KINGWORLD MEDICINES GROUP LIMITED
金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code：01110

ANNUAL REPORT 2017


Healthy Life with
KINGWORLD
金活医药集团
I-REMOVE
footner
elimin INTENSE
brûle-graisse
velverbrander
Culturelle Kids
康萃乐 儿童益生菌
Culturelle
coconut detox
2 day plan
BLACKMORES
OMEGA DAILY
Kids DHA
FISH OIL 1000
飞鹰活络油
和兴白花油
退热贴
SUPER ANANAS
救心丸
KYUSHIN
普济抗感颗粒
抗感退熱利咽
复方薄荷脑软膏
依马打正红花油
CHILD
BARN

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Corporate Information

DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhang Yi (resigned on 18 December 2017)

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Chan Hon Wan

LEGAL ADVISORS TO THE COMPANY

King & Wood Mallesons
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

AUDITOR

Crowe Horwath (HK) CPA Limited
9th Floor
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Zhao Li Sheng
Mr. Chan Hon Wan

REGISTERED OFFICE

Estera Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

8th-9th Floor, Block A
Majialong Chuangxin Building
198 Daxin Road
Nanshan District, Shenzhen
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1906-1907, 19th Floor
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Estera Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL BANKS

China Construction Bank
Shenzhen Binhe Sub-branch
1st Floor, East Block
Financial Centre
Shennan Zhong Road
Shenzhen
The PRC

Agricultural Bank of China
Shenzhen Zhongxinqu Sub-branch
1st Floor, Zhuoyue Building
Fuhua 1 Road 98
Shenzhen
The PRC

Nanyang Commercial Bank
Hong Kong, Western Branch
1st Floor - 2nd Floor
359-361 Queen's Road Central
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STOCK CODE

01110

WEBSITE ADDRESS

www.kingworld.com.cn

Financial Highlights

	For the year ended 31 December		Changes
	2017	2016	Increase/
	RMB'000	RMB'000	(Decrease)
Financial Highlights			
Revenue	**1,031,488**	1,053,527	(2.1)%
Cost of sales	**(708,317)**	(729,955)	(3.0)%
Gross profit	**323,171**	323,572	(0.1)%
Profit before taxation	**83,327**	89,044	(6.4)%
Profit for the year	**66,532**	67,406	(1.3)%
Profit attributable to owners of the Company	**51,060**	46,966	8.7%
Basic earnings per share (RMB cents)	**8.20**	7.26	12.9%
Proposed final dividends per share (HK cents)	**3.43**	2.95	16.3%
Liquidity and Asset-liability Ratio			
Current ratio (1)	**1.26**	1.22	N/A
Quick ratio (2)	**1.03**	1.05	N/A
Asset-liability ratio (3)	**31.0%**	22.3%	8.7% pts

Notes:

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

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

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

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kingworld Medicines Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2017 (the "Year Under Review") to the shareholders (the "Shareholders") for review.

YEAR UNDER REVIEW

Market and Industry Overview

In 2017, the total economic output of China exceeded RMB80 billion for the first time. The annual gross domestic product (GDP) grew by 6.9% year-on-year. GDP growth was recorded for the first time since 2010, and it was better than expected. The forecast of the National Development and Reform Commission for 2018 is that the Chinese economy will continue to be sound, with annual GDP growth between 6.5% and 6.8%. According to the statistics of the Ministry of Finance, between January and November 2017, the national expenditure on health care and family planning increased by 9.5% to RMB1,332.9 billion. The increase in medical expenditure and the emergence of new situations after the 19th National Party Congress will start a new mode of economic growth in 2018, marking the beginning of a new era. This will also promote favourable development of the pharmaceutical industry.

In 2017, many national pharmaceutical policies provided opportunities and brought challenges to the industry. "Two-invoice System", zero margin for pharmaceutical products, control on medical insurance fees, strict supervision on distribution of pharmaceutical products brought challenges to the industry. However, the above will also accelerate through the ousting of the unfit and consolidation of the industry. Large-scale and well-managed enterprises will survive, and concentration of the industry will be the inevitable trend. The separation of treatment and medicine was a blow to hospitals. However, it has brought enormous opportunities to the pharmaceutical retail industry. Lin Jianning, director of the Institute of Southern Medical Economics under the China Food and Pharmaceutical Products Administration ("CFDA") expected that, when health care reform policies such as "Two-invoice System", control on medical insurance fee, pricing mechanism for pharmaceutical products and multi-tier medical treatment are implemented in 2018, the separation between treatment and medicine will become more clear out. This will speed up the flow of prescriptions into the retail pharmaceutical products market and create a new "blue ocean" for the pharmaceutical retail sector.

The Group started operating pharmaceutical distribution and agency business at the beginning. Having accumulated years of experiences, the Group now has an profuse product portfolio and a distribution network engulfing all channels. The Group is today an internationally renowned and leading great health service provider. The Group's healthcare business operations include: (1) agency and distribution of overseas quality and well-known pharmaceutical products; (2) active introduction of high-quality and well-known healthcare products from overseas; and (3) R&D and manufacturing of medical device. As at 31 December 2017, the proportion of revenue from the pharmaceutical products segment accounted for 55.8% of the Group's revenue, whilst the healthcare products segment and medical device segment accounted for 23.9% and 20.3%, respectively.

Business Review

1. Pharmaceutical products segment

The Group has engaged in the business of pharmaceutical products distribution and agency for over 20 years. We have a number of well-known pharmaceutical products varieties, including such star product series as Nin Jiom (京都念慈菴), Taiko Seirogan (喇叭牌正露丸) and also medicated oil for external use, among others. In 2017, more than half of the provinces in China started to gradually implement the "Two-invoice System". Many distributors began to adjust their business structure in the second quarter. As a 20-year close partner and ally of Nin Jiom, during the Year Under Review, the Group and its partner together embarked on "channels optimization", signed provincial distribution agreement with 32 distributors in China and began cooperation with more than 70 regional chain stores. The marriage of strengths of all parties concerned has enhanced the brand influence of Nin Jiom and boosted terminal sales. Such "channels optimization" exercises commenced in the second half of the year and, in the process of reform, sales had slowed down. However, in the long term, the above would enable our downstream distributors and cooperative partners to enjoy greater efficiency.

As for Taiko Seirogen, another well-known brand of the Group its sales continued to increase by 8.4% to approximately RMB78,847,000 as compared with the same period last year. The constant climb in sales of Taiko Seirogan was attributable to our targeted marketing strategy and enhanced brand influence, which resulted in the sales surge.

2. Healthcare products segment

As consumers become more health conscious and their purchasing power increases, the healthcare products market in China has been developing rapidly in recent years. According to statistics of the Prospect Industry Research Institute, the healthcare products market is worth more than RMB230 billion. With the promulgation of the "Healthy China 2030" Plan and the advance of the reform of food and pharmaceutical products policies stated in the national "13th Five-Year Plan", demand for healthcare products has been increasing and making new heights.

During the Year Under Review, the Culturelle probiotic product series, the star product of the segment continued to achieve steady growth in revenue. Sales through cross-border e-commerce platform continued to record sharp increase against the same period last year. Our businesses in the Hong Kong and Macau markets witnessed rapid development and delivered magnificent business performance. Sales revenue surged by 18.1% compared with the same period last year. The success of Culturelle probiotics was owed to the flexible and targeted promotion plan we formulate for it every year in response to market trends and consumer needs. The plan included integration of online and offline interaction with consumers to attract targeted customers with precision.

As the "second child policy" in China is fully implemented and in depth, the National Bureau of Statistics data indicated that the overall maternal and infant market in 2016 was worth RMB280 billion. In terms of family spending and the consumption spent by the mothers, as the main consumer, accounted for more than half. As an early mover, the Group seized the opportunity, focusing on the anticipated baby boom and targeted consumer groups such as users of maternal and infant, and introduced Lifeline Care's maternal and infant fish oil nutrient series from Norway in 2016. After more than a year of hard work, sales of Lifeline Care's maternal and infant fish oil products rose significantly by 2.7 times during the Year Under Review against the same period last year.

In addition, with respect to our "Global Slimming" product series, which include Fat Blaster Slimming Coconut Water (菲拉思德椰子水) from Australia and Tilman plant diet tea series from Belgium, during the Year Under Review, Zuccari 100% concentrated diet pineapple juice from Italy as added to the portfolio. Our enriched product portfolio has given us a good foundation for creating a younger image of the brand and tapping into the market of weight management products.

3. *Medical device segment*

According to the statistics in the 2016 Annual Report of China Food and Pharmaceutical products Administration, the medical device market in the PRC carried a worth of approximately RMB448 billion. According to the data from the Askei Industry Research, the market of medical device for hospitals in China was valued at approximately RMB269 billion in 2015, accounting for approximately 72.70% of the entire market, while the value of medical device for home use market exceeded RMB100 billion for the first time, reaching about RMB101 billion, accounting for 27.30% of the entire market. Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin"), the medical device segment under the Group, is an applied biotechnology-based enterprises that focuses on medical device for physical rehabilitation and treatment. During the Year Under Review, Dong Di Xin achieved set business goals for the year, the Group continued to strengthen resources integration at Dong Di Xin in areas including corporate governance, development strategies, management processes, brand culture and network construction. Such had helped us further establish a complete, systematic and diversified industrial chain that covers from R&D to manufacturing to sales to channel to end-users.

Management Review

1. *Offline sales network and distribution channels*

The Group continued to expand its products portfolio and distribution channels in the great health industry. During the Year Under Review, the Group covered over 200,000 OTC retail pharmacies in China. As large and medium-pharmaceutical products store chains in China continued to integrate and expand, more and more pharmacy will become chain stores in China. The Group will actively pursue strategic cooperation with more pharmacy chains to consolidate coverage of OTC retail pharmacies. During the year, we also continued to expand cooperation with maternity chain stores. The terminal distribution channels in Hong Kong and Macau also increased rapidly to more than 1,500 retail outlets. In addition, the Group set up 24 subsidiaries and 17 branch offices in 34 provincial-level municipalities across the country (including Hong Kong and Macau), the distribution scope of which covers over 341 cities.

2. ***Coverage by online platform***

During the Year Under Review, the Group continued to expand its diversified e-commerce platform. In addition to enriching our product portfolio on mainstream online shopping platforms including T-mall, JD.com, Suning.com, Koala.com and Vip.com, we also set up e-commerce center, achieving integration of multiple online channel businesses. We developed our own e-commerce platform "Kingworld Health Family" with Hybris Systems, which was successfully launched, allowing unified management of all channel orders. During the Year Under Review, our cross-border e-commerce business maintained rapid growth momentum.

3. ***Corporate social responsibility***

The Group has always adhered to the corporate mission of "to serve the community and to heal the souls", and insisted on "Giving back what is taken from the society to the society". By taking part in activities of charitable organizations, we promote our brand and, at the same time, contribute to the community. During the Year Under Review, the Group and its "Kingworld Health and Care Foundation", donated a total of approximately RMB5,400,000 to charity. The donations were primarily used to support patients, major temples, environmental protection and for disaster relief purposes. We also donated the Group's medicines and healthcare products to support various public welfare activities. At the same time, we took action and participated in the health services for community, including sponsoring major sports events such as the Changsha Marathon, Shenzhen Marathon and Shantou Marathon, and providing Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油) and Kingworld Imada Red Flower Oil (金活依馬打正紅花油) to community residents and elderly for free massage.

4. ***Sustainable staff development***

The Group stays true to its "people-oriented" management philosophy and places emphasis on personnel training. During the year, we provided continuous on-the-job training to our staff, and consistently implemented a fair and effective performance appraisal system, so as to motivate and reward employees at all levels for their outstanding performance and achievement of business objectives. To give employees a pleasant and efficient working environment, the Group relocated its headquarter to the Majialong Chungxin Building in Nanshan District, Shenzhen. The office now spans area over 5,000 square meters, and its hardware and software have all been upgraded to enhance the competitiveness and effectiveness of our staff.

FUTURE OUTLOOK

1. To reinforce "fourth five-year strategy"

During the year, I together with the management team fully implemented the plans in our"fourth five-year strategy", incorporating relevant elements in those plan into sub-strategies and further still into KPI and KCI performance appraisal. In the future, the Group will continue to focus on the objectives of its "fourth five-year strategy", keep enhancing the quality of its for health products and services as well as providing consumers with value-added services. We will continue to strengthen our position as a globally leading and renowned health service provider. In addition, taking into account industry situation and the clout of the listed company, the Group shall pursue differentiated mergers and acquisitions, horizontally and vertically, thereby continue to take to greater depth development of the Group in the great health industry.

2. Diversify product portfolio

As the Chinese economy continues to develop healthily and steadily, disposable personal income has also continued to increase. According to Medical Insight, China has the largest number of middle-class adults in the world. Between 2000 and 2015, the middle class in China had expanded by 60.3%. The projection for 2015 was that 10.7% of the adult population would be from the middle class and they would control 32.2% of the wealth in China. As the living standard and consumption pattern of the Chinese people continue to change, quality and safe pharmaceutical products and healthcare products will be in demand in the market. Quality products and strong brand power will stand out in competitiveness in the market moving into a competitive era with "product and brand as king".

The Group has been introducing more high-quality and well-known health products from overseas and has timely adjusted and enriched its product portfolio based on the needs and requirements of consumers. In 2018, the Group will introduce two to three high-quality new products from Europe and the United States. One of the healing lip balm series, which will be launched in April, is the No. 1 brand in its kind recommended by pharmacists in the United States.

3. OMO online and offline integration

In December 2017, the "Notice of the Custom Tariff Commission of the State Council on Adjusting Import Tariff on Certain Consumer Goods" was formally published stating tentative lower rates of import tariff on certain consumer goods. The lower rates apply to a wide range of consumer products such as food, healthcare products, medicines, daily chemicals, clothing and footwear, household device, cultural and entertainment. A total of 187 8-digit tax numbers were involved, with the average tax rate dropping from 17.3% to 7.7%. This policy has had a positive and stimulating effect on the Group's healthcare product distribution business. In 2018, we will launch OMO integration to speed up development of our two-way online and offline integrated interactive marketing strategy. At the same time, we will formulate diversified marketing and promotion tactics for different product lines, using our well-established online and offline distribution channels to boost revenue.

