden Throat Pharmaceutical. Mr. HE joined the Group in August 1991 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1991 to 1998, Mr. HE worked as a staff worker of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Golden Throat Company. He obtained a Bachelor's degree in food science from Guangxi University (廣西大學) in Nanning, Guangxi Zhuang Autonomous Region, China in July 1991. Mr. HE obtained the qualification certificate of engineer conferred by the Liuzhou Municipal Leading Group of Qualification Reform (柳州市職改領導小組) in 1996.

Independent Non-Executive Directors

Mr. LI Hua (李驊), aged 46, is an independent non-executive Director. Mr. LI was appointed as a Director on 10 February 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. LI has over 20 years experience in the auditing and accounting in various industries. Since 2005, Mr. LI has been acting as the chairman of Guangxi Tianhua Certified Public Accountants Co., Ltd. (廣西天華會計師事務所有限責任公司). Prior to this, Mr. LI served as the chief account of Guangxi Zhengze Certified Public Accountants (廣西正則會計師事務所) from 1999 to 2004. Mr. LI also currently serves as an independent director of Liuzhou Chemical Industry Co., Ltd (柳州化工股份有限公司) (Shanghai Stock Exchange, Stock Code: 600423) and Liuzhou Iron & Steel Co., Ltd. (柳州鋼鐵股份有限公司) (Shanghai Stock Exchange, Stock Code: 601003), standing director of Guangxi Accounting Society (廣西會計學會), vice president of Liuzhou Accounting Society (柳州會計學會) and chairman of professional advisory committee of Guangxi Institute of Certified Public Accountants (廣西註冊會計師協會專業諮詢委員會). Mr. LI is a Chinese certified public accountant recognised by the Certified Accountants Examination Committee of the Ministry of Finance in May 1995, certified public valuer recognised by the Ministry of Finance in April 1997 and certified tax agent jointly recognised by the Ministry of Human Resources and Social Security of the PRC and the SAT in 1999. Mr. LI obtained a Bachelor's degree in accounting from Shanghai University of Finance and Economics (上海財經大學) in Shanghai, China in July 1993.

Mr. ZHU Jierong (朱頡榕), aged 69, is an independent non-executive Director. Mr. ZHU was appointed as a Director on 10 February 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. ZHU has over 20 years experience in engineering and management. From 2002 to 2012, Mr. ZHU has been acting as deputy general manager of Zhejiang Shibao Company Limited (浙江世寶股份有限公司) (Stock Code: 1057) and has been acting as a director thereof since June 2004. Prior to this, Mr. ZHU worked as deputy technical director and deputy chief engineer in automotive steering plant of Zhejiang Wanda Group Corporation (浙江萬達集團) and other entities from 1990 to 2002. Mr. ZHU is a fellow member of the Hong Kong Institute of Directors since October 2014. Mr. ZHU graduated from Management Institute of Automotive Technology (汽車工業管理幹部學院) (now known as Hubei University of Automotive Technology (湖北汽車工業學院)) in Wuhan, Hubei Province, China in August 1987.

Mr. CHENG Yiqun (程益群), aged 48, is an independent non-executive Director. Mr. CHENG was appointed as a Director on 10 February 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. CHENG has over 14 years experience in providing legal services. Mr. CHENG joined Commerce & Finance Law Offices in 2001 and has been a partner since 2009. During the above period, Mr. CHENG also served as an independent director of Anshan Heavy Duty Mining Machinery Co., Ltd. (鞍山重型礦山機器股份有限公司) (Shenzhen Stock Exchange, Stock Code: 002667) from August 2010 to December 2013. Mr. CHENG is a PRC practising lawyer recognised by the Ministry of Justice of the PRC in August 2009. Mr. CHENG obtained a Bachelor's degree in laws from Wuhan University in Wuhan, Hubei Province, China in July 1997.

SENIOR MANAGEMENT

Ms. KE Xuening (柯學寧), aged 61, is the Assistant to General Manager and the Head of our Finance Department of the Group. She was appointed as the Assistant to General Manager and the Head of our Finance Department in January 2014 and February 2001, respectively, and is primarily responsible for the audit, accounting and financial management related matters of the Group. Ms. KE joined the Group in August 1976 and has gained over 35 years of experience in financial management. From August 1976 to 2001, Ms. KE worked as a staff worker of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and an internal auditor of Golden Throat Company. Ms. KE was certified as an auditor jointly by the National Audit Office of the PRC and the Ministry of Human Resources and Social Security of the PRC in November 1992. She obtained a Diploma's degree in accounting from Guilin College of Electric Industry (桂林電子工業學院) (now known as Guilin University of Electrical Technology (桂林電子科技大學)) in Guilin, Guangxi Zhuang Autonomous Region, China in 2008.

Ms. LI Qing (李慶), aged 48, is the Assistant to General Manager and Deputy Head of our Manufacturing Technology Department of the Group. She was appointed as the Assistant to General Manager and Deputy Head of our Manufacturing Technology Department in January 2014 and April 2010, respectively, and is primarily responsible for the development and manufacturing related matters of the Group. Ms. LI joined the Group in August 1991 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1991 to 1998, Ms. LI worked as a technology management staff in Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and Golden Throat Company. She obtained a Bachelor's degree in food science from Chengdu University of Science and Technology (成都科技大學) (now a part of Sichuan University (四川大學)) in Chengdu, Sichuan Province, China in 1991, and a professional part-time Diploma's degree in pharmacy from Guangxi School of Chinese Medicine (廣西中醫學院) (now known as Guangxi University of Chinese Medicine (廣西中醫藥大學)) in Nanning, Guangxi Zhuang Autonomous Region, China, in 2001. Ms. LI obtained the qualification certificate of engineer conferred by the Liuzhou Municipal Leading Group of Qualification Reform (柳州市職改領導小組) in 1996 and obtained the qualification certificate of licensed pharmacist conferred by the MOH in 2002.

Mr. WU Dong (吳東), aged 49, is the Assistant to General Manager. He was appointed as the Assistant to the General Manager in February 2015 and is primarily responsible for promotion related matters of the Group. Mr. WU joined the Group in July 1990 and has gained over 20 years of experience in pharmaceutical manufacturing. From 1990 to 1998, Mr. WU worked as a staff worker of Liuzhou No. 2 Sweet Factory (柳州市糖果二廠) and from 1998 to 2014, Mr. WU worked as the first deputy director of the General Manager Office of Golden Throat Company. He obtained a Diploma's degree in administrative management from Guangxi School of Industry (廣西工學院) (now known as Guangxi University of Science and Technology (廣西科技大學)) in Liuzhou, Guangxi Zhuang Autonomous Region, China in 1990. Mr. WU obtained the qualification certificate of assistant professional for political work (助理政工師) conferred by the Office of the Leading Group of Qualification Conference of Political Work in Enterprises in Guangxi Zhuang Autonomous Region (廣西壯族自治區企業思想政治工作人員專業職務評定工作領導小組辦公室) in 1999.

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 2 September 2014 as an exempted company with limited liability under the Cayman Companies Law. The Company's Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15 July 2015.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture and sale of pharmaceutical, healthcare food and other products. There were no significant changes in the nature of the principal activities of the Group during the year ended 31 December 2017.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 75 of this report.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.06 per share for the year ended 31 December 2017 to the shareholders of the Company. The final dividend is subject to the approval of shareholders of the Company at the annual general meeting on 17 May 2018 and, if approved, will be payable on or before 7 June 2018 to the shareholders whose names appeared on the register of members of the Company on 24 May 2018.

CLOSURE OF REGISTER OF SHAREHOLDERS

The annual general meeting of the Company is scheduled to be held on 17 May 2018. For determining the entitlement to attend and vote at the annual general meeting, the transfer books and register of members of the Company will be closed from 14 May 2018 to 17 May 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 11 May 2018.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed on 24 May 2018, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 23 May 2018.

BUSINESS REVIEW

A review of the Group's business during the year ended 31 December 2017 and a discussion on the Group's future business development, particulars of important events affecting the Group that have occurred since the end of the year ended 31 December 2017, and possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement on pages 6 to 8 and Management Discussion and Analysis on pages 14 to 27 of this report.

The financial risk management objectives and policies of the Group are shown in note 34 to the financial statements of this report.

An analysis of the Group's performance during the year ended 31 December 2017 using financial key performance indicators is provided in the Financial Highlights on page 5, Chairman's Statement on pages 6 to 8, and Management Discussion and Analysis on pages 14 to 27 of this report.

In addition, discussions on the Group's environmental policies, compliance with relevant laws and regulations which have a significant impact on the Group and relationships with its key stakeholders are contained in the Corporate Governance Report on pages 67 and 68 of this report.

The other sections in this annual report referred to above form part of this directors' report.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 146 of this report. That summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

As at 31 December 2017, there was no change in the intended use of the IPO Proceeds as disclosed in the Prospectus.

As at 31 December 2017, the Group had utilised approximately HK$490.18 million, representing approximately 53.89% of the IPO Proceeds. Details of the use of net proceeds from listing during the year ended 31 December 2017 are set out on page 27 of this report.

MAJOR CUSTOMERS AND SUPPLIERS

Revenue from sales to the Group's five largest customers accounted for approximately 26.5% of the Group's total revenue from sales for the year ended 31 December 2017 and revenue from sales to the Group's largest customer amounted to 6.41% of the Group's total revenue from sales for the year.

Purchases from the Group's five largest suppliers accounted for approximately 69.9% of the Group's total purchase for the year ended 31 December 2017 and purchases from the Group's largest supplier amounted to 36.4% of the Group's total purchase for the year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued shares) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 13 to the financial statements in this report.

SHARE CAPITAL

There were no movements in the Company's share capital during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out in note 35 to the financial statements and the consolidated statement of changes in equity on page 79 of this report, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, amounted to approximately RMB675.8 million (as at 31 December 2016: RMB675.4 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in note 22 to the financial statements in this report.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the article 164 of the Articles of Association and subject to the all applicable statues, rules and regulations, every Director and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution or holding of his/her office or otherwise in relation thereto, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

For details about insurance cover for the Directors, please refer to the Corporate Governance Report of this report.

DIRECTORS

The Directors for the year ended 31 December 2017 and up to the date of this report were:

Executive Directors:

Mr. ZENG Yong *(vice chairman and general manager)*	*(appointed on 10 February 2015)*
Mr. HUANG Jianping	*(appointed on 10 February 2015)*
Mr. ZENG Kexiong	*(appointed on 10 February 2015)*
Mr. LU Xinghong	*(appointed on 10 February 2015)*
Mr. HE Jinqiang	*(appointed on 10 February 2015)*

Non-executive Director:

Ms. JIANG Peizhen *(chairman)*	*(appointed on 10 February 2015)*

Independent non-executive Directors:

Mr. LI Hua	*(appointed on 10 February 2015)*
Mr. ZHU Jierong	*(appointed on 10 February 2015)*
Mr. CHENG Yiqun	*(appointed on 10 February 2015)*

In accordance with article 84 of the Articles of Association, every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years and shall be eligible for re-election.

Ms. JIANG Peizhen, Mr. ZENG Yong, Mr. HUANG Jianping, Mr. ZENG Kexiong, Mr. LU Xinghong, Mr. HE Jinqiang, Mr. LI Hua, Mr. ZHU Jierong and Mr. CHENG Yiqun have retired at the annual general meeting of the Company held on 24 May 2016 in accordance with article 84 of the Articles of Association and were re-elected as Directors by the Shareholders.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 28 to 32 of this report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the independent non-executive Directors has renewed the appointment contract with the Company for an initial term of three years commencing from 10 February 2018 and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has or is proposed to enter into any service contract that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" below, no Director nor any entity connected with the Director had any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies were a party subsisted at the end of the year or at any time during the year ended 31 December 2017.

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 year ended 31 December 2017.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 8 June 2017. Since the date of the adoption, no share option had been granted, exercised, cancelled or lapsed under the Share Option Scheme and there are no outstanding share options. Terms used in this section headed "Share Option Scheme" have the meanings prescribed to them in the circular of the Company dated 28 April 2017. Set out below is a summary of the principal terms of the Share Option Scheme:

1. PURPOSE

The purpose of the Share Option Scheme is to enable the Board to grant Options to selected Participants as incentives or rewards for their contribution or potential contribution to the development and growth of the Group.