4. *Corporate sustainable business development*

The core belief of the Group is "everything is possible with the spirit". Our goal is to build Kingworld into a modern brand enterprise to last with top-grade management, and one that affords stable return on investment and a premium industry reputation. To Kingworld Medicines Group, sustainable development is not only the fruit of past exertion, but is also the foundation on which future development can be achieved. Kingworld is determined in pushing for sustainable development of its business. Apart from seeking returns for our Shareholders, our approach to business also emphasizes on fulfilling our social responsibility, contributing to the community and reducing impacts of our operations on the environment, plus providing our employees with a platform for continuous development, and last but not least, creating value for all stakeholders. In 2018, together with the "Kingworld Health and Care Foundation", the Nature Conservancy (TNC) and Shenzhen Charity Association, the Group will devote effort to help more people needing charity. We will continue to participate in charitable and fund-raising activities to benefit disadvantaged groups. At the same time, the Group is committed to providing consumers with high-quality and safe products. We will work together jointly with our upstream and downstream partners on promotion activities to enhance the value and visibility of the "Kingworld" brand.

ACKNOWLEDGEMENT

I hereby express my sincere gratitude to my fellow directors on the Board, the management and all staff of the Group for their valuable contribution. At the same time, on behalf of the Board, I would like to express my appreciation to all shareholders, investors, business partners and other stakeholders for their continuous trust and support to the Group. We believe the coming year will be full of opportunities and challenges. Kingworld Medicines Group Limited will continue to put its best effort, and create greater value for shareholders and investors.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 28 March 2018

Management Discussion and Analysis

MARKET AND INDUSTRY REVIEW

1. *The economy of China was positive as a whole and better than expected*

At the beginning of 2017, the Chinese government in its work report set the Country's gross domestic product (GDP) growth target for the year at 6.5%. China's GDP ended up growing by 6.9% year-on-year in 2017, exceeding expectation. It was also the first time net growth was recorded since 2010. And, for the year, the annual consumption expenditure per capita was RMB18,322, an increase of 7.1% against last year, while that on healthcare rose by 6.0%. Many scholars and economists believe the economy of China will maintain steady growth in 2018. Mr. Li Keqiang, premier of the State Council, said the Chinese economy developed steadily and soundly in 2017, household consumption upgrade, emerging industries remaining active, the "One Belt, One Road" initiative opening room for international development, and also the aspiration and plans to develop the Guangdong - Hong Kong - Macau Greater Bay Area, which are all conducive to development of the economy.

2. *Continuous rollout of the "Healthy China" brought abundant opportunities for medicine and healthcare*

Looking back at 2017, the pharmaceutical industry entered an intensive policy period. It was also a critical year in the implementation of healthcare reform in the nataional "13th Five-Year" plan. The new version of the Catalog of Medical Insurance has expanded the scope of coverage for pharmaceutical products under basic medical insurance. Nin Jiom Chuan Bei Pei Pa Koa, which is included in the catalog and manufactured by Nin Jiom Medicine Manufactory (H.K.) Ltd., has engaged the Group as its agent and distributor in Mainland China. The solid cooperative relationship between the two parties has lasted for more than two decades. This policy can help the Group to expand its market share in the future.

The "Two-invoice System" launched in late 2016 has been rolled out gradually. As in November 2017, 19 provinces had adopted the system, and it is expected the rest of the country will do so by the end of 2018. The "Two-invoice System" has made the operation of the pharmaceutical distribution industry more transparent and standardized, and the major material impacts of the system on the industry are expected to be reflected in the coming two years. Large distributors, which comply with all rules and regulations, are poised to benefit in the new round of industry consolidation, which will see the industry becoming yet more concentrated. In addition, the scale up of upstream pharmaceutical manufacturers will give them stronger bargaining power over downstream terminals, which means their profit margins could increase.

In October 2016, the State Council released the "Outline for Healthy China by 2030", which clearly stated that the scale of the health service industry in 2020 and 2023 is expected to reach RMB8,000 billion and RMB16,000 billion, respectively. This strategy to build a "Healthy China" will definitely be the engine that can drive development of the medical and healthcare industry in China. The outline contains guidance to help the Chinese people upgrade their daily healthcare concept, since as per capita disposable income increases, and healthcare consumption is following close behind. According to the data from the National Bureau of Statistics of China, the disposable income per capita in urban and rural areas in 2015 amounted to RMB31,195 and RMB11,422, respectively, and the compound annual growth rate (CAGR) between 2011 and 2015 were 9.4% and 13.1%, respectively. The expenditure on healthcare for urban and rural residents amounted to RMB1,305.6 and RMB753.9, respectively, and the CAGR between 2010 and 2014 were 10.6% and 23.3%, respectively. The increase in health consciousness and spending power of people could together bring significant development opportunities to the healthcare sector as well as to the Group for achieving long-term development in the great health industry.

3. *Nutraceuticals climbing on average over 30% a year, and still ample room for growth*

The "Analysis Report on Healthcare Products Prepared by the Prospective Industry Research Institute" stated that, the health industry in China has been growing quickly and steadily from 2006 to 2015, the sales revenue of China's nutraceuticals industry increased from RMB15.906 billion to RMB19.32 billion, growing at 34.53% on average each year. Despite that the industry in China is taking shape, when compared with developed countries, the per capita consumption of health food in China is still low, at about US$24, which is one-fifth of Japan, one-seventh of Australia and one-eighth of the United States. Thus, the industry has considerable room for growth, which is favorable for the Culturelle Probiotic series, one of the star products to which the Group is an agent, to increase sales. As at 31 December 2017, sales volume of the Culturelle Probiotic series amounted to approximately RMB210,336,000, representing an increase of 32.0% over that of 2016.

4. *Maternal and infant consumption continued to increase, opportunities to seize in the new era*

In October 2015, the Chinese government released its "two child policy" proposed and the policy took effect formally in January 2016, the number of newborns in China increasing rapidly. According to National Bureau of Statistics, the number of newborns in China in 2016 was 17.86 million, an increase of 9.17% against the last quarter of 2015. The maternal and infant market worth in all RMB280 billion in 2016. It means there is tremendous room for growth of Lifeline Care's maternal and infant fish oil series, which is exclusively distributed by the Group. During the Year Under Review, sales of the Lifeline Care maternal and infant fish oil product series continued to grow, with revenue surging 2.7 times as compared with the same period last year.

As the economy grows rapidly in recent years, women in this day and age generally face such problems as the pace of life being too fast increasing work pressure and food safety hazard, which have led to the increase in cases of infertility or miscarriage among married women. The Group's "Fengbao Jianfu Capsule (鳳寶牌健婦膠囊)" is helpful for infertility treatment and blood nourishing, and is designed for treatment of (i) infertility (infertility due to ovulatory disorder, corpus luteum insufficiency, immune infertility and assisted reproductive technology pretreatment); (ii) irregular menstruation (irregular menstruation due to endocrine disorder such as functional uterine bleeding); and (iii) perimenopausal syndrome. The product contains multi-target HPO that can regulate and assist ovulation and increase pregnancy rate in a natural and safe manner. The experiment conducted by the Hong Kong University of Science and Technology proved that the product can effectively enhance the progesterone level of female to increase pregnancy rate and also nourish the blood. The product is distributed through various hospitals in Shanghai and Wuhan and is popular in maternity hospitals. Looking forward, as the market continues to expand and the brand gains recognition, sales of the product will accelerate.

5. *Momentum of growth of cross-border e-commerce continued*

According to the information in the "Research Report on Industrial Park Development Model for Cross Border e-Commerce Platform and Industry Overall Planning" published by the Prospects Industry Research Institute, the value of all cross-border e-commerce transactions in 2016 was RMB6,700 billion, an increase of 24.1% against the same period last year. Between 2012 and 2016, CAGR was 33.6%. The estimated CAGR between 2017 and 2020 was 15.7% and the scale will reach, RMB12,000 billion by 2020. The report stated that China's e-commerce industry will internationalize and go global. Cross-border retail e-commerce will become the new mode of global trading, opening a blue ocean for cross border retail e-commerce service providers to explore and capture. During the Year Under Review, growth of the Group's cross-border e-commerce business remained high.

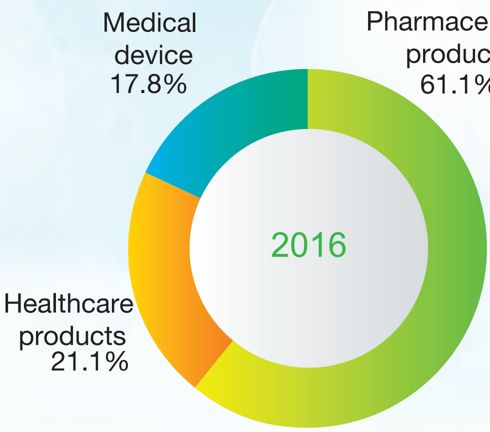
BUSINESS REVIEW

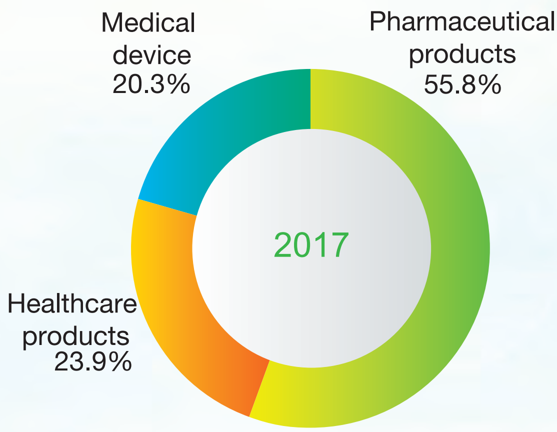
Globally leading and renowned great health service provider in China

The traditional Chinese medicine is a gem in Chinese culture and also a key to unlock the treasure trove of Chinese civilization. The Company and its subsidiaries (the "Group") have been committed to passing on the heritage of traditional Chinese medicine in China. We focus on and actively look for high-quality brand-name medicines and healthcare products, particularly OTC Chinese medicines as well as plant-based medicines and healthcare products in overseas market. With years of operational experience, the Group has a rich product portfolio and a distribution network engulfing all channels. These attributes have consolidated our leading position as a globally leading and renowned great health service provider in China.

The Group's operations in the greater health services industry include: (1) agency and distribution of overseas quality and well-known pharmaceutical products, including such star products as the Nin Jiom (京都念慈菴) product series, Taiko Seirogan (喇叭牌正露丸) and medicated oil for external use; (2) introduce high-quality and well-known healthcare products from overseas, including such star products as the Culturelle probiotics series, Lifeline Care maternal and infant fish oil nutrient series and "Global Slimming" product series; and (3) R&D and manufacturing of medical device.

For the year ended 31 December 2017, the Group's total revenue amounted to approximately RMB1,031,488,000, the pharmaceutical products segment accounted for 55.8% or approximately RMB575,322,000, representing a decrease of 10.7% as compared with the same period last year, the healthcare products segment accounted for 23.9% or approximately RMB246,803,000, representing an increase of 10.9% as compared with the same period last year, whereas the medical device segment accounted for 20.3% or approximately RMB209,363,000, representing an increase of 11.9% as compared with the same period last year.





Review Highlights of Pharmaceutical Products Segment

(1) Nin Jiom product series

"Optimizing channels, boosted efficiency"

The Nin Jiom product series have been one of the major sources of revenue in the Group's pharmaceutical products portfolio historically. In 2017, supply-side reform and the gradual roll out of the "Two-invoice System" in the medical industry have seen the industry move into a new normal state of slower growth and structural optimization. During the past year, Nin Jiom Medicine Manufactory (H.K.) Ltd. also actively responded to the changes in the external environment. Marketing activities were mounted in good order, and by optimizing channel structure, standardizing channel management and maintaining a stable pricing system, the distribution prowess of the Nin Jiom product series in the future in the secondary and third-tier markets is assured. At the same time, efforts were made to boost terminal coverage and ensure distributor's interest are protected and also they are keen to cooperate.

During the past 20 years, the Group has been a partner and ally of Nin Jiom. The two parties have supported each other in both good and bad time. During the second half of the year, Nin Jiom began measures to "optimize channel and boost efficiencies", which included: (i) reduce number of customers; (ii) increase product sales; (iii) select high quality cooperative partners; and (iv) expand product coverage. During the period, the Group actively cooperated with the 32 distributors in China and signed provincial distribution agreements, as well as began cooperation with more than 70 regional major pharmacy chain operators. Through the combination of strengths of our partners and allies, the brand influence of Nin Jiom was enhanced and terminal sales were boosted. During the reform period, though sales slowed down, the efforts made are expected to help downstream distributors and cooperative partners heighten efficiency in the long run. For the year ended 31 December 2017, the sales revenue of Nin Jiom Chuan Bei Pei Pa Koa amounted to approximately RMB542,589,000, representing a decrease of 13.6% as compared with the amounted to same period last year. As for Nin Jiom herbal candies, during the Year Under Review, sales continued to increase and reached approximately RMB34,404,000, representing an increase of 1.7% as compared with same period last year.

Nin Jiom products display in retail pharmacy

The Group developed display at flagship stores of key chains and sales terminals across the country to help enhance the product image and let consumers learn more about Nin Jiom products

(2) Taiko Seirogan

Taiko Seirogan (喇叭牌正露丸) is another pillar of the pharmaceutical products products division. During the Year Under Review, the Group developed a set of precise marketing solutions for Taiko Seirogan and they brought remarkable results. For the year ended 31 December 2017, the sales of Taiko Seirogan increased by 8.4% to approximately RMB78,847,000 as compared with the same period last year.

Marketing tactics for key and non-key markets effective, continuously bolstered sales

During the Year Under Review, for the key markets, the Group put more efforts on advertising, consumer education and fostering a positive atmosphere in the terminal market. Training for partners were also strengthened. These targeted strategies had effectively boosted sales.

For non-key market, the Group primarily focused on selecting the best and cooperative customers, stepping up staff recommendation and product display. Furthermore, the sales team strengthened staff training and consumer education activities, which had indirectly promoted sales.

Small display booth for Taiko Seirogan

Advertisement for Taiko Seirogan in retail pharmacy

Fast and accurate coverage of target consumer group through effective use of Weibo and WeChat

With respect to brand promotion, in addition to regular advertisements on trains, advertising billboard in downtown and brand marketing on Weibo and WeChat, the Group also conducted on-site interactive mini-games during the Marathon which attracted participation of thousands of people. Weibo and WeChat marketing were used to enhance brand awareness and brand influences, and the increased interaction between the brand and consumers helped plant the brand into the minds of target consumers. Moreover, the Group actively launched online e-commerce marketing promotion activities with various partners or e-commerce platforms, including Jingdong and Ali health pharmacies to facilitate online and offline integration.

On-site promotion of Taiko Seirogan during the Marathon

(3) *External use medicated oil product series*

Continued the good health theme and sponsored marathons

The Group acts as agent for a number of well-known external medicated oil products, including Mentholatum Ointment (曼秀雷敦薄荷膏), Hoe Hin White Flower Embrocation (和興白花油), Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), and our own brand – Kingworld Imada Red Flower Oil (金活依馬打正紅花油). During the Year Under Review, diversified marketing and branding strategies were formulated for various medicated oil products. During the year, the Group continued to add "oil" (support) to the good health and sponsored a number of marathon, including the 17th Shenzhen 100km Drive in April, the Changsha Marathon in November, the "Nature Emotional Energy Charity Run" in Shenzhen, the Shenzhen International Marathon and Shantou Marathon in December. A "Kingworld Support Station" was set up by volunteers from Kingworld at each of those events, at which runners could give a try of the effort of the Flying Eagle Wood Lok Medicated Oil. During the Year Under Review, South China Region, West China Region and Hunan Province in particular, reported steady growth.

Medicated oil product display in retail pharmacy

Free trial for medicated oil

The Group's own brand – Kingworld Imada Red Flower Oil was relaunched to the market during the year, and were bought in the chain stores across the country. Free trial of the medicated oil as offered to target audiences in the peak season, under such theme as "bring love home", "cool summer".

"Kingworld Support Station" set up at Changsha Marathon

Kingworld was the designated medicated oil sponsor of the Shenzhen Marathon for five consecutive years (2013-2017)

Hoe Hin White Flower Embrocation display in retail pharmacy

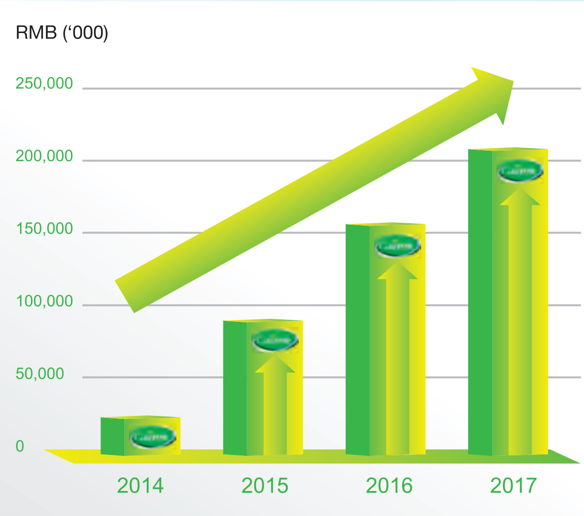
Mertholatum Ointment display in retail pharmacy

2017 was the 90th anniversary for the launch of Hoe Hin White Flower Embrocation. During the Year Under Review, the Group conducted joint promotion activities with Hoe Hin White Flower Embrocation and a variety of brand promotion activities was organized in Hangzhou and Xiamen in China, drawing on the influence of the brand in key markets to reinforce publicity and boost channel deployment. Moreover, we also conducted brand promotion activities with Mentholatum. For example, in March 2017, during the "Living in a Healthy Way" Outdoor Sports Caring Season, an "A Charitable Act A Day" event in Shenzhen, Mentholatum Ointment were given away to the participants and parent-and-child volunteers.

Review highlights of healthcare products segments

(1) Culturelle probiotics product series

The Group introduced the Culturelle (康萃樂) probiotics product series to market in 2014, and became its sole distributor in the Greater China region, responsible for planning promotion and publicity of the brand. Looking back at 2017, thanks to the two-child policy and the steady growth of probiotic products in the mainland China market, revenue of the Culturelle probiotics product series amounted to approximately RMB210,336,000, representing an increase of 32.0% against the same period last year.



Revenue of Culturelle probiotics product series

Sales revenue from e-commerce was satisfactory and continued to rise

In the past four years, revenue of the Culturelle probiotics product series, which is a trump card product, has been on the rise. A key factor contributing to its success is the flexible and targeted promotion plans devised every year for the products in response to market trend and the needs of consumers group. During the Year Under Review, through the online live media and mother-infant vertical media, the Group effectively reached the targeted consumer group and boarded large cross-border e-commerce platforms. During the year, a total of 35 events in near 30 cities in China were organized, including cooperating with Cui Yutao Education Park (崔玉濤育學園), named after its founder who is an authoritative pediatrician in China. We held roadshows and talks that drew thousands of participants and also did live broadcasts that drew up to 2.2 million views. After the activities, related materials were displayed at terminal stores for promotion purpose. A competition on terminal display was also organised. At the same time, the Group also participated in the Healthy Long Walk for mother and child as well as prenatal and postulate popular science lecture hall activities, reaching more than 30,000 target mother groups.

The offline channels of the Group in China mainly target to expand mother-and-baby channels, pharmacies, health and beauty chains, and hospitals and clinics. During the Year Under Review, the Group's team focused effort on expansion in Eastern China and Southern China and successed in increasing the number of stores, and active efforts were made in exploring distribution channels among pharmaceutical products stores and personal care chains.

Business in Hong Kong and Macau developed rapidly and results continued to improve

The elite front-line team in the Hong Kong office constantly explored distribution channels in the Hong Kong and Macau markets and claimed presence in a number of health and beauty chain stores and health product outlets (Mannings, CRCare), and also in major department stores (Wing On Department Store, AEON, Citistore) and pharmacies (HealthPlus and other standalone stores). Through advertising, including outdoor advertising (bus body, tram station billboards), print advertisement at several subway stations, and print media and social media promotion, the Culturelle brand and the efficacy of probiotics were communicated to target consumers, which explained continuous improvement in the Group's results.

(2) Lifeline Care maternal and infant fish oil nutrients series from Norway

The advent of a baby boom has created an enormous maternal and infant retail market seizing the opportune time of the rapid growth period in the baby boom era, the Group developed a number of online and offline marketing strategies for Lifeline Care maternal and infant fish oil, promoting it in mainland China, as well as Hong Kong and Macau. The aims of those strategic efforts were to increase the product knowledge, confidence, and loyalty to the brand among target consumer groups. During the Year Under Review, we conducted promotional activities on various domestic maternal and infant social platforms, including publishing many educational and promotional articles on Sina Weibo, mmbang.com Platform and Kingworld's own media platform, and also embarked on SEO search engine optimisation, and time-limited and seasonal promotions on multiple e-commerce platforms.

The team continued to tap into maternal and infant store distribution channels in Hong Kong, and a series of display, advertising and promotional activities were conducted in a number of maternal and infant stores. The Group also actively participated in large-scale maternal and infant exhibitions in China, and the Hong Kong and Macau markets, for example, Beijing Pregnancy and Baby Products Fair, Shanghai National Pharmaceutical products Fair, Hong Kong Baby Show in Spring and International Baby & Children's Products Expo. In addition, the Group continued to invest resources in the Hong Kong and Macau markets for promotion, including on multiple social media platforms, print advertisements in subway stations and a number of print media. Distribution channels were expanded to include many pharmacies and Mannings. The Group's precise and targeted marketing strategy further boosted sales by 2.7 times as compared with the same period last year.

(3) "Global Slimming" product series

"Beauty is a woman's natural quest". As the Chinese economy continues to prosper and the income of the Chinese people increases, everybody, men or women, young or old, wants to not only look good but also have an ideal body and healthy physique. The forecast of Prospective Industry Institute for the five years between 2015 and 2020 for the weight management market in China is that it will grow from US$1.4 billion to US$2.3 billion at a CAGR of 10%. In the past two years, taking into account the market trends and consumer needs and requirements, the Group brought in several natural top slimming products from Australia and Europe, including the Fat Blaster Slimming Coconut Water from Australia and Tilman Plant Diet Tea series from Belgium. During the Year Under Review, Zuccari Slimming Series, the concentrated slimming 100% pineapple juice from Italy, gave the Group an enriched product portfolio and the foundation for creating a younger brand image and tapping into the market of weight management products.

During the Year Under Review, the "Global Slimming" product series primarily conducted sales and promotion through cross-border e-commerce platform, and expanded through Weibo and WeChat and video, and live broadcasting plus other own media, together with offline means like exhibitions and distribution channels. After a year of hard work, the "Global Slimming" product series has landed on major cross-border e-commerce platforms including Tmall, JD.com, Vip.com and Koala.com, laying a critical foundation for further development of channels. In addition, the "Global Slimming " product series was also availed to consumers in the Hong Kong and Macau markets through offline retail stores such as Sasa and Kissbaby.

Review highlights of medical device segment

According to the 2016 Annual Report of China Food and Pharmaceutical products Administration, the market of medical device in the PRC was valued at approximately RMB448 billion, approximately 30% of the pharmaceutical market, and between 2010 and 2017, it was expected to grow at a CAGR of 19.9%. In developed countries, the pharmaceuticals and medical device sectors are about equal size. And the latter is expected to maintain a growth rate of 15% to 20% in the next three to five years, higher than that of the pharmaceutical sector, indicating that it has much room for development. The Group has long been aware of the opportunities and completed the acquisition of 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited (Dong Di Xin) in 2015. The foray into the medical and health electronic products market has seen the Group reaching farther into the great health industry. Dong Di Xin is a biomedical technology enterprise focusing on medical devices for physical rehabilitation and treatment. Since established in 2000, it has been devoted to the research, development and manufacturing of medical device. Its products can be divided into two major types, physical rehabilitation and physiotherapy device and ordinary medical examination device.

During the Year Under Review, Dong Di Xin recorded a slight drop in profit as result of volatile exchange rates. However, excluding this particular factor, the overall sales of Dong Di Xin increased and also achieved set business goals for the year.

During the year, the Group continued to enhance resources integration of Dong Di Xin in areas including corporate governance, development strategies, management processes, brand culture and network construction. Effort enabled it to move closer to realizing a complete, systematic and diversified industrial chain that cover from R&D to manufacturing to sales to channel to end-users. In addition, major breakthroughs were also made in market expansion. Therapeutic instrument and infrared thermometer products were launched in the second largest pharmaceutical chain in the United States. The Company completed bulk production of professional desktop treatment devices, which marked a significant breakthrough in the Company's manufacturing capability.

MANAGEMENT REVIEW

1. *Fully implement "fourth five-year" strategic plan in all departments*

The Year Under Review was the first year of the Group's "fourth five-year" strategic plan containing the macro-development strategies formulated by the headquarters of the Group. A dedicated team was formed to supervise and manage roll out of the strategies, putting relevant elements into the devise of sub-strategies, product sub-strategies, and marketing and related supporting sub-strategies. Furthermore, elements of the sub-strategies will be incorporated into KPIs and KCIs for performance appraisal. The Group places much emphasis on and is united as one in implementing the sub-strategies, which it sees as a vital task.

2. *Hastened cooperation with chain stores and continued to strengthen coverage of offline terminal networks*

The Group's pharmaceutical products segment mainly distributes products through retail pharmacies, a platform the Group has worked hard to build in the past two decades and more. During the Year Under Review, the Group continued to improve its distribution networks in the country. At the pull of the brand and the push of channels on diverse fronts, as at 31 December 2017, the Group had a distribution network covering over 200,000 OTC retail pharmacies nationwide, and more than 4,000 "Kingworld Health Family" products booths. The group had 24 subsidiaries and 17 branch offices in 34 provincial-level municipalities in the country (including Hong Kong and Macau), covering more than 341 cities, and more than 1,000 downstream distributors, including more than 200 first-tier distributors and more than 400 second-tier distributors, and the number of potential sub-distributors exceeded 800. As the large and medium pharmacy chains in China continue to integrate and expand, the proportion of them in the market in China is expected to keep increasing. The Group will actively pursue strategic cooperation with more large and medium pharmacies and continue to strengthen coverage of "OTC" retail pharmacies.

Regarding the healthcare products segment, the Group continued to strengthen its online and offline distribution channels and engaged more diverse e-commerce platforms. Continued effort was also made in expanding offline distribution channels in China. During the Year Under Review, strategic cooperation with the headquarters of the top 100 national pharmacy chain and top 30 regional chain was taken to greater depth. The Group continued to expand distribution channels among maternal and infant stores, for example, by establishing close cooperative relationship with large chain stores such as Leyou and Lotus Group in Hong Kong. As for terminal distribution channels in the Hong Kong and Macau markets, they had rapidly increased to more than 1,500 retail points.

3. *Continued to expand e-commerce platform to accelerate deployment of online strategies*

During the Year Under Review, the Group continued to actively capture the opportunities from the relaxed policies in relation to online sale of pharmaceuticals by selecting pharmaceutical products of specifications suitable for e-commerce sales and opening up e-commerce channel for traditional products. It also actively look for more health products from all over the world that are suitable for sale through e-commerce channels. With a rich quality product portfolio and strong experience in operating and developing e-commerce platform, the Group, while heeding policy direction, actively strengthened management and control of existing online platforms and stepped up sales and marketing, and at the same tone, built on its product portfolio and optimized business on the e-commerce platform. It also established its own e-commerce center "Kingworld Family House" using SAP's Hybris system, integrated multiple online channel business, and achieved unified management of orders from all channels.

The Group continued to optimize its operational strategies including management of channels in tier launching diverse products, control and management of online stocks and pricing, promotion and marketing, pre-sale and after-sale services, membership management and services, and tighten strategic cooperation with key e-commerce platforms, such as Tmall, JD.com, Koala.com, Ali Health and Amazon, realising synergies from the strategies of online and offline strategic deployment of products, which led to increase in sales. At the same time, the Group made adjustment with WeChat Mall, launching a "promoters program", entrusting WeChat distribution to "promoters". With more resources allocated for promotion activities, there were more opportunities to make sales and capture opportunities brought by WeChat Mall. In addition, the "Kingworld Family House" Qianhai cross-border e-commerce platform was launched and has become an important new platform for the Group's cross-border e-commerce business in Qianhai.