2. WHO MAY JOIN AND BASIS OF ELIGIBILITY

The Board may offer to grant an Option to any Participant who has had contribution to the Group to subscribe for such number of Shares at the Option Price, subject always to any limits and restrictions specified in the Rules.

3. PAYMENT ON ACCEPTANCE OF OPTION OFFER

A Participant shall pay the Company HK$1.00 for the grant of an Option on acceptance of an Option offer within 21 days after the Offer Date.

4. TERMS OF OPTIONS

Options granted under the Share Option Scheme are subject to such terms and conditions as may be determined by the Board at its absolute discretion and specified in the offer of an Option, which terms and conditions may include, among others:

(A) vesting conditions which must be satisfied before an Option-Holder's Option shall become vested and capable of being exercised; and

(B) the Board may, in its absolute discretion, specify performance conditions that must be achieved before an Option can be exercised and/or the minimum period for which an Option must be held before it can be exercised.

These provisions will give the Board flexibility to impose conditions suitable for fulfilling the various purposes of the Share Option Scheme. Apart from this general discretion of the Board, the Rules do not contain specific provisions on the minimum period for which an Option must be held before exercise or on performance targets applicable to Options.

Under the Share Option Scheme, the Directors have discretion to set a minimum period for which an option must be held before the exercise of the subscription rights attaching thereto. This discretion allows the Directors to provide incentive to eligible Participants to remain as eligible Participants and thereby enable the Group to continue to benefit from the services and contributions of the eligible Participants. This discretion, coupled with the power of the Directors to impose any performance target or other restrictions as they consider appropriate before the option can be exercised, enable the Group to provide incentives to the Participants to use their best endeavours in assisting the growth and development of the Group. Although the Share Option Scheme does not provide for the granting of options with rights to subscribe for Shares at a discount to the trading prices of the Shares on the Stock Exchange, the Directors are of the view that the flexibility given to the Directors in granting Options to the Participants and to impose minimum period for which the options can be exercised will place the Group in a better position to attract talents that are valuable to the growth and development of the Group as a whole.

5. OPTION PRICE

The Option Price will be determined by the Board at its absolute discretion and notified to an Option-holder. The minimum Option Price shall not be less than the highest of:

(A) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date;

(B) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five Business Days immediately preceding the Offer Date; and

(C) the nominal value of the Shares.

6. MAXIMUM NUMBER OF SHARES SUBJECT TO THE SHARE OPTION SCHEME

6.1 The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any options to be granted under any Other Schemes must not in aggregate exceed 10% (i.e. 73,930,200 Shares) of the aggregate of the Shares in issue as at the date of approval of the Share Option Scheme, representing 10% of the Shares in issue as at the date of this annual report.

Options lapsed in accordance with the terms of the Share Option Scheme and any Other Schemes will not be counted for the purpose of calculating the 10% limit in this paragraph 6.1.

6.2 With the approval of the Shareholders in general meeting, the Board may "refresh" the 10% limit under paragraph 6.1 (and may further refresh such limit in accordance with this paragraph), provided that the total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and any Other Schemes under the limit as "refreshed" shall not exceed 10% of the Shares in issue as at the date on which the Shareholders approve the "refreshed" limit.

Options granted under the Share Option Scheme and options granted under any Other Schemes previously (including those outstanding, cancelled and lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

6.3 The Board may, with the approval of the Shareholders in general meeting, grant Options in excess of the 10% limit to Participants specifically identified. In such situation, the Company will send a circular to the Shareholders containing, amongst others, a generic description of the specified Participants who may be granted such Options, the number and terms of such Options to be granted and the purpose of granting such Options to the specified Participants with an explanation of how the terms of the Options will serve the purpose.

6.4 The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and all outstanding Options granted and yet to be exercised under any Other Schemes shall not exceed 30% of the Shares in issue from time to time. No Options may be granted under the Share Option Scheme and no options may be granted under any Other Schemes if this will result in the limit being exceeded.

7. MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

The Board shall not grant any Options to any Participant which, if exercised, would result in such Participant becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all Options granted to him (including those options exercised or outstanding) in any 12-month period exceed 1% of the Shares in issue at such date.

The Board may grant Options to any Participant in excess of the individual limit of 1% in any 12-month period with the approval of the Shareholders in general meeting (with such Participant and his/her close associates (or his associates if the Participant is a connected person) abstaining from voting). In such situation, the Company will send a circular to the Shareholders and the circular must disclose, amongst others, the identity of the Participant, the number and terms of the options to be granted (and previously granted to such Participant).

8. TIME OF EXERCISE OF OPTIONS

An Option under the Share Option Scheme which is vested and has not lapsed may be exercised at any time during such period notified by the Board as not exceeding 10 years from the Offer Date. The exercise of Options may also be subject to any conditions imposed by the Board at the time of Offer. The Share Option Scheme has a life of 10 years and will expire on 8 June 2027.

EMOLUMENT POLICY

The Remuneration Committee was set up to develop the Company's emolument policy and structure for remuneration of the Directors and senior management of the Company, having regard to the Company's operating results, individual performance of the Directors and senior management and comparable market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 8 and 9 to the financial statements in this report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this report, for the year ended 31 December 2017, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules.

DIRECTORS' AND THE GENERAL MANAGER'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and the general manager of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register kept by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in the Shares, underlying Shares and debentures of the Company:

Name of Director	Capacity/Nature of interest	Number of Shares held	Approximate percentage of the total issued Shares
Mr. ZENG Yong(4)	Founder of a discretionary trust	511,963,200	
	Beneficial owner	4,050,500	
		516,013,700	69.79%
Ms. JIANG Peizhen(5)	Interest through controlled corporation(4)	58,937,400	7.97%
Mr. HUANG Jianping(6)	Beneficiary of a trust	17,100,000	2.31%
Mr. ZENG Kexiong(7)	Beneficiary of a trust	17,100,000	2.31%
Mr. LU Xinghong(8)	Beneficiary of a trust	17,100,000	2.31%
Mr. HE Jinqiang(9)	Beneficiary of a trust	17,100,000	2.31%

Notes:

(1) Unless the context otherwise requires, terms used in these notes have the meanings prescribed to them in the Prospectus.

(2) The calculation is based on the total number of 739,302,000 Shares in issue as at 31 December 2017.

(3) The Senior Management Trust and the Employees Trust were combined on 10 July 2017, and the Employees Trust has been replaced.

(4) The Family Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of Mr. ZENG Yong and his children and descendants with Sovereign Trust International Limited acting as the trustee, holds the entire issued share capital of Golden Throat International through Jin Jiang Global. As a result, Mr. ZENG Yong is deemed to be interested in 453,025,800 Shares held by Golden Throat International (which is 100% owned by Jin Jiang Global). Mr. ZENG is also the settlor of the Senior Management Trust which holds the 7.97% of the issued share capital of the Company immediately after the completion of the global offering and the partial exercise of the Over-allotment Option. Furthermore, for so long as Jin Chen Employee Holdings Limited holds or controls shares in the Company, all voting rights attaching to such shares shall be exercised by an investment review panel consisting of Ms. JIANG Peizhen and/or such other person(s) as they may wish to appoint. Mr. ZENG Yong also holds 4,050,500 Shares, as a result, Mr. ZENG is deemed to be interested in all the 516,013,700 Shares.

(5) Ms. JIANG Peizhen is the protector of the Senior Management Trust. For so long as Jin Chen Employee Holdings Limited holds or controls shares in the Company, all voting rights attaching to such shares shall be exercised by an investment review panel consisting of Ms. JIANG Peizhen and/or such other person(s) as they may wish to appoint. As a result, Ms. JIANG Peizhen is deemed to be interested in 58,937,400 Shares of the Company.

(6) The Senior Management Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of certain senior management employed or formerly employed by Golden Throat Company and their dependents including Mr. HUANG Jianping, with Jin Chen Employee Holdings Limited as the trustee, holds the entire issued share capital of Jin Qing Global.

Accordingly, Mr. HUANG Jianping is deemed to be interested in 17,100,000 Shares held by Jin Qing Global.

(7) The Senior Management Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of certain senior management employed or formerly employed by Golden Throat Company and their dependents including Mr. ZENG Kexiong, with Jin Chen Employee Holdings Limited as the trustee, holds the entire issued share capital of Jin Qing Global.

Accordingly, Mr. ZENG Kexiong is deemed to be interested in 17,100,000 Shares held by Jin Qing Global.

(8) The Senior Management Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of certain senior management employed or formerly employed by Golden Throat Company and their dependents including Mr. LU Xinghong, with Jin Chen Employee Holdings Limited as the trustee, holds the entire issued share capital of Jin Qing Global.

Accordingly, Mr. LU Xinghong is deemed to be interested in 17,100,000 Shares held by Jin Qing Global.

(9) The Senior Management Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of certain senior management employed or formerly employed by Golden Throat Company and their dependents including Mr. HE Jinqiang, with Jin Chen Employee Holdings Limited as the trustee, holds the entire issued share capital of Jin Qing Global.

Accordingly, Mr. HE Jinqiang is deemed to be interested in 17,100,000 Shares held by Jin Qing Global.

Save as disclosed above, as at 31 December 2017, so far as is known to any Director or the general manager of the Company, none of the Directors or the general manager of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register kept by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

No rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted by the Company to any Director or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate during the year ended 31 December 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, to the knowledge of the Directors, the interests or short positions of the following persons (excluding the Directors or the general manager of the Company, whose interests are disclosed on page 42 above) in the Shares or underlying Shares of the Company, which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of the total issued Shares
Family Trust[(4)]	Interest of controlled corporation	453,025,800	61.28%
Sovereign Trust International Limited[(4)]	Trustee of a discretionary trust	453,025,800	61.28%
Jin Jiang Global[(4)]	Interest of controlled corporation	453,025,800	61.28%
Golden Throat International	Beneficial owner	453,025,800	61.28%
Senior Management Trust[(5)]	Interest of controlled corporation	58,937,400	7.97%
Jin Chen Employee Holdings Limited[(6)]	Trustee of a discretionary trust	58,937,400	7.97%
Jin Chen Global	Beneficial owner	41,837,400	5.66%

Notes:

(1) Terms used in these notes have the meanings prescribed to them in the Prospectus.

(2) All interests stated are long positions.

(3) The calculation is based on the total number of 739,302,000 Shares in issue as at 31 December 2017.

(4) The Family Trust, an irrevocable discretionary trust established by Mr. ZENG Yong (as the settlor) for the benefit of Mr. ZENG Yong and his children and descendants. Sovereign Trust International Limited is the trustee of the Family Trust and holds 100% issued share capital of Jin Jiang Global, which then holds 100% issued share capital of Golden Throat International, thus the Family Trust, Sovereign Trust International Limited and Jin Jiang Global are each deemed to be interested in the 453,025,800 Shares held by Golden Throat International, which represents 61.28% of the issued share capital of the Company.

(5) The Senior Management Trust and the Employees Trust were combined on 10 July 2017, and the Employees Trust has been replaced.

(6) Jin Chen Employee Holdings Limited is the trustee of the Senior Management Trust and holds 100% of issued share capital of Jin Chen Global and Jin Qing Global, which holds, in aggregate, 58,937,400 Shares of the Company. As a result, Jin Chen Employee Holdings Limited is deemed to be interested in 7.97% of the issued share capital of the Company.

Save as disclosed above, as at 31 December 2017, the Directors of the Company are not aware of any other person (excluding the Directors or the general manager of the Company, whose interests are disclosed on page 42 above) who has interests or short positions in the Shares or underlying Shares of the Company, which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

DIRECTOR'S AND CONTROLLING SHAREHOLDER'S INTERESTS IN COMPETING BUSINESS

A non-competition agreement dated 24 June 2015 (the "Non-competition Agreement") was entered into between the Company and the Controlling Shareholders.

Under the Non-competition Agreement, the Controlling Shareholders have undertaken to the Company that, they will not, and will procure any of their associates not to, engage or participate in whatever manner in any business that competes or may compete directly or indirectly with the Group's current or future core businesses subject to certain exceptions. Details of the Non-competition Agreement were contained in the Prospectus.

The Controlling Shareholders have confirmed to the Company their compliance with the Non-Competition Agreement during the year ended 31 December 2017 for disclosure in this report.