"Global Slimming" at Jingdong Overseas Specialty Store

"Kingworld Family House" Wechat Store

"Kingworld Family House" Qianhai cross-border e-commerce platform

Lifeline Care Fish Oil Tmall overseas flagship store

4. *Strengthened corporate brand building, actively supported charitable causes upholding, "Giving Back What Is Taken from the Society to the Society"*

The Group diligently adheres to the business philosophy of "to serve the community and to heal the souls". We have insisted on "Giving back what is taken from the society to the society". Participation in relevant charitable activities, the Group is not only able to promote its corporate brand, but also give back to society. The Group is committed to helping disadvantaged groups, by such as donating to medical research to foster people's health organizing or sponsoring various kinds of charitable activity that please consumer's heart. The Group sees all of these acts of good will and charity helpful to the community as its corporate social responsibility.

Wholehearted devotion money and effort

During the Year Under Review, the Group and "Kingworld Health and Care Foundation" donated a total of approximately RMB5,400,000 to charity. The donations include support for patients, environmental protection, major temples and relief work. Moreover, the Group donated HK$3,500,000 to the Hong Kong University of Science and Technology for the University's student program and research and development of Chinese medicine. To express its appreciation for the Group's donation, the university named in the Lee Shau Kee Business Building as the "Kingworld Medicines Group Classroom". The classroom has been in use by students since January 2017.

Donation of products to benefit the underprivileged

The Group actively supported various charitable and fundraising activities for disadvantaged groups, and donates medicines and healthcare products to charitable activities. It is committed to helping build a harmonious society. During the Year Under Review, the Group donated a wide range of medicines and healthcare products, including Taiko Seirogan, Kingworld Pharmaceutical products pack, Pu Ji Kang Gan Granules, Kingworld Imada Red Flower Oil, Mentholatum Ointment and Blackmore Fish Oil to different charitable activities.

Action speaks louder than words

In addition to donation of money and goods, the Group actively participates in community health service activities to help spread love and care for each other among people in all walks of life, thereby fulfills its responsibility as a good corporate citizen. During the Year Under Review, the Group offered health services, including the Changsha Marathon, Shenzhen Marathon and Shantou Marathon, and gave residents and elderly in different communities free experience of its medicated oil for external use.

Naming Ceremony of the Kingworld Medicines Group Classroom

The Group, together with Kingworld Health and Care Foundation and the Shenzhen Charity Foundation, donated a total of RMB720,000 worth of Kingworld Imada Red Flower Oil to victims in the disaster area in Jiuzhaigou in Sichuan.

5. *Offered diverse on-the-job training to enhance staff loyalty and team morale*

The Group adopts and executes a fair and effective performance appraisal system, which encourages and rewards employees at different levels for their outstanding performances and achievement of business goals and targets. To attract talent and help their continuous sustainable development, the Group provides regular on-the-job training for front-line and back-office staff. During the year, various employee activities were held to enhance team spirit and relationship between team leader and their subordinates. Staff morale were enhanced. Direct and effective communication, the Group believes, is paramount in establishing good cooperation between the management and staff.

To give employees a pleasant and efficient working environment, the Group fully upgraded the software and hardware facilities in its office for use by staff members during the year. The Group also relocated its headquarters to the Majialong Chuangxin Building in Nanshan District. Its office now spans over 5,000 square meters, which has a design worthy of Silver Award at the first Singapore interior Design Awards (SIDA) organized by the Singapore Society of Interior Designers (SIDS). The Group provides staff with a relaxed and comfortable work space, which included a lounge, refreshment room, public area, small, medium and large conference rooms and a lecture hall. With respect to software for work, the Group provides staff with state-of-the-art computers, audio-visual and other peripheral device and communications tools. An office automation (OA) system was launched to facilitate effective sharing of internal information by staff for better collaboration in work.

6. *Capital operation effective return on investment commendate*

During the reporting period, a number of the Group's investment projects progressed smoothly and delivered sound returns. The Group acquired 15% equity interest of Dong Hua Tong Investments Limited (東華通投資有限公司) for HK$50,000,000 in 2015 to hold indirect interest in Miquel Alimentació（西班牙米蓋爾公司）(a leading Spanish company engaged in food distribution and wholesale, brand operation and supply chain management), and Manassen Foods Australia (a major food company). For the year ended 31 December 2017, the acquisition investment performed well and continued to distribute dividends during the year, giving the Group a considerable return. Furthermore, the Group subscribed for 2,302,000 shares of Chuangmei Pharmaceutical Co., Ltd. (stock code: 2289 HK) ("Chuangmei Pharmaceutical") at the offer price of HK$8.6 per share. For the year ended 31 December 2017, the business growth of Chuangmei Pharmaceutical was steady with good performance in stock price, giving the Group another bright spot in its investment portfolio.

In addition, on 14 May 2016, Shenzhen Kingworld Medicine Co., Ltd. ("SE Kingworld"), a wholly-owned subsidiary of the Group, entered into a cooperation agreement with Shenzhen Xinda Shanghenggang Cooperative Stock Exchange in relation to the establishment of a project company for the land parcel at Baolong Industrial Zone, Longgang District, Shenzhen City, the PRC. Shenzhen Kingworld made capital contribution to the project company by way of cash injection and now owns 90% equity interest of the company. Shenzhen Shanghenggang transferred the land use right of the land parcel to the project company in 2017. The project company also changed its name to Shenzhen City Longde JianKang Company Limited (深圳市龍德健康有限公司) in 2017. The Group plans to develop a healthcare complex on the site to make it a Chinese medicine industrial park for Shenzhen and Hong Kong, a domestic business development center. A center for start-ups in the great health industry in Shenzhen, the research and development center of Kingworld Medicines Group and the nationwide logistics and distribution center of Kingworld Medicines Group.

Regarding the convertible bonds entered into between the Group and Sinopharm Capital Management Company Limited (國藥資本管理有限公司), pursuant to the terms and conditions of the subscription agreement, the Group redeemed the convertible bonds on 18 December 2017, and had paid the outstanding amount of the convertible bonds together with the unpaid interest accrued up to the maturity date. For details, please refer to the announcement of the Company dated 18 December 2017.

HONOR

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

- In January 2017, we were named as a "Shenzhen Famous Brand" (2017-2019) again;
- In January 2017, Lifeline Care fish oil from Norway, which was exclusively distributed by the Group, was awarded "2016 Mom Surprises Maternal Infant Brand Achievement Breakthrough Award" by mmbang.com;
- In January 2017, we were bestowned "2016 Infant Fish Oil Brand Most Preferred by Parents" by Baby Kingdom in Hong Kong;
- In April 2017, we were garnered two awards, namely the "Leading Enterprise in Health Industry of Shenzhen", "Social Responsibility Enterprise in Healthy Industry of Shenzhen";
- In May 2017, the Group was awarded the "AAA Credit Certificate" rating issued by the expert committee of China Health Association;
- In June 2017, Nin Jiom wholly distributed by the Group ranked first among cough and phlegm products on the "Healthy Chinese Brand List" and 19th on the "Brand Value List";
- In August 2017, Culturelle probiotics, the Group's star product, was for the third year since 2015, made the "Best Product List for Infant Websites- Word of mouth choice by Mom TOP10", and received the "Nursery Website Professional Featured Award 2017" and "Most Popular Healthy Children Products Award of Mannings";
- In October 2017, we received the "Global Supply Chain Excellence Award", which recognized the Group as the leading omni-channel provider of safe maternal and infant products in China; and
- In November 2017, we won the "Caring Social Health Award for Maternal and Infant Health in China".


2017年度
母婴盛典
康萃乐
卓越口碑奖
妈妈帮


授予：深圳市金活医药有限公司
深圳健康产业领军企业
首届（2016年度）
二〇一七年四月


深圳市金活医药有限公司荣获2016年度
纳税百强企业


2017年度生物/生命健康产业创新成果
金 奖
深圳国际生物/生命健康产业展览会组委会秘书处
二〇一七年九月


深圳知名品牌
SHENZHEN TOP BRAND


兹授予：深圳市金活医药有限公司
关爱中国母婴健康社会责任奖


企业信用等级证书


公示：深圳市金活医药有限公司
连续三年（2014–2016）
广东省守合同重信用企业
GUANGDONG PROVINCE ENTERPRISE OF OBSERVING CONTRACT AND VALUING CREDIT
二〇一七年六月

FINANCIAL REVIEW

1. Revenue

Revenue of the Group for the Year Under Review was approximately RMB1,031,488,000, representing a decrease of approximately RMB22,039,000, or 2.1% compared to approximately RMB1,053,527,000 for the year ended 31 December 2016. The decrease was mainly a result of the decreased in revenue of Nin Jiom Chuan Bei Pei Pa Koa due to the distribution channel restructuring in mid 2017. During the restructuring period, the distribution volume was temporarily limited to a very low volume.

2. Cost of sales

For the Year Under Review, cost of sales for the Group amounted to approximately RMB708,317,000, representing a decrease of approximately RMB21,638,000 or 3.0% when compared to that of approximately RMB729,955,000 for the year ended 31 December 2016. The decrease in cost of sales was due to the decrease in revenue. Gross profit margin increased slightly from 30.7% for the year ended 31 December 2016 to 31.3% for the year ended 31 December 2017 as a result of the increase in revenue of higher margin products such as Culturelle during the Year Under Review.

3. Other income and other net loss

Other income and other net loss mainly included change in fair value of other financial asset and liability, exchange gain, promotional service income, rental income, government grant, interest income and dividend income. For the Year Under Review, other income and other net loss amounted to approximately RMB38,311,000, representing an increase of approximately RMB22,910,000 when compared to other income and other net loss of approximately RMB15,401,000 for the year ended 31 December 2016. The increase was mainly due to the gain from in change in fair value of other financial liability of approximately RMB10,516,000 and exchange gain of approximately RMB18,458,000 which was partially off-set by the decrease in promotional service income of approximately RMB7,769,000.

4. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB162,105,000, which had increased by approximately RMB12,976,000 or 8.7% when compared to that of approximately RMB149,129,000 for the year ended 31 December 2016. This increase was primarily attributable to an increase in advertising and promotion expenses of approximately RMB4,215,000, transportation cost of approximately RMB1,190,000, bonus of approximately RMB3,721,000 and staff costs of approximately RMB803,000.

5. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB89,313,000, which had increased by approximately RMB13,770,000 or 18.2% when compared to that of approximately RMB75,543,000 for the year ended 31 December 2016. For the Year Under Review, rental expenses was approximately RMB3,144,000, administrative staff costs was approximately RMB17,865,000 and legal and professional fees was approximately RMB3,893,000, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees, and research and design expenses was approximately RMB12,828,000 (2016: rental expenses was approximately RMB3,665,000, administrative staff costs was approximately RMB10,380,000, legal and professional fees was approximately RMB5,759,000, and research and design expenses was RMB7,813,000).

6. Profit from operations

For the Year Under Review, profit from operations for the Group amounted to approximately RMB95,703,000, which had decreased slightly by approximately RMB17,000 or 0.0% when compared to that of approximately RMB95,720,000 for the year ended 31 December 2016. Decrease in profit from operations was mainly due to the decrease in gross profit and increase in operating cost, which was partially off-set by the increase in other income for the Year Under Review.

7. *Finance costs*

For the Year Under Review, finance costs amounted to approximately RMB26,210,000, representing an increase of approximately RMB13,241,000 or 102.1% when compared to that of approximately RMB12,969,000 for the year ended 31 December 2016. The increase was mainly due to the increase in interest charged on bank loans as a result of the increase in bank borrowings.

8. *Profit before taxation*

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB83,327,000, which had decreased by approximately RMB5,717,000 or 6.4% when compared to that of approximately RMB89,044,000 for the year ended 31 December 2016. Decrease in profit before taxation was mainly due to the increase in finance costs of approximately RMB13,241,000 which was partially offset by the increase in share of profit of a joint venture of approximately RMB7,541,000 for the Year Under Review.

9. *Income tax*

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB16,795,000, which had decreased by approximately RMB4,843,000 or 22.4% when compared to that of approximately RMB21,638,000 for the year ended 31 December 2016. This decrease was mainly due to the decrease in profit before tax. The effective tax rate for the Year Under Review was 20.2% when compared to 24.3% for the year ended 31 December 2016.

10. *Profit for the year attributable to owners of the Company*

For the Year Under Review, profit for the year attributable to owners of the Company amounted to approximately RMB51,060,000, which increased by approximately RMB4,094,000 or 8.7% when compared to that of approximately RMB46,966,000 for the year ended 31 December 2016. Increase in profit for the year attributable to owners of the Company was mainly due to the decrease in non-controlling interests of approximately RMB4,968,000 which was partially off-set by the decrease in profit for the year of approximately RMB874,000 for the Year Under Review.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. *Trade and other receivables*

Trade and bills receivables of the Group include credit sales that the Group's distributors should pay for the Group's products. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2017 amounted to RMB412,874,000, which had decreased by approximately RMB25,000,000 when compared to trade and other receivables as at 31 December 2016 which amounted to approximately RMB437,874,000. The decrease was mainly due to the decrease in trade and bills receivables of approximately RMB35,246,000.

2. *Inventories*

As at 31 December 2017, inventories owned by the Group amounted to approximately RMB148,881,000, representing an increase of approximately RMB21,248,000 when compared to that of RMB127,633,000 as at 31 December 2016. The main reason of increase in inventories was the increase in finished goods of approximately RMB16,482,000.

3. *Leasehold land held for own use under operating leases/Property, plant and equipment*

(a) *Leasehold land held for own use under operating leases*

As at 31 December 2017, leasehold land held for own use under operating leases amounted to approximately RMB92,198,000 (31 December 2016: nil) and this was the value related to the Group's new headquarter in Shenzhen and a piece of land acquired during the Year Under Review.

(b) Property, plant and equipment

Property, plant and equipment owned by the Group include building, leasehold improvements, furniture, fixtures and office equipment, machinery, motor vehicles and construction-in-progress. As at 31 December 2017, the net book value of property, plant and equipment owned by the Group amounted to approximately RMB57,483,000, showing an increase of approximately RMB34,675,000 when compared to that of approximately RMB22,808,000 as at 31 December 2016. Increase in property, plant and equipment was mainly due to the addition of the building and leasehold improvements for the Group's new headquarter in Shenzhen, which was partially off-set by the depreciation of approximately RMB5,579,000 during the Year Under Review.

4. Trade and other payables

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2017, trade and other payables owned by the Group amounted to approximately RMB242,114,000, showing a decrease of approximately RMB29,575,000 when compared to that of approximately RMB271,689,000 as at 31 December 2016 as a result of a decrease in trade payable of approximately RMB110,810,000 which was partially off-set by the increase in other payables of approximately RMB81,235,000.