The independent non-executive Directors have reviewed the Non-Competition Agreement and assessed whether the Controlling Shareholders have abided by the Non-Competition Agreement. The independent non-executive Directors confirmed that the Controlling Shareholder have not been in breach of the Non-Competition Agreement during the year ended 31 December 2017.

During the year ended 31 December 2017, none of the Directors or their respective associates had engaged in or had any interest in any business, other than the Group, which competes or is likely to compete with the businesses of the Group and which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the transactions described below were entered into between the Company and its connected persons (as defined in the Listing Rules). Under the Listing Rules, the following persons and entities, amongst others, will be regarded as connected persons of the Company:

Ms. JIANG Peizhen

Ms. JIANG Peizhen is a non-executive Director of the Company. Each of Ms. JIANG Peizhen and her associates therefore constitutes a connected person of the Company under the Listing Rules.

Guangxi Weikete Biological Technology Co., Ltd.

Weikete is an associate of Ms. JIANG Peizhen. Ms. JIANG Peizhen holds 51.2% interest in Liuzhou Jinqing Equity Investment Centre (LLP) and 51.0% equity interest in Liuzhou Jingui Equity Investment Centre (LLP), which in turn in aggregate hold 95.6% equity interest in Weikete, and the remaining 4.4% equity interest in Weikete is held by Mr. ZENG Yong. Weikete therefore constitutes a connected person of the Company under the Listing Rules.

Guangxi Peizhen Investment Consulting Co., Ltd.

Peizhen Investment is an associate of Ms. JIANG Peizhen. Ms. JIANG Peizhen holds 70% and her daughter, Ms. ZENG Jun (曾軍), holds 30% equity interest in Peizhen Investment. Peizhen Investment therefore constitutes a connected person of the Company under the Listing Rules.

The Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules.

Set out below is a summary of the continuing connected transactions between the Group and the connected persons of the Company and the actual transaction amount incurred in 2017:

Item	Transaction	Annual Cap for the year ended 31 December 2017 (RMB thousand) (Note 1)	Actual transaction amount for the year ended 31 December 2017 (RMB thousand) (Note 1)
A.	**Continuing Connected Transaction with Weikete**		
	1 Procurement of raw materials from Weikete to the Group	3,475	6,362
B.	**Continuing Connected Transaction with Peizhen Investment**		
	2 Licensing of trademarks from Peizhen Investment to the Group (Note 2)	N/A	N/A
C.	**Continuing Connected Transaction with Ms. JIANG Peizhen**		
	3 Licensing of portrait rights from Ms. JIANG Peizhen to the Group (Note 2)	N/A	N/A

Notes:

(1) All the figures in the table are rounded up to the nearest RMB thousand and include tax.

(2) As explained in the Prospectus, each of the percentage ratios (other than the profits ratio) for the three years ending 31 December 2015, 31 December 2016 and 31 December 2017 is estimated to be less than 0.1%.Therefore, under Rule 14A.33(3) of the Listing Rules, the transaction is exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS EXEMPTED FROM SHAREHOLDERS' APPROVAL

Procurement of raw materials from Weikete

Description of Transactions and Principal Terms

The Company and Weikete entered into a framework agreement dated 24 June 2015, under which Weikete agrees to provide raw materials, namely isomalt ("Isomalt"), isomaltulose syrup ("Syrup", together with Isomalt as "Sugar Substitute Raw Materials") to the Group (the "Procurement Framework Agreement").

Pursuant to the Procurement Framework Agreement, the Company and/or any of its subsidiaries and Weikete will enter into a written agreement in respect of each individual connected transaction between them in relation to the procurement of Sugar Substitute Raw Materials.

Under the Procurement Framework Agreement, Weikete has undertaken that:

(A) it will not provide Sugar Substitute Raw Materials to any independent third party unless it has satisfied the Group's needs for Sugar Substitute Raw Materials;

(B) if it cannot satisfy the Group's needs for Sugar Substitute Raw Materials or if independent third parties can offer terms more favourable than those offered by it, the Group is entitled to obtain Sugar Substitute Raw Materials from independent third parties;

(C) it is entitled to provide Sugar Substitute Raw Materials to independent third parties provided that this will not affect its supply of Sugar Substitute Raw Materials to the Group;

(D) it will not, and will procure its subsidiaries (if applicable) not to, provide Sugar Substitute Raw Materials to the Group on terms which are less favourable than those offered to independent third parties; and

(E) the Procurement Framework Agreement will not affect the Group's right to choose its counterparty for transactions or enter into transactions with third parties.

The Directors believe that it is in the Group's interests to procure the Sugar Substitute Raw Materials from Weikete, one of few manufacturers of Sugar Substitute Raw Materials in China, on terms acceptable to it for the Group's lozenges production and confirm that the transactions contemplated under the above written agreements will be conducted in the ordinary course of business and on normal commercial terms after arm's length negotiation.

Price Determination

Isomalt

The parties have agreed for the sale and purchase of Isomalt at a unit price of RMB23.00 per kg or price paid to independent third parties by the Group from time to time. Such price has been determined by comparing the price offered by Weikete with those offered to the Group by two other independent third parties for the same type of raw materials (such as Isomalt) in the same quantity in the ordinary and usual course of business.

Syrup

The parties have agreed for the sale and purchase of Syrup to be priced at cost. Such cost is based on the lower of the actual cost and reasonable cost for providing the Syrup (including but not limited to cost of raw materials and any processing costs). Weikete has confirmed to the Group that it would not supply Syrup to other parties at more favourable terms.

The above pricing policies, together with the undertakings provided by Weikete under the Procurement Framework Agreement referred to above, ensure that the pricing terms offered by Weikete are fair and reasonable and no less favourable than those offered by or to independent third parties.

Term and Termination

The effective period of the Procurement Framework Agreement is for a term of three years, which is deemed to have commenced on 1 January 2015 and ended on 31 December 2017. The Procurement Framework Agreement can be terminated if the connected transactions under the Procurement Framework Agreement do not comply with the requirements for connected transactions under the Listing Rules. Upon expiry of the term, the Company has the option to renew the term for another three years by signing a new or supplemental procurement framework agreement, which must be on terms no less favourable than the current terms.

Since the abovementioned Procurement Framework Agreement expired on 31 December 2017, on 12 February 2018, the Company and Weikete renewed the Raw Material Procurement Framework Agreement ("Renewed Framework Agreement") in relation to the procurement of Sugar Substitute Raw Materials with a term from 1 January 2018 to 31 December 2020. The Renewed Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company which are exempted from the independent shareholders' approval requirement, but are subject to the reporting and announcement requirement under the Listing Rules. Please refer to the announcement of the Company dated 12 February 2018 for further details in relation to the Renewed Framework Agreement and the transactions contemplated thereunder.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Trademarks Licensing Agreement

Description of Transaction and Principal Terms

Peizhen Investment, the Company and Golden Throat Company entered into a trademark licensing agreement on 24 June 2015 (the "Trademark Licensing Agreement"). Peizhen Investment has agreed to license to the Group the right to use the Well-known Trademark and its related trademarks ("Licensed Trademarks") on an exclusive basis for free.

The Group is entitled to transfer or sub-lease the Licensed Trademarks to any third party, provided that it provides 15 days' written notice to Peizhen Investment. The Group has undertaken to use the Licensed Trademarks within the scope specified.

Peizhen Investment has undertaken that:

(A) it will be responsible for the timely renewal and payment of fees for maintaining effective registration of the Licensed Trademarks;

(B) it will not use the Licensed Trademarks in any manner to engage or participate in any business which competes or will potentially compete with the business of the Group;

(C) it will not license any of the Licensed Trademarks to any third party;

(D) it will not transfer the rights to use the Licensed Trademarks to any third party without the Group's consent; and

(E) it will not create any charge against the rights to use the Licensed Trademarks for the purpose of securing any loan or providing any guarantee for the benefit of itself or any third party.

Furthermore, all parties have undertaken that they will not do anything that will affect the goodwill or reputation of the Licensed Trademarks or cause material adverse effect on the Group's business.

Consideration

Nil consideration is payable under the Trademark Licensing Agreement.

Term and Termination

The Trademark Licensing Agreement became effective upon signing, but the term of the Trademark Licensing Agreement is deemed to have commenced on 1 November 2014 and will remain effective for a term of 50 years (subject to the relevant Licensed Trademark's effective period of registration (including the effective period as extended by renewal of registration)). Every time upon expiry of the term, provided that the Group does not object to this, the term may be automatically renewed for a further period of 50 years on terms no less favourable than the current terms. No party can unilaterally terminate the Trademark Licensing Agreement without all parties' consent.

The Company considers that a term exceeding three years is required for the Trademark Licensing Agreement as the Licensed Trademarks form an intricate part of the Group's daily business and it is normal business practice for contracts of this type to be of such duration.

Ms. JIANG Peizhen's Portrait Licensing Agreement

Description of Transaction and Principal Terms

Ms. JIANG Peizhen, the Company and Golden Throat Company entered into a portrait licensing agreement on 24 June 2015 (the "Portrait Licensing Agreement"), under which Ms. JIANG Peizhen has agreed to grant the Group the right to use Ms. JIANG Peizhen's portrait (the "Jiang's Portrait") on an exclusive basis for free on its products.

The Group is entitled to use the Jiang's Portrait at any time within the term of authorisation and for any business purpose (profit or non-profit) without the need to notify Ms. JIANG Peizhen or obtain Ms. JIANG Peizhen's consent. Moreover, the Company or any other member of the Group is entitled to register a trademark based on the Jiang's Portrait and all rights under such trademark belong to the Company or any other member of the Group.

Ms. JIANG Peizhen has agreed that she and her lawful heirs or successors cannot interfere with or prevent the use of the Jiang's Portrait by the Company or any other member of the Group and cannot at any time or by any means enforce any rights or demand any financial compensation from the Company or any other member of the Group under the Portrait Licensing Agreement.

Moreover, Ms. JIANG Peizhen has undertaken (i) not to use the Jiang's Portrait to conduct any business which is or will be in competition with the Group's business and (ii) not to authorise or transfer the right to use the Jiang's Portrait to any third party.

Consideration

Nil consideration is payable under the Portrait Licensing Agreement.

Term and Termination

The Portrait Licensing Agreement became effective upon signing, but the term of the Portrait Licensing Agreement is deemed to have commenced on 1 November 2014 and will remain effective for a term of 50 years. Every time upon expiry of the terms, provided that the Group does not object to this, the term may be automatically renewed for a further period of 50 years on terms no less favourable than the current terms. No party (including their lawful heirs or successors) can unilaterally terminate the Portrait Licensing Agreement without all parties' consent.

The Company considers that a term exceeding three years is required for the Portrait Licensing Agreement as the Jiang's Portrait will form an intricate part of the Group's daily business and it is normal business practice for contracts of this type to be of such duration.

Other than Ms. JIANG Peizhen, who is also the indirect controlling shareholder of Weikete and Peizhen Investment, none of the Directors has a material interest in the aforementioned continuing connected transactions.

The Company's INEDs have reviewed the aforementioned continuing connected transactions and confirmed that these transactions have been entered into:

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

(2) on normal commercial terms or better; and

(3) in accordance with the terms of the agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company's auditor was engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their conclusion in respect of the continuing connected transactions disclosed by the Company on pages 46 to 52 of this report in accordance with Rule 14A.56 of the Listing Rules. A copy of such letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

During the year, the Group entered into certain transactions with parties regarded as related parties under the applicable accounting standards. A summary of the related party transactions entered into by the Group during the year ended 31 December 2017, which also constitute continuing connected transactions under Chapter 14A of the Listing Rules, is contained in Note 31(a) to the financial statements of this report.

As disclosed in the Prospectus, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to the continuing connected transactions between the Company and Weikete. The Company has complied with the applicable requirements (including disclosure requirements), to the extent they are not exempted or waived by the Stock Exchange, in accordance with Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended 31 December 2017.

CHARITABLE DONATIONS

During the year ended 31 December 2017, the Group made charitable and other donations in an amount of RMB13,000 (2016: RMB165,000).

POST BALANCE SHEET EVENTS

The Directors are aware that there is no occurrence of events that are material to the Group's business after the reporting period.