CASH FLOW

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

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

The Group's cash inflow from operations primarily derives from receipts for the sale of the Group's products. For the Year Under Review, the Group's net cash inflow generated from operating activities amounted to approximately RMB72,388,000, while the net cash outflow used in operating activities for the year ended 31 December 2016 was approximately RMB3,751,000. The increase in net cash inflow was primarily due a decrease in trade and other receivables.

2. Net cash generated from/(used in) investing activities

The Group's net cash inflow generated from investing activities amounted to approximately RMB4,029,000 for the Year Under Review, while the net cash outflow used in investing activities was approximately RMB17,810,000 for the year ended 31 December 2016. The increase in net cash inflow was mainly due to the decrease of payment for the available-for-sales financial assets during the Year Under Review.

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

The Group's net cash outflow used in financing activities amounted to approximately RMB62,970,000 for the Year Under Review, while the net cash inflow generated from financing activities was approximately RMB121,052,000 for the year ended 31 December 2016. The increase in net cash outflow was mainly due to the increase in repayment of bank loans during the Year Under Review.

CAPITAL STRUCTURE

1. *Indebtedness*

The total indebtedness of the Group as at 31 December 2017 was approximately RMB412,980,000 (as at 31 December 2016: approximately RMB311,196,000), which will be due within one year. During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. *Asset-liability ratio*

As at 31 December 2017, the Group's asset-liability ratio was approximately 31.0% (as at 31 December 2016: 22.3%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. *Pledge of assets*

As at 31 December 2017, the Group had pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB100,000,000, RMB61,017,000 and RMB23,168,000, respectively. As at 31 December 2016, the Group pledged investment properties to the bank in the total amount of approximately RMB96,000,000.

4. *Capital expenditures*

The capital expenditures of the Group primarily included purchases of plant, equipment, leasehold improvements and other costs for acquisition of land. The Group's capital expenditures amounted to approximately RMB40,125,000 and RMB11,380,000 for the year ended 31 December 2017 and 2016, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was 3.30% to 5.66%. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB232,755,000 (as at 31 December 2016: RMB229,984,000) which was mainly generated from operations of the Group.

CAPITAL COMMITMENT

As at 31 December 2017, the Group had capital commitment of approximately RMB168,793,000 (as at 31 December 2016: RMB30,661,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2017, the Group had not made any material acquisition and disposal.

LITIGATION

As disclosed in the 2016 Annual Report, a claim was filed by the former Chief Executive Officer of Dong Di Xin (the "Plaintiff") against the substantial shareholder of Dong Di Xin (the "Substantial Shareholder") and Dong Di Xin. The related appeal has been lodged by Dong Di Xin (the"Appeal") to Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the"Court") against the judgment handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) (the"Judgment") ordering: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin. As disclosed in the 2016 Annual Report, the Judgement did not and will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. As at the date of this report, the Appeal had been heard but has not yet to be decided by the Court. The Company will make further announcement(s) to keep the shareholders of the Company and the public informed of any material progress on the Appeal as and when appropriate according to the Listing Rules.

FUTURE OUTLOOK

1. Consolidate and optimize product mix and actively introduce quality products from overseas

The Group adopts a product development strategy that is market and customer-oriented, so as to meet the changing needs and requirements of customers. In terms of product portfolio strategy, it will continue to adjust and strengthen the marketing strategy of various product lines, mounting innovative and flexible marketing campaigns, to raise brand awareness. Availability of Culturelle probiotic product series will be expanded in all channels, efforts will be made to accelerate development of the full range of probiotic products for children and adults. The Group will also actively expand maternal and infants channels and speed up deployment of the distribution channels for LifeLine Care maternal and infant fish oil nutrients series. As for the external use medicated oil product series, the target audience of each product will be identified precisely and pushing sales on online platforms will be the focus. In addition, the Group will actively introduce competitive high-quality medicines and health supplements from overseas. This will help consolidate the Group's position as a globally leading and renowned great health service provider in China.

Kingworld display booth in Shanghai Maternity, Baby, Children Expo 2017

Culturelle probiotic product display booth in Maternal and Child Health Million Walk

In 2018, the Group will introduce two to three high quality new products. The "Global Slimming" series will introduce well-known brands from Europe to enrich the product line to provide consumers with more choices. Moreover, the Group will introduce world-renowned healing lip balm series by the second quarter of the year.

2. *Continue to optimize channel structure and standardize channels to maximize effectiveness and efficiency*

In 2018, the Group will continue to work with strategic partners to carry out reform to standardise channels and optimize channel structure, which will further stabilize channel prices and enable downstream distributors and partners to enjoy effectiveness in operation. The Group will maintain and reinforce the position of Nin Jiom Pei Pa Koa as the top brand among cough relief products. Efforts will be made to ensure the loyalty of existing consumer groups and new consumer groups will be created through brand publicity endeavors.

3. *Strengthen internal and external strategic management of Dong Di Xin and promote development of own brands*

In 2018, the Group will continue to strengthen the internal and external infrastructure of Dong Di Xin, building a better internal system, establishing an effective risk control mechanism, strengthening the product quality system and stepping up development of home-use professional therapeutic devices. Such moves shall see the Group grow its market share steadily. The Group will continue to enhance corporate governance, build an efficient management team that matches market needs and measures will be undertaken to foster the cohesiveness and fighting spirit of teams to achieve various business objectives. The Group will continue to increase investment in R&D and make product development plans three years in advance. This will create a sustainable and competitive product echelon, which can boost the Group's ODM manufacturing advantages. The Group will develop a sound upstream and downstream heal and rehabilitation industrial chain gradually take shape product design shall be the key competitiveness to emphasis in the Group's operating philosophy. The Group will continue to promote automation of production lines and improve its mechanical processing capabilities to steadily improve production efficiency. Externally, Dong Di Xin will devote more efforts to building and promoting of its own brands and actively cooperating with world-class brands to boost market influence, and also continue to steadily tap markets in developed countries, and actively deploy markets in developing countries.

4. Accelerate development of own e-commerce platform to achieve OMO integration

In 2018, the Group will further expand its cross-border e-commerce business. At the same time, it will do its best to develop its own e-commerce platform, including kicking off the "Kingworld Healthy Family Mall" Membership Program, which is a marketing program targeting specific consumer groups. The function of customer service will be enhanced to provide adequate logistics support to the e-commerce system. OMO integration will be initiated and development of a new two-way interactive marketing strategy will be accelerated, with integration of online and offline businesses. In addition, in Hong Kong, the Group will launch e-commerce business and an online sales platform. This will pave the way for the integration of online and offline businesses in Hong Kong in the future.

5. Combine vertical and horizontal mergers and acquisitions integration strategies, scale in great health services industry will increase

In 2018, heeding industry situation, the own scale of the listed company and following the path of striving for market differentiation, the Group will pursue mergers and acquisitions, vertical and horizontal, aiming for integration to help it further develop in the great health services sector. On the product source front, the Group will look for quality products with potential in the market, giving priority consideration to large-scale for health manufacturing enterprises and overseas upstream manufacturers, as well as GMP enterprises in China. With respect to channel building, the Group will explore possibilities of acquiring an integrated online sales force and related resources to strengthen its new online channels.

6. Improve talent structure, optimize staff motivation mechanisms to bolster efficiency

Employees are one of the important assets of the Group. They are also the key to the sustainable development of the Company. The Group is committed to provide employees with equal opportunities in training and career development. In 2018, the Group will continue to improve its talent structure and strengthen its management succession mechanism. Through continuous optimization of employee incentive mechanism, the performance appraisal system to enhance staff efficiency. Efforts will also be made to continue to perfect management mechanisms, human resources management mechanisms and supervision mechanisms and speedup bringing in and training of talent for the E-Commerce Center to help speed up online and offline business integration. Interest groups for employees will be organized and activities will be arranged after work to enrich the lives of employees. Staff exchange will be reinforced to enhance employees' identification with the Company.

Group photo for Shanghai Maternity, Baby, Children Expo 2017

Outdoor activity for Kingword Health and Care Foundation

Kingworld staff participated in Charity Walk in Shenzhen

HUMAN RESOURCES AND TRAINING

As at 31 December 2017, the Group had a total of 998 employees, of whom 130 worked at the Group's headquarters in Shenzhen, and 392 were stationed in 34 regions responsible for sales and marketing, and 476 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB118,689,000 (2016: RMB84,446,000). The Group releases an annual sales guideline each year, setting out the annual sales targets and quarterly sales strategies to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager), which is responsible for coordinating front-line sales and marketing teams to meet the annual sales targets.

Free product trial for Pu Ji Kang Gan Granules in Causeway Bay, Hong Kong

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

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

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend for the Year Under Review of HK3.43 cents per share to shareholders whose names appear on the register of members of the Company on Tuesday, 5 June 2018, amounting to approximately HK$21,352,000, subject to the approval in the Company's forthcoming annual general meeting to be held on Friday, 25 May 2018. Total dividend payout ratio is 35% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Saturday, 30 June 2018.

Directors' and Senior Management's Biographies

DIRECTORS

The biographical details of the Directors and senior management of the Company as at the date of this report are set out below:

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 59, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 22 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("SZ Industry") in 1994 and the general manager and chairman of SZ Kingworld in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao has been a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯)第五屆理事會) in 2005. In 2008, he was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organizations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) and in 2009, the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會). Currently, he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San, an executive Director of the Company.

Ms. Chan Lok San (陳樂燊), aged 54, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 21 years of experience in the pharmaceutical industry as well as over 12 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996, respectively. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006, respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao Li Sheng, an executive Director of the Company.

Mr. Zhou Xuhua (周旭華), aged 51, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 20 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 52, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 27 years of experience in the pharmaceutical industry. Mr. Duan received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989, and was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. Mr. Duan served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司, stock code : 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. From April 2008 to April 2011, he was an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange. Since February 2013, he has been appointed as an independent non-executive Director of Yan He Medicines Company Limited (仁和药業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Directors' and Senior Management's Biographies

Mr. Wong Cheuk Lam (黃焯琳), aged 49, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 22 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master degree in business from Victoria University of Technology, Australia in 1997. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a Certified Taxpay Strategist (PRC). From 1994 to 2003, Mr. Wong worked in accounting positions for Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. From 2003 to January 2013, he worked as a company secretary at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange and worked as a chief financial officer from July 2005 to January 2013 and was also a financial controller during the period from October 2007 to July 2010 of the same company. Form February 2015 to May 2015, Mr. Wong worked for Genvon Group Limited (currently named Beijing Enterprises Medical and Health Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2389), as financial controller and deputy company secretary. From May 2015 to June 2016, Mr. Wong was the CFO and company secretary of ASR Logistics Holdings Limited (currently named Beijing Sports and Entertainment Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 1803).

Mr. Zhang Jianbin (張建斌), aged 57, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 25 years of experience of teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. Mr. Zhang completed a USA MBA program (organized by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. Mr. Zhang was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005. Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993 to 1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 57, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. Mr. Chan has over 32 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008, respectively. Mr. Chan received a bachelor degree in economics from Macquarie University Australia in 1986. In 2005, he received a master degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 52, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. Ms. Fang has approximately 27 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. Ms. Fang completed a course in accounting from Wuhan University (武漢大學) in 1991.

Mr. Liu Yibing (劉亦兵), aged 59, is the assistant of the General Manager of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. Mr. Liu has approximately 15 years of experience in the administrative field. He worked in the cadre training center at the human resources department of Foxconn International Group between 1995 and 1998. Mr. Liu received a bachelor degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Mr. Ceng Yun (曾澐), aged 47, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has approximately 19 years of experience as a sales manager in the pharmaceutical industry. Mr. Ceng completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Ms. Liang Caiyun (梁彩雲), aged 49, is the customer services manager of SZ Kingworld. Ms. Liang is primarily responsible for the implementation of SZ Kingworld's overall customer service strategies including but not limited to the delivery of the products and the review of purchase agreements. Ms. Liang has over 27 years of experience in the sales and strategic planning fields. Before joining SZ Kingworld in 1999, she worked in the Aviation Industry Corporation of China ZhongHang Electronic Measuring Instruments Co. Ltd. (中國航空工業總公司中航電測儀器股份有限公司) in 1988 and later worked as a planning and statistics officer of Chiaphua Appliance (Shenzhen) Company Limited in 1997. Ms. Liang completed her tertiary education in the area of industrial enterprises management at 012 Base Vocational School (012基地職工學院) in 1988, and received the qualification certificate of specialty and technology for the intermediate level in statistics from the National Bureau of Statistics of China (國家統計局) in 1996.

Ms. Zhang Dan (張丹), aged 53, is the marketing director of SZ Kingworld. Ms. Zhang is primarily responsible for the formulation and implementation of SZ Kingworld's overall marketing strategies for the Group's products, especially Nin Jiom Pei Pa Koa, Taiko Seirogan, Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil. Ms. Zhang has approximately 17 years of experience in the sales and marketing areas. She received a bachelor degree in medical treatment from Yunyang Medical College of Tongji Medical University (同濟醫科大學鄖陽醫學院) in 1986, and was a lecturer at the Hubei Province Wuhan Health School between 1986 and 1995. Ms. Zhang joined SZ Kingworld in 1996.

Ms. Tian Yongli (田永莉), aged 55, is the audit and control manager of SZ Kingworld. Ms. Tian is primarily responsible for the formulation, implementation and review of SZ Kingworld's accounting policies and internal control. Ms. Tian has approximately 24 years of experience in the auditing and accounting fields. She worked as an accounting officer for Electronic Industry Bureau of Wuhan City (武漢市電子工業局) in 1992. Ms. Tian received the junior accountant qualification from Finance Department of the PRC (中華人民共和國財政部) in 1999, and received a professional diploma in industrial enterprises' operation and management from Wu Han Radio and TV University (武漢市廣播電視大學) in 1986. Ms. Tian joined SZ Kingworld in 2005.

Mr. Huang Ruozhong (黃若忠), aged 55, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 22 years of experience in handling securities and finance related matters. Mr. Huang worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. Mr. Huang worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, Mr. Huang has been the executive directors of 23 subsidiaries and served as a director of Zhuhai Jinming since 2006. In 2001, Mr. Huang was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People's Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People's Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. Mr. Huang joined SZ Kingworld in 2003.

The emoluments of each of the above senior management of the Group fall within the band of Nil to HK$1,000,000.