AUDIT COMMITTEE

The Audit Committee has reviewed together with the management and external auditor of the Company the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2017.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices.

Information on the corporate governance practices adopted by the Company and details of the compliance by the Company with the CG Code are set out in the Corporate Governance Report on pages 55 to 68 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08(1) of the Listing Rules requires that at least 25% of an issuer's total number of issued shares must at all times be held by the public. Based on the information that is publicly available to the Company and to the knowledge of the Directors at the date of this report, there was a sufficient prescribed public float of the issued shares of the Company throughout the year ended 31 December 2017 and as at the date of this report.

AUDITOR

Ernst & Young has been appointed as auditor of the Company for the year ended 31 December 2017. Since the listing date (i.e. 15 July 2015) of the Company and up to now, there is no change of the auditor of the Company.

Ernst & Young shall retire in the AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the AGM.

PROFESSIONAL TAX ADVICE RECOMMENDED

If any shareholder is unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, it is advised to consult an expert.

On behalf of the Board
JIANG Peizhen
Chairman

Guangxi, the PRC
29 March 2018

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance. Except as disclosed below, the Company has complied with all the applicable code provisions set out in the CG Code for the year ended 31 December 2017.

Under code provision A.1.8 of the CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its Directors. According to the CG Code, where an issuer considers a more suitable alternative to a code provision exists, it should adopt it and give reasons. The Company did not arrange any insurance cover in this respect. The Board believes that with regular and timely communications among the Directors and the management of the Group, potential claims and legal actions against the Directors can be handled effectively without the need for insurance to be maintained. The Board will regularly review the procedures in handling potential claims and legal actions and take into account the requirements of the Directors and will monitor the need for making such an arrangement. The key corporate governance principles and practices of the Company are outlined below in this report.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board Committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

Board Composition

As at the date of this report, the Board comprises nine members, consisting of five executive Directors, one non-executive Director and three independent non-executive Directors as set out below:

Executive Directors:

Mr. ZENG Yong *(vice chairman and general manager)*
Mr. HUANG Jianping
Mr. ZENG Kexiong
Mr. LU Xinghong
Mr. HE Jinqiang

Non-executive Director:

Ms. JIANG Peizhen *(chairman)*

Independent non-executive Directors:

Mr. LI Hua
Mr. ZHU Jierong
Mr. CHENG Yiqun

The biographies of the Directors are set out under the section headed "Directors and Senior Management" of this report.

As of the date of this report, the Company has been in compliance with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications of accounting or related financial management expertise.

The Company also complied with the requirement of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

Ms. JIANG Peizhen, a non-executive Director and chairman of the Board, is the mother of Mr. ZENG Yong, an executive Director and the general manager of the Company. Save as disclosed above, there are no financial, business, familial or other material relationships among other members of the Board.

With regards to the code provision of the CG Code requiring directors to disclose to the Company at the time of appointment and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved (the "Commitments"), the Directors have disclosed their Commitments to the Company at the time of their appointments and agreed to disclose their Commitments to the Company in a timely manner.

Induction and Continuous Professional Development

The Directors were provided with the relevant training to ensure that they have a proper understanding of the business and operations of the Company and that they are fully aware of their responsibilities and obligations as a Director of a listed company as well as the compliance practice under the Listing Rules.

For the year ended 31 December 2017, the attendance record of professional training received by the Directors is as follows:

Director	Date of attendance of directors' training
Ms. JIANG Peizhen	16 January 2017
Mr. ZENG Yong	16 January 2017
Mr. HUANG Jianping	16 January 2017
Mr. ZENG Kexiong	16 January 2017
Mr. LU Xinghong	16 January 2017
Mr. HE Jinqiang	16 January 2017
Mr. LI Hua	8 February 2017
Mr. ZHU Jierong	8 February 2017
Mr. CHENG Yiqun	8 February 2017

Through the Directors' training, each of the Directors has enhanced their knowledge on the Listing Rules, conduct of the Directors and the relevant business of listed companies.

Chairman and General Manager

As required by code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

The chairman of the Board and the general manager of the Company are currently two separate positions held by Ms. JIANG Peizhen and Mr. ZENG Yong respectively with distinct responsibilities. The chairman of the Board is responsible for the management and leadership of the Board to formulate overall strategies and business development directions for the Company, to ensure adequate, complete and reliable information is provided to all Directors in a timely manner, and to ensure the issues raised at Board meetings are explained appropriately. The general manager of the Company is responsible for the management of the business of the Company and implementation of the policies, business objectives and plans set by the Board and is accountable to the Board for the overall operation of the Company.

Non-executive Directors – Term of Appointment

None of the non-executive Directors is appointed for a specific term of longer than three years.

Directors' Service Contracts

Each of the independent non-executive Directors has renewed the appointment contract with the Company for an initial term of three years commencing from 10 February 2018 and may be terminated in accordance with the respective terms of the appointment letters.

None of the Directors has entered into any service contract that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

None of the Directors has or is proposed to enter into a service contract with the Group which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay or make other payments equivalent to more than one year's emoluments.

The rules and procedures governing the appointment, retirement, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board structure, size and composition and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors.

Nomination, appointment, retirement and re-election

In accordance with article 84 of the Articles of Association, every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years and shall be eligible for re-election. In accordance with article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the next following annual general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Meetings

The Board intends to hold board meetings regularly at least four times a year at approximately quarterly intervals. Notices of not less than fourteen days will be given for all regular board meetings to provide all Directors with an opportunity to attend and include matters to be discussed in the agenda for regular board meetings.

For other Board and Board Committees meetings, reasonable notice will generally be given by the Company. The agenda and accompanying board papers are dispatched to the Directors or Board Committees members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or Board Committees members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting.

Minutes of the Board meetings and Board Committees meetings are/will be recorded in sufficient detail to include the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors and Board Committees members. Draft minutes of each Board meeting and Board Committees meeting are/will be sent to the Directors and Board Committees members for comments within a reasonable time after the date on which the meeting is held.

The Company held three Board meetings and one annual general meeting during the year ended 31 December 2017 and the attendance of the Directors at these meetings is set out in the table below:

Name of Director	Category	AGM Attended/Eligible to Attend	Board Meeting Attended/Eligible to Attend
Ms. JIANG Peizhen	NED	1/1	4/4
Mr. ZENG Yong	ED	1/1	4/4
Mr. HUANG Jianping	ED	1/1	4/4
Mr. ZENG Kexiong	ED	1/1	4/4
Mr. LU Xinghong	ED	1/1	4/4
Mr. HE Jinqiang	ED	1/1	4/4
Mr. LI Hua	INED	1/1	4/4
Mr. ZHU Jierong	INED	1/1	4/4
Mr. CHENG Yiqun	INED	1/1	4/4

The Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the executive Directors present.

During the year ended 31 December 2017, the Company convened one annual general meeting. All members of the Board, including Ms. JIANG Peizhen (non-executive Director), Mr. ZENG Yong, Mr. HUANG Jianping, Mr. ZENG Kexiong, Mr. LU Xinghong and Mr. HE Jinqiang (all being executive Directors), and Mr. LI Hua, Mr. ZHU Jierong and Mr. CHENG Yiqun (all being independent non-executive Directors), have attended this annual general meeting. The AGM was held at Room 1, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong on 8 June 2017 at 10:00 a.m.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry to all Directors, the Company confirms that all Directors complied with the required standard set out in the Model Code during the year ended 31 December 2017.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management of the Company. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management of the Company.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors which include:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

As at the date of this report, the Board, through the Audit Committee executed the corporate governance function and had reviewed this corporate governance report.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee comprises three members, namely Ms. JIANG Peizhen (NED), Mr. ZHU Jierong (INED) and Mr. CHENG Yiqun (INED), the majority of whom are independent non-executive Directors. Ms. JIANG Peizhen has been appointed as the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include the following (without limitation):

– reviewing the structure, size and composition of the Board and make recommendations regarding any proposed changes;

– reviewing the board diversity policy (the "Board Diversity Policy") of the Company regularly (including any measurable objectives that the Board has set for implementing the Board Diversity Policy and the progress on achieving those objectives);

– identifying, nominating and recommending qualified candidates for appointment as directors;

– assessing the independence of independent non-executive Directors;

– making recommendations to the Board on the appointment or re-appointment of and succession planning for Directors; and

– reviewing and monitoring the training and continuous professional development of Directors and senior management of the Company.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2017, the Nomination Committee convened one committee meeting. The Nomination Committee had assessed the independence of INEDs; reviewed the Board Diversity Policy; reviewed the Board composition and considered that the existing Board was appropriately structured. Attendance of each Nomination Committee member is set out in the table below:

Name of Member	Attended/Eligible to attend
Ms. JIANG Peizhen *(Chairman)*	1/1
Mr. ZHU Jierong	1/1
Mr. CHENG Yiqun	1/1

Board Diversity Policy

The Company views diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. To that end, the Company has adopted a Board Diversity Policy to set out the approach to achieve diversity on the Board taking into consideration factors such as diversity of skills, professional and industry experience, cultural and educational background, ethnicity, length of service, gender and age. Under the Board Diversity Policy, the Nomination Committee would monitor the implementation of the Board Diversity Policy and give adequate consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board. The Board will regularly review the Board Diversity Policy and make appropriate revisions to ensure the effectiveness of the Board Diversity Policy.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. LI Hua (INED), Mr. CHENG Yiqun (INED) and Mr. HE Jinqiang (ED). Mr. LI Hua has been appointed as the chairman of the Remuneration Committee.

The principal duties of the Remuneration Committee include the following (without limitation):

– making recommendations to the Board for approval of the remuneration policy and structure and remuneration packages of the Directors and the senior management of the Company;

– determining the remuneration packages of the executive Directors and the senior management of the Company;

– making recommendations to the Board on the remuneration of non-executive Directors; and

– ensuring that no Director or any of his/her associates will be involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2017, the Remuneration Committee convened one committee meeting to assess the performance of the Directors and reviewed the Company's remuneration policy and structure for all Directors and senior management. Attendance of each Remuneration Committee member is set out in the table below:

Name of Member	Attended/Eligible to attend
Mr. LI Hua *(Chairman)*	1/1
Mr. CHENG Yiqun	1/1
Mr. HE Jinqiang	1/1

Audit Committee

The Audit Committee comprises three members, being Mr. ZHU Jierong (INED), Mr. LI Hua (INED) and Mr. CHENG Yiqun (INED). Mr. ZHU Jierong has been appointed as the chairman of the Audit Committee, and is the INED with the appropriate professional qualifications.

The principal duties of the Audit Committee include the following (but without limitation):

– reviewing the financial information of the Company including financial statements and annual and interim reports and accounts before submission to the Board;

– making recommendations to the Board on the appointment, re-appointment and removal of the external auditor;

– reviewing and monitoring the external auditor's independence and objectivity and effectiveness of the audit process in accordance with applicable standards and discussing with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

– reviewing the Company's financial controls, risk management and internal control systems;

– reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

– developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;

– reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report;

– considering major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings; and

– reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2017, the Audit Committee convened two committee meetings to review the annual results and financial statements of the Company and its subsidiaries for the year ended 31 December 2016, the interim results and financial statements of the Company and its subsidiaries for the six months ended 30 June 2017, the effectiveness of the Group's risk management and internal control systems, and the effectiveness of the Group's internal audit function. There are also proper arrangements for employees to raise concerns about possible improprieties in financial reporting, internal control and other matters. On 29 March 2018, the Audit Committee also reviewed the annual results and the financial statements for the year ended 31 December 2017 and the re-appointment of the external auditor. The Audit Committee's reviews also covered all material controls, including financial, operational and compliance controls and risk management and internal control functions of the Group. The Group's internal audit department has produced a report on the Group's internal control, financial control and risk management systems, which was presented to and reviewed by the Audit Committee and the Board. Attendance of each Audit Committee member is set out in the table below:

Name of Member	Attended/Eligible to attend
Mr. ZHU Jierong *(Chairman)*	2/2
Mr. LI Hua	2/2
Mr. CHENG Yiqun	2/2

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2017 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The Company's management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 73 to 74 of this report.