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

As at 31 December 2017, the Board comprises a total of six Directors, being three executive Directors (the"Executive Directors"), and three independent non-executive Directors (the "Independent Non-executive Directors"). Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Zhou Xuhua served as Executive Directors and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its shareholders. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' and Senior Management's Biographies" of this report.

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

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

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

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

Pursuant to the Articles of Association of the Company, one third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Zhao Li Sheng , Ms. Chan Lok San and Mr. Duan Jidong shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD COMMITTEES

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

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

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

AUDIT COMMITTEE

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

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

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2016, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2017 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

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

The Audit Committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the year of 2017, and agreed with the accounting treatment adopted by the Group.

REMUNERATION COMMITTEE

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

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

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

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

NOMINATION COMMITTEE

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

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

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

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

BOARD/COMMITTEE MEETINGS AND INDIVIDUAL ATTENDANCE

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

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

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2017 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhao Li Sheng *(Chairman)*	4/4	—	—	—	1/1
Ms. Chan Lok San	4/4	—	—	—	1/1
Mr. Zhou Xuhua	4/4	—	—	—	1/1
Non-executive Director					
Mr. Zhang Yi *(resigned on 18 December 2017)*	4/4	—	—	—	1/1
Independent Non-executive Directors					
Mr. Duan Jidong	4/4	2/2	2/2	2/2	1/1
Mr. Wong Cheuk Lam	4/4	2/2	2/2	2/2	1/1
Mr. Zhang Jianbin	4/4	2/2	2/2	2/2	1/1

TRAINING AND SUPPORT OF DIRECTORS

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

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

Name of Directors	Training received
Mr. Zhao Li Sheng	— Reading materials/attending external and in house seminars and programmes
Ms. Chan Lok San	— Reading materials/attending external and in house seminars and programmes
Mr. Zhou Xuhua	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Yi *(resigned on 18 December 2017)*	— Reading materials/attending external and in house seminars and programmes
Mr. Duan Jidong	— Reading materials/attending external and in house seminars and programmes
Mr. Wong Cheuk Lam	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Jianbin	— Reading materials/attending external and in house seminars and programmes

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

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

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

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2017, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB1,435,000 (equivalent to approximately HK$1,658,000).

For the year ended 31 December 2017, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB409,000 (equivalent to approximately HK$473,000).

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL COMPLIANCE GUIDELINES

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

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

For the year ended 31 December 2017, through reviews conducted by the Audit Committee and study results from internal audit department, the Board has conducted a review on the effectiveness of internal control system, the risk management system and the internal compliance guidelines, and has come to the conclusion that such systems and guidelines have been effectively and adequately executed and followed.

CORPORATE GOVERNANCE MEASURES

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

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

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

DIRECTORS' INSURANCE

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

COMPANY SECRETARY

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

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

SHAREHOLDERS' RIGHTS

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

Extraordinary general meetings shall be convened on the written requisition of any one or more Shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for directing Shareholders' enquiries to the Board

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

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

INVESTOR RELATIONS

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

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

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

Hong Kong, 28 March 2018

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 (the "Financial Statements").

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in (i) distribution of imported branded pharmaceutical and healthcare products in the PRC; and (ii) maunfacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices. As at 31 December 2017, the Group managed a portfolio of eleven categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from fourteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. Many of the products distributed by the Group are established brand names including Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil, Kyushin Pill and Mentholatum Product Series. Amongst these brands, "Nin Jiom" has always been the best-seller of the Group. Nin Jiom Chuan Bei Pei Pa Koa is also the best-selling Chinese medical cough relieving product in the PRC, which is the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the Financial Statements on pages 76 to 177.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2017 of HK3.43 cents per share to Shareholders whose names appear on the register of members of the Company on Tuesday, 5 June 2018, amounting to approximately HK$21,352,000, subject to the approval from the Company's forthcoming annual general meeting to be held on Friday, 25 May 2018. Total dividend payout ratio is 35% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Saturday, 30 June 2018.

CLOSURE OF THE REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 18 May 2018.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Friday, 1 June 2018 to Tuesday, 5 June 2018 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 31 May 2018.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 12 to 35. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Summary" on page 178. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH STAKEHOLDERS

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

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

KEY RISKS AND UNCERTAINTIES

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

Market Risk

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

Foreign exchange risk

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

Liquidity Risk

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

Operational Risk

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

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

LITIGATION AND CONTINGENT LIABILITIES

As disclosed on page 32 of this report, except for a claim filed by the Plaintiff against the Substantial Shareholder and Dong Di Xin and the Appeal to the Court against the Judgment, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

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

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

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 31 December 2017, the Group had used net proceeds of approximately RMB136,920,000, of which RMB6,000,000 had been applied for upgrading the transportation and delivery services to customers, RMB15,760,000 had been applied for expanding the product display booth scheme, approximately RMB20,600,000 as working capital and approximately RMB94,560,000 has been applied for acquisition of Dong Di Xin. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

A summary of share options granted under the Share Option Scheme of the Company during the year ended 31 December 2017 is as follows:

					Number of Share Options					
Grantees	Position held with the Group and/or relationship with the Group	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Outstanding as at 1 January 2017	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2017	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Chairman/Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	520,000	–	–	(156,000)	364,000	0.06%
Ms. Chan Lok San (Note 2)	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	468,000	–	–	(140,000)	328,000	0.05%
Zhou Xuhua	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	468,000	–	–	(140,000)	328,000	0.05%
DuanJidong	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	(124,000)	288,000	0.05%
Zhang Jianbin	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	(124,000)	288,000	0.05%
Wong Cheuk Lam	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	(124,000)	288,000	0.05%
Zhang Yi (Note 6)	Non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	–	–	(412,000)	–	0.00%
Sub-total of Share Options granted to Directors					**3,104,000**	**–**	**–**	**(1,220,000)**	**1,884,000**	**0.30%**
57 Employees	Employees of the Group	1 June 2015	1 June 2015 to 31 May 2019	2.54	13,236,000	–	–	(4,971,000)	8,265,000	1.33%
Sub-total of Share Options granted to Directors and Employees					**16,340,000**	**–**	**–**	**(6,191,000)**	**10,149,000**	**1.63%**
5 Consultants	Consultants of the Group	1 June 2015	1 June 2015 to 31 May 2017	2.54	300,000	–	–	(300,000)	–	0.00%
Hong Kong Zhixin Financial News Agency Ltd. (香港智信財經通訊社有限公司) ("Hong Kong Zhixin") (Note 5)	Consultant of the Group	9 October 2015	9 October 2015 to 8 October 2018	2.54	6,200,000	–	–	–	6,200,000	0.99%
Total					**22,840,000**	**–**	**–**	**(6,491,000)**	**16,349,000**	**2.63%**

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

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

Note 3: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.The value of the Share Options granted during the period ended 31 December 2017 was zero as such performance target(s) and terms set for the Share Options had not been achieved by the end of the Year Under Review.

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

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

Note 6: Zhang Yi resigned as a non-executive Director of the Company on 18 December 2017.

BORROWINGS

Details of the Group's borrowings as at 31 December 2017 are set out in note 27 to the Financial Statements.

EQUITY-LINKED AGREEMENTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

PERMITTED INDEMNITY PROVISION

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

GOING CONCERN

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

PUBLIC FLOAT

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

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

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

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

RESERVES

Details of change in reserves of the Group and the Company are set out on page 80 of the Consolidated Statement of Changes in Equity and note 31 to the Financial Statements.

DISTRIBUTABLE RESERVES

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

As at 31 December 2017, the aggregate amount of reserves available for distribution to owners of the Company was RMB109,238,000 (as at 31 December 2016: RMB168,527,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK3.43 cents (equivalent to RMB2.87 cents) (2016: HK2.95 cents, equivalent to RMB2.64 cents) per share amounting to RMB17,866,000 (2016: RMB16,434,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB5,400,000 (2016: RMB7,205,000).

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2017. Increase in fair value of investment properties due to revaluation amounted to approximately RMB4,470,000, which has been included in the Consolidated Statement of Profit or Loss. Details of changes in the Group's investment properties for the year ended 31 December 2017 are set out in note 14 of the Financial Statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2017 are set out in note 17 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2017 and up to the date of this report have been:

Executive Directors

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

Non-executive Director

Mr. Zhang Yi (resigned on 18 December 2017)

Independent Non-executive Directors

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 36 to 40 under the section headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

The five highest paid individuals of the Group in the Year Under Review include 3 (2016: 3) Directors. Details of the five highest paid individuals are set out in note 11 to the Financial Statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the latest service contract was renewed on 25 November 2016 until being terminated pursuant to the terms of the service contract.

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

	RMB'000
Mr. Zhao Li Sheng	1,518
Ms. Chan Lok San	1,286
Mr. Zhou Xuhua	1,876

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

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

Non-executive Director

Mr. Zhang Yi has entered into a letter of appointment with the Company for a term of three years commencing from 17 December 2014, subject to the requirements for retirement by rotation and re-election in accordance with the Company's articles of association. The letter of appointment may be terminated by three months' prior notice in writing served by either party to the other. Under the letter of appointment, Mr. Zhang is entitled to an annual basic salary of HK$176,400 (which will be pro-rated to the period of services in the year of his appointment). Mr. Zhang will also be entitled to reimbursement of reasonable expenses including travelling, hotel and other expenses properly incurred in the performance of his duties under the letter of appointment. Mr. Zhang resigned as a non-executive Director of the Company on 18 December 2017.

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

	RMB'000
Mr. Zhang Yi	—

Independent Non-executive Directors

Each of the Independent Non-executive Directors (other than Mr. Zhang Jianbin) has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the latest letter of appointment was renewed on 25 November 2016 until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the letter of appointment was renewed on 1 August 2016 until being terminated pursuant to the terms of the letter of appointment.

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

	RMB'000
Mr. Duan Jidong	359
Mr. Wong Cheuk Lam	359
Mr. Zhang Jianbin	359

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", during the year ended 31 December 2017, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

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

As at 31 December 2017, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Beneficial owner	11,220,000	1.80%
	Interest of spouse	90,000,000	14.46%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Interest of spouse	309,032,250	49.64%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua (Note 3)	Interest of spouse	3,800,000	0.61%

Notes:

1. In addition to 11,220,000 shares which are beneficially owned by Mr. Zhao Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 387,812,250 shares in the Company. These shares are held in the following capacities:

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

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

2. Ms. Chan Lok San is deemed (by virtue of the SFO) to be interested in 399,032,250 shares in the Company. These shares are held in the following capacities:

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

   (b) 11,220,000 shares are held by Mr. Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 11,220,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

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

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

				Number of Share Options					
Name of Directors	Date of grant	Option Period (Note 3)	Exercise Price per Share (HK$) (Note 4)	Outstanding as at 1 January 2017	Granted during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2017	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	1 June 2015	1 June 2015 to 31 May 2019	2.54	520,000	—	—	(156,000)	364,000	0.06%
Ms. Chan Lok San (Note 2)	1 June 2015	1 June 2015 to 31 May 2019	2.54	468,000	—	—	(140,000)	328,000	0.05%
Zhou Xuhua	1 June 2015	1 June 2015 to 31 May 2019	2.54	468,000	—	—	(140,000)	328,000	0.05%
DuanJidong	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	—	—	(124,000)	288,000	0.05%
Zhang Jianbin	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	—	—	(124,000)	288,000	0.05%
Wong Cheuk Lam	1 June 2015	1 June 2015 to 31 May 2019	2.54	412,000	—	—	(124,000)	288,000	0.05%
Total				**2,692,000**	**—**	**—**	**(808,000)**	**1,884,000**	0.30%

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

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

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

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

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

Name of Directors	Name of associated corporations	Capacity/Nature of Interest	Percentage of shareholding
Zhao Li Sheng	Golden Land	Beneficial owner	100%
Chan Lok San	Golden Morning	Beneficial owner	100%

As at 31 December 2017, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2017, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

As at 31 December 2017, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Golden Land	Beneficial owner	297,812,250	47.84%
Golden Morning	Beneficial owner	90,000,000	14.46%
Zhao Li Sheng (Note 1)	Beneficial owner	11,220,000	1.80%
	Interest of spouse	90,000,000	14.46%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Interest of spouse	309,032,250	49.64%
	Interest of a controlled corporation	90,000,000	14.46%
Sinopharm Healthcare Fund L.P. (Note 3)	Beneficial owner	62,187,750	9.99%
Sinopharm Capital Limited (Note 4)	Interest of a controlled corporation	62,187,750	9.99%
Sun Hill Capital Investments Limited (Note 5)	Interest of a controlled corporation	62,187,750	9.99%
Wu Aimin (Note 6)	Interest of a controlled corporation	62,187,750	9.99%

Notes:

1. In addition to 11,220,000 shares which are beneficially owned by Mr. Zhao Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 387,812,250 shares in the Company. These shares are held in the following capacities:

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

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

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 399,032,250 shares in the Company. These shares are held in the following capacities:

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

   (b) 11,220,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 399,032,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 11,220,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

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

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

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

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

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2017, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2017 and during any time for the year ended 31 December 2017, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2017 and during any time for the year ended 31 December 2017, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2017 and during any time for the year ended 31 December 2017, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance entered into or proposed to be entered into with the Company in relation to the Company's business.

MANAGEMENT CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the Group entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in note 36 to the Financial Statements.

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

As disclosed in the announcement of the Company dated 1 December 2016 (the "Announcement"), on 1 December 2016, the Company entered into two new master distribution agreements with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳市金活利生藥業有限公司) ("SZ Kingworld Lifeshine") and Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("Yuen Tai") respectively (collectively, the "New Master Distribution Agreements").

Unless otherwise defined herein, terms used in the following section headed "New master distribution agreements for the year ending 31 December 2017" shall have the same meanings as defined in the Announcement.

New Master Distribution Agreements for the year ended 31 December 2017

Transaction	Member of the Group	Connected person	Actual transaction amounts for the year ended 31 December 2017 RMB'000	Approximate annual cap for the year ended 31 December 2017 RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	9,187	24,340
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	HK Kingworld	Yuen Tai	3,174	5,468

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

2017 SZ Kingworld Lifeshine Master Distribution Agreement

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

On 1 December 2016, SZ Kingworld Lifeshine and SZ Kingworld entered into the SZ Kingworld Lifeshine Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of one year commencing from 1 January 2017 and ended on 31 December 2017 (both days inclusive).