DIRECTORS' LIABILITY INSURANCE

The Company did not arrange any insurance cover in respect of legal action against its Directors. The Board believes that with regular and timely communications among the Directors and the management of the Group, potential claims and legal actions against the Directors can be handled effectively without the need for insurance to be maintained. The Board will regularly review the procedures in handling potential claims and legal actions and take into account the requirements of the Directors and will monitor the need for making such an arrangement.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board to maintain adequate risk management and internal control systems to safeguard Shareholder investments and the Company's assets and review the effectiveness of such systems on an ongoing basis, at least annually.

The Group has established an internal audit department to review the financial condition, operational condition, risk management, compliance control and internal control of the Group. The Group's risk management and internal control systems are designed to ensure the achievement of business objectives in operations, financial reporting integrity and compliance with applicable laws and regulations. Such systems of risk management and internal control are designed to manage, rather than completely eliminate, risks impacting the Company's ability to achieve its business objectives. Accordingly, such systems can only provide reasonable but not absolute assurance that the financial statements do not contain a material misstatement or loss.

With the assistance of the Company's management team, the Board identifies, evaluates, and manages the significant risks faced by the Company. The Company implements the Board's policies and procedures to mitigate such risks by (i) identifying and assessing the risks the Group faces and (ii) designing, operating and monitoring the Group's risk management and internal control systems to mitigate and control such risks.

In addition, the disclosure policy which contains the procedures and internal controls for the handling and dissemination of inside information was in place to assist the Group in identifying the inside information and stating the steps to be taken according to the provisions of the Listing Rules or the SFO.

The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems and considers such systems in place as of 31 December 2017 and as of the date of this report, to be effective and adequate.

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the total remuneration paid or payable to the Company's auditor, Ernst & Young, for annual audit services totaling RMB1,960,000.

For the year ended 31 December 2017, no non-audit service was provided by the external auditor of the Company.

An analysis of the remuneration paid or payable to Ernst & Young is set out below:

Items of auditor's services	Amount (RMB'000)
Audit services:	
Annual audit services	1,960

The Audit Committee and the Board have agreed on the re-appointment of Ernst & Young as the external auditor of the Company for 2018 and the proposal will be submitted for approval at the AGM of the Company.

COMPANY SECRETARY

Ms. NG Wingshan was appointed as the company secretary of the Company on 13 February 2015. Ms. NG is an assistant vice president of SW Corporate Services Group Limited and her primary contact person of the Company is Mr. HE Jinqiang, an executive Director of the Company. During the year ended 31 December 2017, Ms. NG has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of Directors and the five highest paid employees required to be disclosed under Appendix 16 of the Listing Rules have been set out in Notes 8 and 9 to the financial statements.

For the year ended 31 December 2017, the remuneration paid to the top 3 senior management, other than Directors, is listed as below by band:

Band of remuneration	No. of person
Nil to RMB1,000,000	3

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make informed investment decisions.

To promote effective communication with its Shareholders and encourage their participation in general meetings, the Company has established a shareholders' communication policy and maintains a website at www.goldenthroat.com, where up-to-date information on the Company's business operations and developments is available.

The annual general meeting of the Company provides opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Company will attend the annual general meetings of the Company to answer Shareholders' questions. The external auditor of the Company will also attend the annual general meetings of the Company to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor independence.

SHAREHOLDERS' RIGHTS

The Company intends to avoid bundling of resolutions at general meetings such that a separate resolution shall be proposed for each substantially separate issue at general meetings.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

In accordance with the Articles of Association, one or more Shareholders of the Company may convene an extraordinary general meeting provided that they deposit a written requisition to the Board or the company secretary and such requisitioning Shareholders hold as at the date of deposit of such requisition not less than one-tenth of the paid up capital of the Company which carries voting rights at general meetings of the Company.

Shareholders may put forward proposals for consideration at a general meeting under the Companies Law and the Articles of Association. Any written requisitions and proposals should be sent to the principal place of business of the Company in the PRC.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board should email their enquiries to the Company at gt6896@163.com.

CHANGE IN CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2017, there was no significant change in the Articles of Association of the Company.

ENVIRONMENTAL POLICIES

The Group is committed to protecting the environment. The Group implemented a comprehensive set of environmental protection measures to treat emissions generated during its production process to minimise impact on the environment and to prevent industrial pollution. These measures include having treatment and control systems for solid waste, waste water, waste gas and noise. The Group has dedicated staff members responsible for environmental protection measures. Furthermore, to minimise the impact on the environment, the Group has installed environmental protection equipment and facilities to treat and, where possible, recycle waste materials. The Group is also constantly seeking to improve its environmental protection measures, for example, by reducing its use of water and production of waste water and by not burning coal for fuel to reduce carbon emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

An ESG report of the Group for 2017 will be issued and published on the Company's website and the Stock Exchange's website no later than 3 months after the publication of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with the applicable rules and regulations. During the year ended 31 December 2017, as far as the Company is aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Company understands the importance of maintaining a good relationship with its employees, customers and suppliers. During the year ended 31 December 2017, there were no material and significant dispute between the Group and its employees, customers and suppliers.

Employees – The Group provides various internal and external training programmes to its employees with a view to improving staff knowledge. The Group also seeks to motivate and retain its employees by maintaining a merit-based compensation and promotion system. The Group had not experienced any major disputes with its employees and the Company believes that the Group maintains a good working relationship with its employees.

Customers – The Group's distributors are its direct customers. As of 31 December 2017, the Group's distribution network comprised over 280 distributors which were directly engaged by it covering all the provinces, autonomous regions and municipal cities throughout China. The Company believes that its distribution network is not easily replicable because it is the culmination of a process of over a decade of searching for, identifying, negotiating with and selecting qualified distributors in different regions across the country. Over the years, the Group has also developed pricing strategies, which ensure that the profit margins of its products remain attractive to its distributors. In addition, the Group's market leading position of its lozenge products helps retain its distributors. For further details, please refer the section headed "Distribution Network" in the Management Discussion and Analysis of this Report.

Suppliers – The Group has established relationships with an average duration of more than three years with most of its major suppliers. The Group carefully selects its suppliers based on various factors, including their product quality, stability, timeliness of delivery, market reputation, creditworthiness and track record. The Group has not experienced significant difficulties in maintaining reliable sources of supplies, and it expects to be able to maintain adequate sources of quality supplies in the future.

GOING CONCERN

The Directors have a reasonable expectation that the Group will have adequate resources to continue in operation for the foreseeable future for a period that is not less than 12 months from the date of this report (for detailed assessment, please see the corresponding note in the financial statements). The Group therefore continues to adopt the going concern basis in preparing the financial statements.

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To the shareholders of Golden Throat Holdings Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Golden Throat Holdings Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 75 to 145, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
As at 31 December 2017, the carrying amount of trade receivables of RMB54,156,000, before provision for impairment of RMB935,000, was significant to the Group. The determination as to whether a trade receivable was collectable involved management's judgement by considering the age of the balance, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of the counterparties. The collectability of trade receivables was important to our audit because it required a high level of management's judgements and estimates in determining whether a provision for impairment was required. The Group's disclosures about the trade receivables are included in notes 2.4, 3 and 16, which also explain the accounting policies and management's estimates.	We evaluated management's assessment as to the recoverability of the trade receivables by reviewing the detailed analyses of the aging of the receivables and checking, on a sample basis, payments received subsequent to the year end, historical payment patterns, any disputes between the parties involved and the credit status of the counterparties where available.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Directors' Report, the Corporate Governance Report and the Environmental, Social and Governance Report, which are expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Statement, the Directors' Report, the Corporate Governance Report and the Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**624,084**	768,171
Cost of sales		**(188,495)**	(213,231)
Gross profit		**435,589**	554,940
Other income and gains	5	**27,024**	30,302
Selling and distribution expenses		**(305,546)**	(319,034)
Administrative expenses		**(56,225)**	(69,190)
Other expenses		**(1,876)**	(14,445)
Finance costs	7	**(4,766)**	(7,272)
PROFIT BEFORE TAX	6	**94,200**	175,301
Income tax expense	10	**(32,820)**	(72,389)
PROFIT FOR THE YEAR		**61,380**	102,912
Attributable to:			
Owners of the parent		**61,380**	102,912
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For profit for the year	12	**RMB8.30 cents**	RMB13.77 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	**61,380**	102,912
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	(10,772)
Reclassification adjustments for losses included in the consolidated statement of profit or loss	**10,714**	–
	10,714	(10,772)
Exchange differences:		
Exchange differences on translation of foreign operations	**(37,640)**	39,484
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(26,926)**	28,712
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(26,926)**	28,712
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**34,454**	131,624
Attributable to:		
Owners of the parent	**34,454**	131,624

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**107,331**	55,621
Advance payments for property, plant and equipment		**15,069**	452
Prepaid land lease payments	14	**38,812**	39,815
Prepayments, deposits and other receivables	17	**18,747**	26,764
Deferred tax assets	24	**13,212**	13,918
Total non-current assets		**193,171**	136,570
CURRENT ASSETS			
Inventories	15	**43,433**	42,623
Trade and bills receivables	16	**446,358**	475,733
Prepayments, deposits and other receivables	17	**65,375**	84,200
Due from related parties	31(c)	**3,542**	3,705
Available-for-sale investments	18	**24**	314,985
Cash and cash equivalents	19	**610,242**	374,596
Total current assets		**1,168,974**	1,295,842
CURRENT LIABILITIES			
Trade payables	20	**20,964**	15,155
Other payables and accruals	21	**214,287**	235,557
Interest-bearing bank borrowings	22	**86,000**	66,000
Due to a director	31(c)	**221**	236
Tax payable		**51,886**	80,902
Government grants	23	**366**	366
Dividend payable		**37,079**	39,679
Total current liabilities		**410,803**	437,895
NET CURRENT ASSETS		**758,171**	857,947
TOTAL ASSETS LESS CURRENT LIABILITIES		**951,342**	994,517

31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**951,342**	994,517
NON-CURRENT LIABILITIES			
Other payables and accruals	21	**1,064**	1,234
Government grants	23	**1,730**	2,096
Deferred tax liabilities	24	**4,095**	4,430
Total non-current liabilities		**6,889**	7,760
Net assets		**944,453**	986,757
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	**113**	113
Share premium	25	**675,410**	675,410
Reserves	26	**268,930**	311,234
Total equity		**944,453**	986,757

Jiang Peizhen
Director

Zeng Yong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to owners of the parent								
	Note	Share capital RMB'000 (note 25)	Share premium account RMB'000 (note 25)	Capital reserves RMB'000 (note 26)	Statutory and other surplus reserves RMB'000 (note 26)	Other reserves RMB'000	Exchange fluctuation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2016		115	711,364	8,952	78,534	(24)	10,996	–	158,508	968,445
Profit for the year		–	–	–	–	–	–	–	102,912	102,912
Other comprehensive income for the year:										
Change in fair value of available-for sale investments, net of tax		–	–	–	–	–	–	(10,772)	–	(10,772)
Exchange differences on translation of foreign operations		–	–	–	–	–	39,484	–	–	39,484
Total comprehensive income for the year		–	–	–	–	–	39,484	(10,772)	102,912	131,624
Final 2015 dividend declared		–	–	–	–	–	–	–	(38,039)	(38,039)
Shares repurchased	25	(2)	(35,954)	–	–	–	–	–	–	(35,956)
Transfer from retained profits		–	–	–	33,909	–	–	–	(33,909)	–
Interim 2016 dividend declared		–	–	–	–	–	–	–	(39,317)	(39,317)
At 31 December 2016		113	675,410	8,952*	112,443*	(24)*	50,480*	(10,772)*	150,155*	986,757

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2017

	Attributable to owners of the parent								
	Share capital RMB'000 (note 25)	Share premium account RMB'000 (note 25)	Capital reserves RMB'000 (note 26)	Statutory and other surplus reserves RMB'000 (note 26)	Other reserves RMB'000	Exchange fluctuation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2017	113	675,410	8,952	112,443	(24)	50,480	(10,772)	150,155	986,757
Profit for the year	-	-	-	-	-	-	-	61,380	61,380
Other comprehensive income for the year:									
Change in fair value of available-for sale investments, net of tax	-	-	-	-	-	-	10,714	-	10,714
Exchange differences on translation of foreign operations	-	-	-	-	-	(37,640)	-	-	(37,640)
Total comprehensive income for the year	-	-	-	-	-	(37,640)	10,714	61,380	34,454
Final 2016 dividend declared	-	-	-	-	-	-	-	(38,684)	(38,684)
Transfer from retained profits	-	-	-	20,657	-	-	-	(20,657)	-
Interim 2017 dividend declared	-	-	-	-	-	-	-	(38,074)	(38,074)
At 31 December 2017	113	675,410	8,952*	133,100*	(24)*	12,840*	(58)*	114,120*	944,453

* These reserve accounts comprise the consolidated other reserves of RMB268,930,000 (2016: RMB311,234,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**94,200**	175,301
Adjustments for:			
Depreciation of items of property, plant and equipment	13	**6,215**	5,482
Amortisation of prepaid land lease payments	14	**1,003**	1,003
Recognition of government grants	23	**(366)**	(366)
Loss on disposal of items of property, plant and equipment		**8**	12
Investment loss/(income) from available-for-sale investments	6	**1,260**	(13,559)
Exchange (gains)/losses, net	6	**(11,822)**	11,131
Bank interest income	5	**(4,074)**	(3,410)
Finance costs	7	**4,766**	7,272
(Reversal of impairment)/impairment of trade receivables	16	**(11)**	124
(Reversal of impairment)/impairment of other receivables	17	**(56)**	2,004
Write-down of inventories to net realisable value	6	**8,935**	125
		100,058	185,119
Decrease/(increase) in trade and bills receivables		**29,386**	(103,582)
Decrease/(increase) in prepayments, deposits and other receivables		**23,009**	(67,178)
Increase in inventories		**(9,745)**	(5,989)
(Increase)/decrease in amounts due from related parties		**(62)**	452
Decrease in amounts due to related parties		**–**	(110)
Increase in trade payables		**5,809**	4,853
(Decrease)/increase in other payables and accruals		**(6,396)**	44,126
Increase in an amount due to a director		**–**	140
Cash generated from operations		**142,059**	57,831
Interest received		**4,074**	4,030
Interest paid		**(4,766)**	(7,272)
Income tax paid		**(61,465)**	(41,330)
Net cash flows from operating activities		**79,902**	13,259

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(87,608)**	(8,878)
Purchases of available-for-sale investments		**(1,111,548)**	(1,408,638)
Proceeds from disposal of available-for-sale investments		**1,422,395**	1,112,709
Investment income from available-for-sale investments		**5,964**	9,900
Advances to related parties		**–**	(44,958)
Repayment of advances to related parties		**–**	42,515
Proceeds from disposal of items of property, plant and equipment		**14**	4
Net cash flows from/(used in) investing activities		**229,217**	(297,346)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(544,672)**	(12,753,440)
New bank loans		**564,009**	12,715,863
Increase in other payable and accruals		**–**	6,000
Payments of repurchase of shares		**–**	(35,956)
Dividends paid to shareholders		**(78,061)**	(38,039)
Net cash flows used in financing activities		**(58,724)**	(105,572)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**250,395**	(389,659)
Effect of foreign exchange rate changes, net		**(14,749)**	9,591
Cash and cash equivalents at beginning of year	19	**374,596**	754,664
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	**610,242**	374,596
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**610,242**	374,596

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 2 September 2014. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Group was principally involved in the manufacture and sale of pharmaceutical, healthcare food and other products.

On 15 July 2015, the Company achieved a successful listing on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors, the holding company of the Company is Golden Throat International Holdings Limited, which was incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Golden Throat Industrial Holdings Limited 金嗓子實業集團有限公司	Hong Kong	HKD1	100%	–	Investment holding
Guangxi Golden Throat Investment Consulting Co., Ltd.* 廣西金嗓子投資諮詢有限公司	People's Republic of China (the "PRC")/Mainland China	USD35,000,000	–	100%	Investment holding
Guangxi Golden Throat Co., Ltd.** ("Golden Throat Company") 廣西金嗓子有限責任公司	PRC/Mainland China	RMB250,265,000	–	100%	Manufacture and sale of pharmaceutical and healthcare food products

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangxi Golden Throat Health Food Co., Ltd.** 廣西金嗓子保健品有限公司	PRC/Mainland China	RMB3,200,000	–	100%	Manufacture and sale of pharmaceutical and healthcare food products
Guangxi Golden Throat Medical Co., Ltd.** 廣西金嗓子醫藥有限公司	PRC/Mainland China	RMB5,000,000	–	100%	Trading of pharmaceutical and healthcare food products
Guangxi Golden Throat Pharmaceutical Corporation** ("Golden Throat Pharmaceutical") 廣西金嗓子藥業股份有限公司	PRC/Mainland China	RMB30,000,000	–	100%	Manufacture and sale of pharmaceutical and healthcare food products
Guangxi Golden Throat Import & Export Trading Co., Ltd.** 廣西金嗓子進出口貿易有限公司	PRC/Mainland China	RMB2,100,000	–	100%	Import and export trading of goods
Guangxi Golden Throat Biological Technology Co., Ltd.** 廣西金嗓子生物科技有限公司	PRC/Mainland China	RMB2,000,000	–	100%	Research and development, processing and sale of herbal vegetable beverage concentrates
Guangxi Golden Throat Food Co., Ltd.** 廣西金嗓子食品有限公司	PRC/Mainland China	RMB2,000,000	–	100%	Development and sale of food and beverages

* This entity is a wholly-foreign-owned enterprise established under PRC law.

** These entities are limited liability enterprises established under PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 27 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC) – Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC) – Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[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 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The amendments are not expected to have any significant impact on the Group's financial statements.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard.

The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material.

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

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 29 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB1,102,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

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

Fair value measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

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

or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	4.75%
Machinery and equipment	9.50%
Computer and office equipment	19.00%
Motor vehicles	23.75%

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

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

Construction in progress represents buildings, machinery and equipment, computer and office equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost is the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

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

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

Subsequent measurement

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Available-for-sale financial investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments

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

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

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

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, as appropriate.

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

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

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

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

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

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

The interest reduction based on the rate lower than the market interest rate for the bank borrowings in accordance with the Notice for the Preferential Interest Rates of Loans for National Trade and Manufacturing of National Special Products issued by the People's Bank of China and the State Ethnic Affairs Commission of the People's Republic of China is recognised as income when received.

Revenue recognition

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

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

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

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

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(continued)

Estimation uncertainty *(continued)*

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised deductible temporary differences at 31 December 2017 was RMB13,212,000 (2016: RMB13,918,000). Further details are contained in note 24 to the financial statements.

Income tax

The Group is subject to income taxes in various regions. As certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income tax. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions over the period in which the differences are realised. Further details are disclosed in note 10 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(continued)

Estimation uncertainty *(continued)*

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates by considering the age of the balance, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment losses over the period in which such estimate has been changed. The provision for impairment of trade and other receivables at 31 December 2017 was RMB947,000 (2016: RMB1,014,000).

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

During the year, 98.8% of the Group's revenue was generated from customers located in Mainland China. The Revenue information is based on the locations of the customers.

All of the non-current assets of the Group was located in Mainland China.

Information about major customer

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's total revenue during the year (2016: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2017 **RMB'000**	2016 RMB'000
Revenue		
Sale of goods	**624,084**	768,171
Other income		
Government grants	**10,735**	13,186
Bank interest income	**4,074**	3,410
Investment income from available-for-sale investments	**–**	13,559
Rental income	**–**	11
Others	**393**	136
	15,202	30,302
Gains		
Exchange gains, net	**11,822**	–
	27,024	30,302

6. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**188,495**	213,231
Depreciation of items of property, plant and equipment	13	**6,215**	5,482
Amortisation of land lease payments	14	**1,003**	1,003
Research and development costs		**2,089**	1,724
Minimum lease payments under operating leases		**3,193**	2,547
Auditor's remuneration		**2,068**	1,976
Government grants		**(10,735)**	(13,186)
Bank interest income		**(4,074)**	(3,410)
Investment losses/(income) from available-for-sale investments		**1,260**	(13,559)
Rental income		**–**	(11)
Exchange (gains)/losses, net		**(11,822)**	11,131
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		**47,591**	55,231
Pension scheme contributions		**8,367**	10,020
Staff welfare expenses		**11,683**	15,234
		67,641	80,485
Loss on disposal of items of property, plant and equipment		**8**	12
Donation		**13**	165
(Reversal of impairment)/impairment of trade receivables	16	**(11)**	124
(Reversal of impairment)/impairment of other receivables	17	**(56)**	2,004
Write-down of inventories to net realisable value		**8,935**	125

7. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank loans	**4,766**	7,272

8. DIRECTORS' REMUNERATION

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

	2017 RMB'000	2016 RMB'000
Fees	**360**	360
Other emoluments:		
Salaries, allowances and benefits in kind	**4,030**	3,693
Performance related bonuses	**4,755**	7,950
Pension scheme contributions	**340**	379
	9,125	12,022
	9,485	12,382

(a) Independent non-executive directors

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

	2017 RMB'000	2016 RMB'000
Li Hua	**120**	120
Cheng Yiqun	**120**	120
Zhu Jierong	**120**	120
	360	360

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017				
Executive directors:				
Zeng Yong	**682**	**1,509**	**68**	**2,259**
Lu Xinghong	**534**	**26**	**–**	**560**
Zeng Kexiong	**426**	**223**	**68**	**717**
Huang Jianping	**426**	**223**	**68**	**717**
He Jinqiang	**425**	**223**	**68**	**716**
	2,493	**2,204**	**272**	**4,969**
Non-executive director:				
Jiang Peizhen	**1,537**	**2,551**	**68**	**4,156**
	4,030	**4,755**	**340**	**9,125**
2016				
Executive directors:				
Zeng Yong	662	2,785	64	3,511
Lu Xinghong	409	263	59	731
Zeng Kexiong	389	269	64	722
Huang Jianping	388	263	64	715
He Jinqiang	388	264	64	716
	2,236	3,844	315	6,395
Non-executive director:				
Jiang Peizhen	1,457	4,106	64	5,627
	3,693	7,950	379	12,022

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

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and a non-executive director *(continued)*

No emoluments were paid by the Group to any of the above directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

The Group did not appoint a chief executive, and the duty of a chief executive was performed by the general manager.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five directors (2016: five directors), details of whose remuneration are set out in note 8 above.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax. The Group's subsidiary incorporated in Hong Kong is not liable for profits tax as it did not have any assessable profits arising in Hong Kong during the year.

The provision for Mainland China income tax has been made at the applicable income tax rate of 25% on the assessable profits of certain PRC subsidiaries of the Group in accordance with the PRC Corporate Income Tax Law. Golden Throat Company and Golden Throat Pharmaceutical are qualified as companies under the development strategy of China western region and were subject to a preferential income tax rate of 15% for the year (2016: 15%).