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

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

On 14 December 2017, in view of the prospective expiry of the SZ Kingworld Life Shine Master Distribution Agreement, SZ Kingworld Life Shine and SZ Kingworld entered into the 2018 SZ Kingworld Life Shine Master Distribution Agreement. For details, please refer to the announcement of the Company dated 14 December 2017.

2017 Yuen Tai Master Distribution Agreement

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

On 1 December 2016, Yuen Tai and HK Kingworld entered into the Yuen Tai Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of one year commencing from 1 January 2017 and ended on 31 December 2017 (both days inclusive).

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

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

On 14 December 2017, in view of the prospective expiry of the Yuen Tai Master Distribution Agreement, Yuen Tai and HK Kingworld entered into the 2018 Yuen Tai Master Distribution Agreement. For details, please refer to the announcement of the Company dated 14 December 2017.

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

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

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

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

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

(i) have received the approval of the Board;

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

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

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

PLEDGE OF ASSETS

As at 31 December 2017, the Group had pledged investment properties, leasehold land held for own use under operating leases and property, plant and equipment to certain banks in the amount of approximately RMB100,000,000, RMB61,017,000 and RMB23,168,000 respectively. As at 31 December 2016, the Group pledged investment properties to the bank in the total amount of approximately RMB96,000,000.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was 3.30% to 5.66%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB232,755,000 (as at 31 December 2016: RMB229,984,000) which was mainly generated from operations of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total revenue of the Group's five largest customers accounted for approximately 11.3% of the Group's revenue, in which revenue from the largest customer of the Group accounted for approximately 2.6% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 66.7% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 55.5% of the total purchase of the Group.

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

TAX RELIEF AND EXEMPTION

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

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2017 are set out in note 2(w) to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

EVENT AFTER THE REPORTING PERIOD

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by Crowe Horwath (HK) CPA Limited, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

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

Hong Kong, 28 March, 2018

Independent Auditor's Report

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

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

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

OPINION

We have audited the consolidated financial statements of Kingworld Medicines Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 76 to 177, 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 profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

The Key Audit Matter	*How the matter was addressed in our audit*
(a) Impairment of goodwill and intangible assets (Refer to notes 2(j)(ii), 18, 20 and 33(b) and (i) to the consolidated financial statements) The Group has RMB90,693,000 of goodwill and RMB78,503,000 of intangible assets relating to the acquisition of Shenzhen Dong Di Xin Technology Company Limited in 2015. Their recoverable amount is based on an assessment of the higher of fair value less cost to sell and value in use. Value in use is calculated as the net present value of estimated future cash flows. The Group appointed an independent professional valuer to perform valuation for value in use of the cash generating units to which goodwill and intangible assets are allocated, and made reference to the valuation of the valuer to determine assets impairments. The Group's assessment of impairment is a judgemental process which requires assumptions and estimates concerning the estimated future cash flows, discount rate and growth rate based on management's view of future business prospects.	We reviewed and challenged the impairment analysis prepared by the management as outlined below: With regard to the overall impairment assessments performed by the management, we evaluated the design of internal controls in place to determine any asset impairments or impairment reversals. We reviewed and challenged the appropriateness of the models and key assumptions and estimates used by management and the valuers to determine the recoverable value of the goodwill and intangible assets. We tested the key assumptions by reference to third party data, where available. We evaluated and challenged the key assumptions used in each valuation model and performed sensitivity analysis around key drivers of cash flow forecasts, including unit of sales, gross margins growth rates, operating costs, and expected life of assets. We evaluated and challenged the calculation of discount rate used to determine the value in use by assessing the cost of capital of the Group and comparable organisations and considering their reasonableness. Furthermore, we assessed historical accuracy in management's forecasting process. We also assessed the Group's disclosures in respect of goodwill and intangible assets in notes 18 and 20, respectively, to the consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter

(b) Valuation of financial instruments

(Refer to notes 2(e) and (j)(i), 21, 24, 32(f) and 33(h) to the consolidated financial statements)

As at 31 December 2017, the fair value of available-for-sale financial assets and financial assets at fair value through profit or loss of the Group were RMB39,924,000 and RMB22,670,000, respectively.

The Group appointed an independent professional valuer to perform valuations on these financial instruments and made reference to the valuations of the valuer to determine the fair values of these financial instruments.

The valuation of financial instruments held at fair value and the related disclosures require market data and modelling techniques which rely on a range of inputs. Where observable market data are not available, or where instruments are not liquid, estimates are based on the most appropriate source data. These estimates are subject to significant judgement.

How the matter was addressed in our audit

We reviewed and challenged the valuations of these financial instruments as outlined below:

We reviewed and challenged the appropriateness of the models and key assumptions and estimates used by the management and management's valuers to determine the fair value of the financial instruments.

We assessed and challenged management's valuation of financial instruments, in particular where there was no observable market price. We compared model inputs to industry benchmarks and third party data, where available.

We evaluated and challenged the calculation of discount rates used to determine the fair value of the financial instruments by assessing the cost of capital of comparable companies and considering their reasonableness.

We also assessed the Group's disclosures in respect of financial instruments in notes 21, 24 and 32(f) to the consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	*How the matter was addressed in our audit*
(c) Impairment of trade and bills receivables (Refer to notes 2(j)(i), 23, 32(a)(iii) and 33(d) to the consolidated financial statements) At 31 December 2017, trade and bills receivables amounted to approximately RMB254.5 million, net of allowance for doubtful debts of aproximately RMB5.4 million, for which there are no collaterals as security for settlement. In the normal ordinary course of its business, the Group grants its customers with credit period up to 90 days after billing. The Group's top five largest debtors accounted for approximately 31.61% of its total trade and bills receivables at 31 December 2017. This may give rise to the risk of bad debt losses arising from unfavorable changes in the customers' abilities to settle their trade debts after year end. Management's judgement and inherent estimation uncertainty are involved in determining the trade and bills receivables provisioning and in assessing its adequacy through considering the expected recoverability of the year-end trade and bills receivables.	We reviewed and challenged the assumptions applied by management in estimating the provision for impairment against trade and bills receivables at the year end as outlined below: We reviewed the Group's credit control and debt recovery procedures and actions taken to monitor and collect the trade and bills receivables. We reviewed historical settlement history of the customers and testing subsequent cash receipts from the customers after year end. We assessed ageing analysis for trade and bills receivables by customers and updated creditworthiness of the customers. We enquired management of any disputes with customers, assessing the discrepancies to the debtor confirmations directly obtained from the customers and reviewing correspondences with the customers for dispute. We checked the accuracy of calculation of the required provision for the impairment of doubtful debts. We also assessed the Group's disclosures in respect of trade and bills receivables in notes 23 and 32(a)(iii) to the consolidated financial statements.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

– 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.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2018

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Revenue	4	**1,031,488**	1,053,527
Cost of sales		**(708,317)**	(729,955)
Gross profit		**323,171**	323,572
Valuation gain on investment properties	14	**4,470**	250
Other revenue, income and other net loss	6	**38,311**	15,401
Selling and distribution costs		**(162,105)**	(149,129)
Administrative expenses		**(89,313)**	(75,543)
Amortisation of intangible assets	20	**(18,831)**	(18,831)
Profit from operations		**95,703**	95,720
Finance costs	7 (a)	**(26,210)**	(12,969)
Share of profit of a joint venture		**13,834**	6,293
Profit before taxation	7	**83,327**	89,044
Income tax	8	**(16,795)**	(21,638)
Profit for the year		**66,532**	67,406
Attributable to:			
Owners of the Company		**51,060**	46,966
Non-controlling interests		**15,472**	20,440
Profit for the year		**66,532**	67,406
Earnings per share	10		
Basic (RMB cents)		**8.20**	7.26
Diluted (RMB cents)		**8.20**	7.26

The notes on pages 83 to 177 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017
(Expressed in Renminbi)

	2017 RMB'000	2016 RMB'000
Profit for the year	**66,532**	67,406
Other comprehensive income/(loss) for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**1,561**	(4,599)
Available-for-sale investments:		
Change in fair value	**615**	7,969
Reclassification adjustments for gain on disposal included in the consolidated statement of profit or loss	**(5,241)**	(2,395)
	(3,065)	975
Total comprehensive income for the year (net of tax)	**63,467**	68,381
Attributable to:		
Owners of the Company	**48,273**	48,705
Non-controlling interests	**15,194**	19,676
Total comprehensive income for the year	**63,467**	68,381

The notes on pages 83 to 177 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Leasehold land held for own use under operating leases	13	**92,198**	—
Property, plant and equipment	13	**57,483**	22,808
Investment properties	14	**112,600**	108,130
Interest in a joint venture	19	**43,067**	69,233
Deposit paid for property, plant and equipment	15	**—**	75,000
Deposit paid for acquisition of land	16	**—**	18,988
Goodwill	18	**90,693**	90,693
Intangible assets	20	**78,503**	97,334
Financial assets at fair value through profit or loss	24	**4,775**	4,232
Available-for-sale financial assets	21	**14,141**	19,401
		493,460	505,819
Current assets			
Inventories	22	**148,881**	127,633
Trade and other receivables	23	**412,874**	437,874
Available-for-sale financial assets	21	**25,783**	65,199
Other financial assets	30	**—**	533
Financial assets at fair value through profit or loss	24	**17,895**	17,400
Pledged bank deposits	25	**750**	9,297
Cash and cash equivalents	25	**232,755**	229,984
		838,938	887,920
Current liabilities			
Trade and other payables	26	**242,114**	271,689
Other financial liabilities	30	**—**	13,623
Bank loans	27	**412,980**	311,196
Liability component of convertible bonds	28	**—**	114,909
Tax payable	29(a)	**10,028**	15,503
		665,122	726,920
Net current assets		**173,816**	161,000
Total assets less current liabilities		**667,276**	666,819
Non-current liabilities			
Deferred tax liabilities	29(b)	**25,641**	28,169
		25,641	28,169
NET ASSETS		**641,635**	638,650

The notes on pages 83 to 177 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
CAPITAL AND RESERVES	31		
Share capital		**53,468**	53,468
Reserves		**499,626**	470,347
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**553,094**	523,815
NON-CONTROLLING INTERESTS	17	**88,541**	114,835
TOTAL EQUITY		**641,635**	638,650

Approved and authorised for issue by the board of directors on 28 March 2018.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 83 to 177 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017
(Expressed in Renminbi)

	Attributable to owners of the Company												
	Share capital RMB'000 (note 31(a))	Share premium RMB'000 (note 31(b))	Statutory and discretionary reserves RMB'000 (note 31(c))	Contributed surplus RMB'000 (note 31(d))	Convertible bonds equity reserve RMB'000 (note 31(e))	Fair value reserve RMB'000 (note 31(f))	Exchange reserve RMB'000 (note 31(g))	Capital reserve RMB'000 (note 31(h))	Other reserve RMB'000 (note 31(i))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2017	**53,468**	**152,700**	**38,740**	**29,068**	**6,259**	**6,773**	**(20,678)**	**753**	**(19,654)**	**276,386**	**523,815**	**114,835**	**638,650**
Changes in equity:													
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**51,060**	**51,060**	**15,472**	**66,532**
Other comprehensive income/(loss) for the year													
– Exchange difference arising from the translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**1,561**	**–**	**–**	**–**	**1,561**	**–**	**1,561**
– Fair value change on available-for sale investments	**–**	**–**	**–**	**–**	**–**	**579**	**–**	**–**	**–**	**–**	**579**	**36**	**615**
– Reclassification adjustment upon disposal of available-for sale investment	**–**	**–**	**–**	**–**	**–**	**(4,927)**	**–**	**–**	**–**	**–**	**(4,927)**	**(314)**	**(5,241)**
Total other comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**(4,348)**	**1,561**	**–**	**–**	**–**	**(2,787)**	**(278)**	**(3,065)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**(4,348)**	**1,561**	**–**	**–**	**51,060**	**48,273**	**15,194**	**63,467**
Appropriation of statutory and discretionary reserves	**–**	**–**	**5,368**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,368)**	**–**	**–**	**–**
Dividends (note 9(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(15,350)**	**(15,350)**	**–**	**(15,350)**
Distribution to non-controlling interests (note 17(e))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(52,488)**	**(52,488)**
Deemed distribution to non-controlling interests (note 17(f))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(11,000)**	**(11,000)**	**11,000**	**–**
Transfer of convertible bonds equity reserve and other reserve upon derecognition (note 28)	**–**	**–**	**–**	**–**	**(6,259)**	**–**	**–**	**–**	**19,654**	**(13,395)**	**–**	**–**	**–**
Equity settled share-based transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,356**	**–**	**–**	**7,356**	**–**	**7,356**
At 31 December 2017	**53,468**	**152,700**	**44,108**	**29,068**	**–**	**2,425**	**(19,117)**	**8,109**	**–**	**282,333**	**553,094**	**88,541**	**641,635**
At 1 January 2016	53,468	152,700	34,157	29,068	94,905	435	(16,079)	210	–	242,522	591,386	95,880	687,266
Changes in equity:													
Profit for the year	–	–	–	–	–	–	–	–	–	46,966	46,966	20,440	67,406
Other comprehensive income/(loss) for the year													
– Exchange difference arising from the translation of foreign operations	–	–	–	–	–	–	(4,599)	–	–	–	(4,599)	–	(4,599)
– Fair value change on available-for-sale investments	–	–	–	–	–	7,655	–	–	–	–	7,655	314	7,969
– Reclassification adjustment upon disposal of available-for-sale investments	–	–	–	–	–	(1,317)	–	–	–	–	(1,317)	(1,078)	(2,395)
Total other comprehensive income/(loss) for the year	–	–	–	–	–	6,338	(4,599)	–	–	–	1,739	(764)	975
Total comprehensive income/(loss) for the year	–	–	–	–	–	6,338	(4,599)	–	–	46,966	48,705	19,676	68,381
Appropriation of statutory and discretionary reserves	–	–	4,583	–	–	–	–	–	–	(4,583)	–	–	–
Dividends (note 9(b))	–	–	–	–	–	–	–	–	–	(8,519)	(8,519)	–	(8,519)
Distribution to non-controlling interest (note 17(e))	–	–	–	–	–	–	–	–	–	–	–	(721)	(721)
Equity settled share-based transactions	–	–	–	–	–	–	–	543	–	–	543	–	543
Extinguishment and recognition of convertible bonds (note 28)	–	–	–	–	(88,646)	–	–	–	(19,654)	–	(108,300)	–	(108,300)
At 31 December 2016	53,468	152,700	38,740	29,068	6,259	6,773	(20,678)	753	(19,654)	276,386	523,815	114,835	638,650