The income tax expense of the Group for the years ended 31 December 2017 and 2016 is analysed as follows:

	2017 **RMB'000**	2016 RMB'000
Current tax:		
Charge for the year	**30,132**	60,420
Over provision in prior years	**(5,550)**	–
Deferred tax (note 24)	**8,238**	11,969
Total tax charge for the year	**32,820**	72,389

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2017 RMB'000	2016 RMB'000
Profit before tax	**94,200**	175,301
At the PRC's statutory income tax rate of 25%	**23,550**	43,825
Lower tax rates for specific provinces or enacted by local authority	**(15,318)**	(18,180)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**7,532**	9,804
Adjustments in respect of current tax of previous periods	**(5,550)**	–
Expenses not deductible for tax	**15,473**	25,141
Income not subject to tax	**(32)**	(130)
Additional deductible allowance for the payroll of disabled employees	**(747)**	(722)
Tax losses not recognised	**7,912**	12,651
Tax charge at the Group's effective rate	**32,280**	72,389

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Interim		
– HK6 cents (2016: HK6 cents) per ordinary share	**38,074**	39,317
Proposed final		
– HK6 cents (2016: HK6 cents) per ordinary share	**37,079**	39,679
	75,153	78,996

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 739,302,000 (2016: 747,505,623) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

The calculation of basic earnings per share is based on:

	2017	2016
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**61,380**	102,912

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year	**739,302,000**	747,505,623

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017						
At 31 December 2016 and 1 January 2017:						
Cost	**53,725**	**76,958**	**2,917**	**7,079**	**20,541**	**161,220**
Accumulated depreciation	**(46,433)**	**(52,020)**	**(2,492)**	**(4,654)**	**–**	**(105,599)**
Net carrying amount	**7,292**	**24,938**	**425**	**2,425**	**20,541**	**55,621**
At 1 January 2017, net of accumulated depreciation	**7,292**	**24,938**	**425**	**2,425**	**20,541**	**55,621**
Additions	**2,053**	**1,022**	**53**	**–**	**54,819**	**57,947**
Disposals	**–**	**(21)**	**(1)**	**–**	**–**	**(22)**
Depreciation provided during the year (note 6)	**(1,521)**	**(3,539)**	**(269)**	**(886)**	**–**	**(6,215)**
At 31 December 2017, net of accumulated depreciation	**7,824**	**22,400**	**208**	**1,539**	**75,360**	**107,331**
At 31 December 2017:						
Cost	**52,047**	**77,555**	**2,963**	**7,079**	**75,360**	**215,004**
Accumulated depreciation	**(44,223)**	**(55,155)**	**(2,755)**	**(5,540)**	**–**	**(107,673)**
Net carrying amount	**7,824**	**22,400**	**208**	**1,539**	**75,360**	**107,331**

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

	Buildings RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016						
At 1 January 2016:						
Cost	53,725	73,560	2,909	5,133	2,023	137,350
Accumulated depreciation	(45,521)	(48,677)	(2,160)	(4,069)	–	(100,427)
Net carrying amount	8,204	24,883	749	1,064	2,023	36,923
At 1 January 2016, net of accumulated depreciation	8,204	24,883	749	1,064	2,023	36,923
Additions	–	2,797	15	1,997	19,387	24,196
Disposals	–	(13)	(1)	(2)	–	(16)
Depreciation provided during the year (note 6)	(912)	(3,598)	(338)	(634)	–	(5,482)
Transfers	–	869	–	–	(869)	–
At 31 December 2016, net of accumulated depreciation	7,292	24,938	425	2,425	20,541	55,621
At 31 December 2016:						
Cost	53,725	76,958	2,917	7,079	20,541	161,220
Accumulated depreciation	(46,433)	(52,020)	(2,492)	(4,654)	–	(105,599)
Net carrying amount	7,292	24,938	425	2,425	20,541	55,621

At 31 December 2017, certain of the Group's buildings with a net carrying amount of approximately RMB1,429,000 (2016: RMB1,573,000) were pledged to secure bank loan facilities granted to the Group (note 22).

14. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at beginning of year	**40,818**	41,821
Recognised during the year (note 6)	**(1,003)**	(1,003)
Carrying amount at end of year	**39,815**	40,818
Current portion included in prepayments, deposits and other receivables (note 17)	**(1,003)**	(1,003)
Non-current portion	**38,812**	39,815

At 31 December 2017, certain of the Group's leasehold lands with a net carrying amount of approximately RMB36,446,000 (2016: RMB16,698,000) were pledged to secure bank loan facilities granted to the Group (note 22).

15. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**23,189**	17,874
Work in progress	**11,972**	13,873
Finished goods	**18,620**	12,289
	53,781	44,036
Write-down of inventories to net realisable value	**(10,348)**	(1,413)
	43,433	42,623

16. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**54,156**	148,324
Bills receivable	**393,137**	328,355
	447,293	476,679
Impairment	**(935)**	(946)
	446,358	475,733

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	2017 RMB'000	2016 RMB'000
Less than 3 months	**41,595**	138,013
3 to 6 months	**2,944**	3,422
6 to 12 months	**2,097**	5,753
1 to 2 years	**6,411**	149
Over 2 years	**174**	41
	53,221	147,378

16. TRADE AND BILLS RECEIVABLES *(continued)*

The movements in provision for impairment of trade receivables are as follows:

	2017 **RMB'000**	2016 RMB'000
At beginning of year	**946**	2,323
Impairment losses recognised (note 6)	**–**	1,060
Impairment losses reversed (note 6)	**(11)**	(936)
Amount written off as uncollectible	**–**	(1,501)
At end of year	**935**	946

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB935,000 (2016: RMB946,000), with a carrying amount before provision of RMB935,000 (2016: RMB946,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or ceased trading with the Group and none of the receivables is expected to be recovered.

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 **RMB'000**	2016 RMB'000
Neither past due nor impaired	**41,595**	138,013
Less than 3 months past due	**2,944**	3,422
Over 3 months past due	**8,682**	5,943
	53,221	147,378

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

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

16. TRADE AND BILLS RECEIVABLES *(continued)*

At 31 December 2017, the Group endorsed certain bills receivable accepted by certain banks in the PRC (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB17,209,000 (2016: RMB15,652,000) (the "Endorsement"). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to certain of the Endorsed Notes accepted by large and reputable banks with amounts of RMB5,009,000 (2016: RMB6,583,000) (the "Derecognised Notes"). Accordingly, the Group has derecognised the full carrying amounts of these Derecognised Notes and the associated trade payables settled by the Endorsed Notes.

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

At 31 December 2017, the Group continued to recognise the full carrying amounts of the remaining Endorsed Notes and the associated trade payables settled with an amount of RMB12,200,000 (2016: RMB9,069,000) because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly during the year.

Bills receivable are due within six months.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Other receivables	**14,003**	14,991
Prepayments for material costs	**5,114**	5,796
Interest receivable	**381**	3,750
Prepaid land lease payments (note 14)	**1,003**	1,003
Prepaid expenses	**63,633**	85,492
	84,134	111,032
Impairment	**(12)**	(68)
	84,122	110,964
Less: Other receivables, non-current portion	**(57)**	(136)
Prepaid expenses, non-current portion	**(18,690)**	(26,628)
	65,375	84,200

Other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment except for the non-current portion, which are unsecured, non-interest-bearing and repayable before the year of 2025.

The movements in provision for impairment of other receivables are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of year	**68**	312
Impairment losses recognised (note 6)	**5**	2,004
Impairment losses reversed (note 6)	**(61)**	–
Amount written off as uncollectible	**–**	(2,248)
At end of year	**12**	68

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Listed equity investments, at fair value (note a)	**24**	27
Corporate bonds and notes, at fair value	**–**	314,958
	24	314,985

Note:

(a) Listed equity investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

19. CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**219,466**	374,596
Time deposits	**390,776**	–
	610,242	374,596

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB201,208,000 (2016: RMB227,217,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one month to two months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

20. TRADE PAYABLES

	2017 **RMB'000**	2016 RMB'000
Trade payables	**20,964**	15,155

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

	2017 **RMB'000**	2016 RMB'000
Less than 3 months	**15,558**	3,921
3 to 6 months	**3,263**	6,537
6 to 12 months	**913**	3,395
1 to 2 years	**17**	35
Over 2 years	**1,213**	1,267
	20,964	15,155

Included in the trade payables are trade payables of RMB16,000 (2016: RMB218,000) due to a related party controlled by a director of the Group which are repayable within 30 days, which represents credit terms similar to those offered by the related party to its major customers.

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

21. OTHER PAYABLES AND ACCRUALS

	2017 **RMB'000**	2016 RMB'000
Other payables	**30,632**	39,986
Accrued liabilities	**115,900**	118,150
Accrued employee benefits	**11,583**	15,362
Advances from customers	**34,263**	23,843
Taxes payable other than corporate income tax	**22,973**	39,450
	215,351	236,791
Less: Accrued employee benefits, non-current portion	**(1,064)**	(1,234)
	214,287	235,557

Other payables are non-interest-bearing and have an average payment term of three months.

22. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	2017 RMB'000	2016 RMB'000
Current				
Bank loans – secured	4.35	Within 1 year	**56,000**	36,000
Bank loans – unsecured	4.35	Within 1 year	**30,000**	30,000
			86,000	66,000
Analysed into:				
Bank loans repayable:				
Within one year or on demand			**86,000**	66,000

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) mortgages over certain of the Group's leasehold lands, which had an aggregate net carrying value at the end of the reporting period of approximately RMB36,446,000 (2016: RMB16,698,000) (note 14); and

(ii) mortgages over certain of the Group's buildings, which had an aggregate net carrying value at the end of the reporting period of approximately RMB1,429,000 (2016: RMB1,573,000) (note 13).

(iii) a director of the Company, Jiang Peizhen, has guaranteed certain bank loans made to the Group of up to RMB20,000,000 (2016: Nil) as at the end of the reporting period (note 31(b)).

23. GOVERNMENT GRANTS

	2017 RMB'000	2016 RMB'000
At beginning of year	**2,462**	2,828
Recognised as income during the year	**(366)**	(366)
At end of year	**2,096**	2,462
Current	**366**	366
Non-current	**1,730**	2,096
	2,096	2,462

The Group received government funding for several government-sponsored projects focusing on the development of manufacturing facilities of the Group. Upon completion of the related projects, the grants related to assets were released to the statement of profit or loss over the expected useful lives of the relevant assets.

24. DEFERRED TAX

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

	Deferred tax assets								Deferred tax liabilities		
	Advertising expenses RMB'000	Impairment of other receivables RMB'000	Impairment of inventories RMB'000	Accrued expenses RMB'000	Accrued employee benefits RMB'000	Unrealised profit attributable to the intra-group transactions RMB'000	Government grants RMB'000	Deferred tax assets total RMB'000	Withholding taxes RMB'000	Deferred tax liabilities total RMB'000	Total RMB'000
At 1 January 2016	–	49	202	12,869	1,829	710	424	16,083	(8,790)	(8,790)	7,293
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	–	(33)	5	256	(1,665)	(673)	(55)	(2,165)	(9,804)	(9,804)	(11,969)
Deferred tax realised during the year	–	–	–	–	–	–	–	–	14,164	14,164	14,164
At 31 December 2016 and 1 January 2017	–	16	207	13,125	164	37	369	13,918	(4,430)	(4,430)	9,488
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**943**	**(14)**	**58**	**(1,684)**	**(91)**	**137**	**(55)**	**(706)**	**(7,532)**	**(7,532)**	**(8,238)**
Deferred tax realised during the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,867**	**7,867**	**7,867**
At 31 December 2017	**943**	**2**	**265**	**11,441**	**73**	**174**	**314**	**13,212**	**(4,095)**	**(4,095)**	**9,117**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

24. DEFERRED TAX *(continued)*

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB110,299,000 at 31 December 2017 (2016: RMB115,420,000).

At 31 December 2017, deferred tax of RMB4,095,000 (2016: RMB4,430,000) has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China.

The Group has temporary differences arising in Mainland China of RMB20,563,000 (2016: RMB12,651,000) that are available indefinitely for offsetting against future taxable profits of the subsidiaries in which the temporary differences arose.

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

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

	2017	2016
	RMB'000	RMB'000
Issued and fully paid:		
194,532,000 (2016: 194,532,000) ordinary shares	**29**	29
Issued but not paid:		
544,770,000 (2016: 544,770,000) ordinary shares	**84**	84
	113	113

25. SHARE CAPITAL *(continued)*

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

	Number of shares in issue	Share capital	Share premium account	Total
		RMB'000	RMB'000	RMB'000
At 1 January 2016	749,183,000	115	711,364	711,479
Shares repurchased and cancelled (note (a))	(9,881,000)	(2)	(35,954)	(35,956)
At 31 December 2016, 1 January 2017 and 31 December 2017	739,302,000	113	675,410	675,523

Note:

(a) 9,881,000 ordinary shares were repurchased and cancelled during the year ended 31 December 2016, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased and cancelled ordinary shares. The premium and related expenses paid on the repurchase of the 9,881,000 ordinary shares of HK$40,585,070 (equivalent to approximately RMB35,954,000) were charged to the share premium account.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 79 to 80 of the financial statements.

Statutory and other surplus reserves

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Other surplus reserve was appropriated from net profit in accordance with a prescribed percentage approved in a general meeting of the shareholders. Other surplus reserve may be used to offset accumulated losses or increase capital. Where an enterprise satisfies the stipulated conditions, other surplus reserve can also be used to distribute cash dividends.

Capital reserves

Capital reserves represent the aggregated amount of the paid-up capital of those companies comprising the Group prior to the incorporation of the Company.

27. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank loans RMB'000
At 1 January 2017	66,000
Changes from financing cash flows	19,337
Foreign exchange movement	663
At 31 December 2017	86,000

28. CONTINGENT LIABILITIES

(a) The subsidiaries of the Group are currently defendants in a lawsuit brought by a media company, Xingkong Huawen International Media, alleging that the subsidiaries breached the contract by delaying the payment of advertising fee. The estimated claims of the advertising fee and late charges for the overdue payment are RMB67,000,000 and RMB1,703,200, respectively. The Group recognized a liability of RMB50,750,000 as at 31 December 2017. A trial date has not yet been set. Therefore, it is not practicable to state the timing of the payment, if any. The directors, based on the advice from the Group's PRC legal counsel and the current circumstances known to them, have grounds to believe that the subsidiaries have a valid defence against the allegation and have sufficient grounds to succeed should the claim proceed to court. Accordingly, no additional provision arising from the claim other than the above has been provided for.

(b) A subsidiary of the Group is currently a defendant in a lawsuit brought by a promotion service provider, Beijing Haitian Net Company, alleging that the subsidiary breached the contract by delaying the payment of promotion fee charged for the marketing and promotion services provided to the Group. The estimated claims of late charges and legal fee are RMB2,137,998 and RMB80,000, respectively. A trial date has not yet been set. Therefore, it is not practicable to state the timing of the payment, if any. The directors, based on the advice from the Group's PRC legal counsel and the current circumstances known to them, have grounds to believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation.

(c) On 6 December 2017, an exclusively distributor of herbal vegetable beverages, Qi Feng Food Science and Technology (Beijing) Co., Ltd. ("Qi Feng"), filed an arbitration action against the subsidiaries of the Group and Zhuhai Haode Investment Consulting Co., Ltd. ("Zhuhai Haoda"). The arbitration action seeks orders that (i) the non-executed investment agreement signed among the parties be terminated; (ii) the defendants return the investment fund of RMB7,146,602 and pay a compensation fee at 4.75% annual interest on the investment fund starting from 12 June 2016; (iii) the subsidiaries pay the related fee for the promotion of goods of RMB8,441,340; and (iv) the subsidiaries pay a compensation fee of RMB38,767,882 for breach of the distribution agreement. The Group recognised a liability of RMB8,441,340 as at 31 December 2017. The directors, based on the advice from the Group's PRC legal counsel and the current circumstances known to them, have grounds to believe that the subsidiaries have a valid defence against the allegation and, accordingly, no additional provision for any claim arising from the arbitration other than the above has been provided for.

28. CONTINGENT LIABILITIES *(continued)*

(d) On 25 January 2018, Qi Feng filed an arbitration action against the subsidiary of the Group. The arbitration seeks orders that (i) the distribution agreement signed on 1 March 2016 be terminated; (ii) the subsidiary pay the marketing and promotion fee of RMB13,860,000 which was paid on behalf of the subsidiary by Qi Feng; (iii) the subsidiary pay a compensation fee of RMB5,000,000 and the related legal fee for breach of the distribution agreement. The directors, based on the advice from the Group's PRC legal counsel and the current circumstances known to them, have grounds to believe that the subsidiary has a valid defence against the allegation and, accordingly, has not provided for any claim arising from the arbitration.

29. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year	**740**	736
In the second to fifth years, inclusive	**362**	540
	1,102	1,276

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of reporting period:

	2017 **RMB'000**	2016 RMB'000
Contracted, but not provided for:		
Land and buildings	**32,305**	85,800

31. RELATED PARTY TRANSACTIONS

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

	Notes	**2017 RMB'000**	2016 RMB'000
An entity ultimately controlled by a director			
Guangxi Weikete Biological Technology Co., Ltd. ("Weikete")			
Sales of raw materials	(i)	**68**	246
Purchases of products	(ii)	**3,475**	4,886
Holding Company			
Golden Throat International Holdings Limited			
Advance given to and repaid by	(iii)	**–**	3,128

Notes:

(i) The sales to a related party were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from a related party were made according to the published prices and conditions offered by the related party to their major customers.

(iii) The advance to a related party was unsecured, non-interest-bearing and payable on demand.

(b) Other transactions with related parties:

A director of the Company, Jiang Peizhen, has guaranteed certain bank loans made to the Group of up to RMB20,000,000 (2016: Nil) as as at the end of the reporting period, as further detailed in note 22 to the financial statements.

31. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties:

(i) The Group had an outstanding balance due from related parties of RMB3,542,000 (2016: RMB3,705,000) as at the end of the reporting period. The entire outstanding balance is unsecured, non-interest-bearing and payable on demand.

(ii) The Group had an outstanding balance due to a director of RMB221,000 (2016: RMB236,000) as at the end of the reporting period. The balance is unsecured, non-interest-bearing and repayable on demand.

(iii) Details of the Group's trade balances with its related party as at the end of the reporting period are disclosed in note 20 to the financial statements.

(d) Compensation of key management personnel of the Group:

	2017	2016
	RMB'000	RMB'000
Short-term employee benefits	**9,145**	12,003
Pension scheme contributions	**340**	379
Total compensation paid to key management personnel	**9,485**	12,382

Further details of directors' remuneration are included in note 8 to the financial statements.

The related party transactions in respect of purchases of products from Weikete above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2017

	Loans and receivables RMB'000	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Trade and bills receivables	**446,358**	**–**	**446,358**
Financial assets included in prepayments, deposits and other receivables	**14,372**	**–**	**14,372**
Due from related parties	**3,542**	**–**	**3,542**
Available-for-sale investments	**–**	**24**	**24**
Cash and cash equivalents	**610,242**	**–**	**610,242**
	1,074,514	**24**	**1,074,538**

2016

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Trade and bills receivables	475,733	–	475,733
Financial assets included in prepayments, deposits and other receivables	18,673	–	18,673
Due from related parties	3,705	–	3,705
Available-for-sale investments	–	314,985	314,985
Cash and cash equivalents	374,596	–	374,596
	872,707	314,985	1,187,692

32. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

Financial liabilities at amortised cost

	2017 RMB'000	2016 RMB'000
Trade payables	**20,964**	15,155
Financial liabilities included in other payables and accruals	**146,532**	158,136
Interest-bearing bank borrowings	**86,000**	66,000
Due to a director	**221**	236
Dividend payable	**37,079**	39,679
	290,796	279,206

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

All the carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals and amounts due from/to a director and related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments. The fair values of interest-bearing bank borrowings approximate to their carrying amounts largely due to the fixed interest rate of these instruments or the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the finance manager. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance manager. The valuation process and results are discussed with the directors once a year for annual financial reporting.

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

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The fair values of listed equity investments and corporate bonds and notes are based on quoted market prices. The Group's own non-performance risk for available-for-sale investments as at the end of the reporting period was assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments	**24**	**–**	**–**	**24**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	314,985	–	–	314,985

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 (2016: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2017		
RMB	**50**	**–**
RMB	**(50)**	**–**
2016		
RMB	50	(330)
RMB	(50)	330

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar and the United States dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in rate of foreign currency	**Increase/ (decrease) in profit before tax**
	%	RMB'000
2017		
If RMB weakens against the Hong Kong dollar	**5**	**2,575**
If RMB strengthens against the Hong Kong dollar	**(5)**	**(2,575)**
If RMB weakens against the United States dollar	**5**	**16,184**
If RMB strengthens against the United States dollar	**(5)**	**(16,184)**
2016		
If RMB weakens against the Hong Kong dollar	5	4,880
If RMB strengthens against the Hong Kong dollar	(5)	(4,880)
If RMB weakens against the United States dollar	5	16,561
If RMB strengthens against the United States dollar	(5)	(16,561)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

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

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 16 and 17 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables, other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Liquidity risk *(continued)*

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

2017

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	50,237	36,464	–	–	86,701
Trade payables	5,406	15,558	–	–	–	20,964
Financial liabilities included in other payables and accruals	22,113	124,319	100	–	–	146,532
Dividend payable	37,079	–	–	–	–	37,079
Due to a director	221	–	–	–	–	221
	64,819	190,114	36,564	–	–	291,497

2016

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	30,429	36,103	–	–	66,532
Trade payables	11,235	3,920	–	–	–	15,155
Financial liabilities included in other payables and accruals	30,108	126,930	1,098	–	–	158,136
Due to a director	39,679	–	–	–	–	39,679
Due to related parties	236	–	–	–	–	236
	81,258	161,279	37,201	–	–	279,738

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank borrowings, trade payables, other payables and accruals and an amount due to a director, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2017 **RMB'000**	2016 RMB'000
Interest-bearing bank borrowings	**86,000**	66,000
Trade payables	**20,964**	15,155
Other payables and accruals	**214,287**	235,557
Due to a director	**221**	236
Less: Cash and cash equivalents	**(610,242)**	(374,596)
Net cash	**(288,770)**	(57,648)
Equity attributable to owners of the parent	**944,453**	986,757
Capital and net cash	**655,683**	929,109
Gearing ratio	**N/A**	N/A

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Prepayments, deposits and other receivables	**16,534**	20,162
Total non-current assets	**16,534**	20,162
CURRENT ASSETS		
Prepayments, deposits and other receivables	**2,548**	6,596
Due from the holding company	**3,380**	3,616
Due from a subsidiary	**449,777**	358,749
Due from related parties	**151**	89
Available-for-sale investments	**–**	314,958
Cash and cash equivalents	**283,165**	93,909
Total current assets	**739,021**	777,917
CURRENT LIABILITIES		
Other payables and accruals	**394**	1,096
Dividend payable	**37,079**	39,679
Total current liabilities	**37,473**	40,775
NET CURRENT ASSETS	**701,548**	737,142
TOTAL ASSETS LESS CURRENT LIABILITIES	**718,082**	757,304
Net assets	**718,082**	757,304
EQUITY		
Share capital	**113**	113
Share premium (note)	**675,410**	675,410
Reserves (note)	**42,559**	81,781
Total equity	**718,082**	757,304

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Share premium account RMB'000	Exchange fluctuation reserves RMB'000	Available-for-sale investment revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2016	711,364	43,110	–	(40,735)	713,739
Profit for the year	–	–	–	118,091	118,091
Other comprehensive income for the year:					
Change in fair value of available-for-sale investments	–	–	(10,711)	–	(10,711)
Exchange differences on translation of foreign operations	–	49,382	–	–	49,382
Total comprehensive income for the year	–	49,382	(10,711)	118,091	156,762
Final 2015 dividend declared	–	–	–	(38,039)	(38,039)
Cancellation of shares repurchased	(35,954)	–	–	–	(35,954)
Interim 2016 dividend declared	–	–	–	(39,317)	(39,317)
At 31 December 2016 and 1 January 2017	675,410	92,492	(10,711)	–	757,191
Profit for the year	–	–	–	77,180	77,180
Other comprehensive income for the year:					
Change in fair value of available-for-sale investments	–	–	10,711	–	(10,711)
Exchange differences on translation of foreign operations	–	(50,355)	–	–	(50,355)
Total comprehensive income for the year	–	(50,355)	10,711	77,180	37,536
Final 2016 dividend declared	–	–	–	(38,684)	(38,684)
Interim 2017 dividend declared	–	–	–	(38,074)	(38,074)
At 31 December 2017	675,410	42,137	–	422	717,969

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**624,084**	768,171	706,922	606,801	548,857
Cost of sales	**(188,495)**	(213,231)	(184,818)	(176,893)	(181,994)
Gross profit	**435,589**	554,940	522,104	429,908	366,863
PROFIT BEFORE TAX	**94,200**	175,301	202,423	156,838	92,243
Income tax expense	**(32,820)**	(72,389)	(47,805)	(35,128)	(22,325)
PROFIT FOR THE YEAR	**61,380**	102,912	154,618	121,710	69,918
Attributable to:					
Owners of the parent	**61,380**	102,912	154,618	121,893	69,918
Non-controlling interests	**–**	–	–	(183)	–
	61,380	102,912	154,618	121,710	69,918

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,362,145**	1,432,412	1,301,440	568,026	590,726
TOTAL LIABILITIES	**(417,692)**	(445,655)	(332,995)	(476,674)	(423,713)
NON-CONTROLLING INTERESTS	**–**	–	–	–	–
	944,453	986,757	968,445	91,352	167,013