The notes on pages 83 to 177 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation		**83,327**	89,044
Adjustments for:			
Depreciation of property, plant and equipments	7(c)	**5,579**	4,234
Amortisation of leasehold land for own use under operating leases	7(c)	**1,365**	—
Finance costs	7(a)	**26,210**	12,969
Bank interest income	6	**(633)**	(597)
Dividend received from available-for-sale financial asset	6	**(1,483)**	(1,705)
Dividend received from financial assets at fair value through profit or loss	6	**(623)**	(365)
Interest from available-for-sale financial investments	6	**(1,849)**	(2,439)
Loss on disposal of property, plant and equipment	7(c)	**119**	153
Equity settled share-based transaction	7(c)	**7,614**	526
Write-off of trade receivable	7(c)	**—**	330
(Reversal of impairment loss on trade receivables)/ impairment loss of trade receivables	7(c)	**(237)**	951
Impairment loss of available-for-sale financial assets	7(c)	**—**	4,897
Reversal of impairment loss on other receivables	7(c)	**—**	(3,717)
Reversal of inventories write-down	7(c)	**(1,282)**	—
Write-off of bills receivables	7(c)	**248**	—
Change in fair value of financial assets at fair value through profit or loss	6	**(2,236)**	(1,566)
Change in fair value of other financial assets	6	**—**	4,071
Change in fair value of other financial liabilities	6	**(13,255)**	(2,739)
Amortisation of intangible assets	7(c)	**18,831**	18,831
Share of profit of a joint venture		**(13,834)**	(6,293)
Valuation gain on investment properties	14	**(4,470)**	(250)
Write-down of inventories	22	**—**	3,096
Changes in working capital			
Increase in inventories		**(19,966)**	(51,724)
Decrease/(increase) in trade and other receivables		**44,789**	(148,326)
Decrease/(increase) in deposit for letter of credit		**8,547**	(1,597)
(Decrease)/increase in trade and other payables		**(39,575)**	104,943
Cash generated from operations		**97,186**	22,727
Income tax paid		**(24,798)**	(26,478)
Net cash generated from/(used in) operating activities		**72,388**	(3,751)

The notes on pages 83 to 177 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(40,125)**	(11,380)
Payment for the available-for-sale financial assets		**(25,700)**	(71,448)
Payment for the financial assets at fair value through profit or loss		**—**	(5,000)
Proceeds from disposal of available-for-sales financial assets		**65,199**	83,900
Proceeds from disposal of property, plant and equipment		**67**	—
Deposit paid for leasehold land held for own use under operating leases		**—**	(18,988)
Interest received from available-for-sale financial investments		**1,849**	2,439
Interest received		**633**	597
Dividend received from available-for-sale financial assets	6	**1,483**	1,705
Dividend received from financial assets at fair value through profit or loss	6	**623**	365
Dividend received from a joint venture	19	**20,200**	—
Net cash generated from/(used in) investing activities		**24,229**	(17,810)
Financing activities			
Proceeds from new bank loans	25(b)	**287,595**	154,658
Repayment of bank loans	25(b)	**(175,572)**	(11,022)
Redemption of convertible bond	25(b),28	**(115,796)**	—
Interest on bank loans	7(a)	**(16,090)**	(7,205)
Interest on convertible bond paid	28	**(5,469)**	(7,581)
Dividend paid to owners of the Company	9(b)	**(15,350)**	(8,519)
Dividend paid to non-controlling interest	17(a)	**(42,488)**	721
Net cash (used in)/generated from financing activities		**(83,170)**	121,052
Net increase in cash and cash equivalents		**13,447**	99,491
Cash and cash equivalents at beginning of year		**229,984**	132,478
Effect of foreign exchange rate changes		**(10,676)**	(1,985)
Cash and cash equivalents at end of year	25	**232,755**	229,984

The notes on pages 83 to 177 form part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Statement of compliance*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) *Basis of preparation of the consolidated financial statements*

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries and the Group's interest in a joint venture.

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

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

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

— derivative financial instruments (see note 2(ab));

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) *Subsidiaries and non-controlling interests*

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) *Joint ventures*

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) *Other investments in equity securities*

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) *Investment properties*

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

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

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

g) *Property, plant and equipment*

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

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

— buildings held for own use situated on leasehold land under operating leases are depreciated on a straight-line basis over the shorter of their estimated lives, being no more than 50 years and the unexpired term of the lease.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

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

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

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

h) *Leased assets*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets (Continued)*

i) *Classification of assets leased to the Group*

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

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

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

ii) *Operating lease charges*

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

i) *Inventories*

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Impairment of assets

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

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

— significant financial difficulty of the debtor;

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets (Continued)*

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets* *(Continued)*

ii) *Impairment of other assets*

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

— property, plant and equipment;

— intangible assets;

— goodwill;

— deposit paid for property, plant and equipment; and

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

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

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

Recognition of impairment losses

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets* (Continued)

ii) *Impairment of other assets (Continued)*

Reversals of impairment losses

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

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

iii) *Interim financial reporting and impairment*

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

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

k) *Trade and other receivables*

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

l) *Trade and other payables*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) *Interest-bearing borrowings*

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

n) *Cash and cash equivalents*

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

o) *Income tax*

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) *Income tax (Continued)*

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

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

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

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

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

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

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

  — the same taxable entity; or

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) *Provisions and contingent liabilities*

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

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

q) *Borrowing costs*

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

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

r) *Translation of foreign currencies*

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) *Translation of foreign currencies (Continued)*

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

s) *Revenue recognition*

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

i) *Sales of goods*

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

ii) *Rental income from operating leases*

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

iii) *Promotional service income*

Promotional service income is recognised when the services are rendered.

iv) *Interest income*

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

v) *Dividends*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Segment reporting*

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

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

u) *Mandatorily convertible bonds and convertible bonds*

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) *Business combinations*

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Incomes Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) *Business combinations (Continued)*

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

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

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

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

ii) *Goodwill*

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) ii) *Goodwill (Continued)*

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

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

w) *Employee benefits*

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

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

ii) *Termination benefits*

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) *Employee benefits (Continued)*

iii) *Share-based payments*

Where equity instruments such as share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 38 to the financial statements. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

x) Related parties

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

   i) has control or joint control over the Group;

   ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

y) *Intangible assets (other than goodwill)*

Intangible assets acquired in a business combination

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

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

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

– Customer relationship	8 years
– Patents	5 years

Derecognition of intangible assets

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

z) *Government grants*

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

ab) *Derivative financial instruments*

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

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 25 to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, Statement of Cash Flows: Disclosure Initiative, which require entities 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-clash changes.

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

4. REVENUE

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

	2017 **RMB'000**	2016 RMB'000
Sales of		
– pharmaceutical products	**575,322**	643,933
– healthcare products	**246,803**	222,482
– medical devices	**209,363**	187,112
	1,031,488	1,053,527

5. SEGMENT REPORTING

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

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

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

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities*

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

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

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

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

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

5. SEGMENT REPORTING *(Continued)*

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

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices			
	Hong Kong		PRC		PRC		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**175,205**	183,754	**736,355**	759,165	**209,362**	187,112	**1,120,922**	1,130,031
Inter-segment revenue	**40,815**	18,307	**16,467**	—	**—**	—	**57,282**	18,307
Reportable segment revenue	**216,020**	202,061	**752,822**	759,165	**209,362**	187,112	**1,178,204**	1,148,338
Reportable segment profit (adjusted EBITDA)	**31,424**	32,928	**22,188**	24,259	**73,990**	62,285	**127,602**	119,472
Interest income from bank deposits	**10**	11	**276**	332	**347**	188	**633**	531
Interest expense	**—**	—	**10,103**	635	**—**	—	**10,103**	635
Depreciation and amortisation for the year	**311**	224	**4,346**	2,184	**21,118**	20,657	**25,775**	23,065
Reportable segment assets	**323,249**	364,492	**825,688**	784,642	**179,814**	204,708	**1,328,751**	1,353,842
(including investment in joint venture)	**—**	—	**43,067**	69,233	**—**	—	**43,067**	69,233
Additions to non-current segment assets during the year	**—**	9,433	**34,567**	30,209	**5,558**	2,340	**40,125**	41,982
Reportable segment liabilities	**25,819**	102,076	**375,893**	351,903	**42,236**	20,356	**443,948**	474,335

5. SEGMENT REPORTING *(Continued)*

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

	2017 **RMB'000**	2016 RMB'000
Revenue		
Reportable segment revenue	**1,178,204**	1,148,338
Elimination of inter-segment revenue	**(57,282)**	(18,307)
Elimination of group's share of revenue of joint venture	**(89,434)**	(76,504)
Consolidated revenue (note 4)	**1,031,488**	1,053,527

	2017 **RMB'000**	2016 RMB'000
Profit		
Reportable segment profit derived from group's external customers and joint venture	**127,602**	119,472
Other income	**38,311**	15,401
Depreciation and amortisation	**(25,775)**	(23,065)
Finance costs	**(26,210)**	(12,969)
Unallocated head office and corporate expenses	**(30,601)**	(9,795)
Consolidated profit before taxation	**83,327**	89,044

5. SEGMENT REPORTING *(Continued)*

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

	2017 **RMB'000**	2016 RMB'000
Assets		
Reportable segment assets	**1,328,751**	1,353,842
Elimination of inter-segment receivables	**(34,454)**	(35,219)
	1,294,297	1,318,623
Non-current financial assets	**14,141**	19,401
Financial assets at fair value though profit or loss	**17,895**	17,400
Unallocated head office and corporate assets	**6,065**	38,315
Consolidated total assets	**1,332,398**	1,393,739

	2017 **RMB'000**	2016 RMB'000
Liabilities		
Reportable segment liabilities	**443,948**	474,335
Elimination of inter-segment payables	**(24,801)**	(39,132)
	419,147	435,203
Current tax liabilities	**10,028**	15,503
Deferred tax liabilities	**25,641**	28,169
Unallocated head office and corporate liabilities	**235,947**	276,214
Consolidated total liabilities	**690,763**	755,089

5. SEGMENT REPORTING *(Continued)*

c) *Geographic Information*

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

	Revenues from external customers		**Specified non-current assets**	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**856,283**	869,773	**382,658**	389,883
Hong Kong	**175,205**	183,754	**91,887**	92,303
	1,031,488	1,053,527	**474,545**	482,186

d) *Information about major customers*

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

	2017	2016
	RMB'000	RMB'000
Customer A-revenue from distribution sales of pharmaceutical and healthcare products	**104,383**	115,099

6. OTHER REVENUE, INCOME AND OTHER NET LOSS

	2017 **RMB'000**	2016 RMB'000
Other revenue:		
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**633**	597
Interest income from available-for-sale financial assets	**1,849**	2,439
Gross rental income from investment properties	**2,764**	2,742
Dividend income	**2,106**	2,070
Promotional service income	**6,668**	14,437
	14,020	22,285
Government grants (note)	**1,082**	1,368
Forward contract loss	**(447)**	—
Exchange gain/(loss)	**8,486**	(9,972)
Change in fair value of other financial assets	**—**	(4,071)
Change in fair value of other financial liabilities	**13,255**	2,739
Change in fair value of financial assets at fair value through profit or loss	**2,236**	1,566
Net gain on disposal of available-for-sale financial assets	**—**	930
Others	**(321)**	556
	38,311	15,401

Note: Government grants were awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development. There was no unfulfilled conditions attached to these grants.

7. PROFIT BEFORE TAXATION

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

		2017 RMB'000	2016 RMB'000
a)	**Finance costs**		
	Total interest expense on financial liabilities not at fair value through profit or loss:		
	Interest on bank loans	**16,090**	7,205
	Interest imputed on the liability component of convertible bonds	**10,120**	5,764
		26,210	12,969
b)	**Staff costs (including directors' and chief executive's remuneration)**		
	Salaries and other benefits	**101,068**	75,410
	Contributions to defined contribution retirement plan	**10,449**	8,953
	Equity-settled share-based payments	**7,172**	83
		118,689	84,446
c)	**Other items**		
	Amortisation of intangible assets (note 20)	**18,831**	18,831
	Auditor's remuneration		
	– audit service	**1,435**	1,386
	– non-audit services	**409**	1,011
	Cost of inventories recognised as expenses (note 22)	**708,317**	729,955
	Depreciation of property, plant and equipment (note 13)	**5,579**	4,234
	Amortisation of leasehold land for own use under operating leases (note 13)	**1,365**	—
	(Reversal of impairment losses on trade receivables)/ impairment losses on trade receivables (note 23(c))	**(237)**	951
	Impairment loss on available-for-sale financial assets	**—**	4,897
	Reversal of impairment loss on other receivables	**—**	(3,717)
	Write-off of trade receivables	**—**	330
	Write-off of bills receivables	**248**	—
	Reversal of inventories write-down	**(1,282)**	—
	Loss on disposal of property, plant and equipment	**119**	153
	Operating lease charges in respect of land and buildings	**7,863**	8,435
	Rental income from investment properties less direct outgoings of RMB460,000 (2016: RMB313,000)	**(2,304)**	(2,429)
	Research and development cost	**12,828**	7,813
	Equity-settled share-based payments		
	– staff cost	**7,172**	83
	– consultancy fee	**442**	443

Note:

(i) Cost of inventories recognised as expenses includes approximately RMB31,170,000 (2016: RMB25,182,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

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

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

	2017 **RMB'000**	2016 RMB'000
Hong Kong Profits Tax		
– Current year	**6,035**	7,308
PRC Enterprise Income Tax		
– Current year	**13,288**	17,614
Deferred tax (note 29(b))		
– Origination and reversal of temporary differences	**(2,528)**	(3,284)
	16,795	21,638

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

ii) The provision for Hong Kong Profits Tax for the years ended 31 December 2017 and 2016 is calculated at 16.5% of the estimated assessable profits for the year.

iii) The PRC Enterprise Income Tax charge of the Group during the years ended 31 December 2017 and 2016 represented mainly the PRC Enterprise Income Tax charge from the Group's PRC subsidiaries, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld"), Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin") and are based on a statutory rate of 25% (2016: 25%), except for Dong Di Xin, which is based on a preferential income tax rate of 15%.

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

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

	2017 **RMB'000**	2016 RMB'000
Profit before taxation	**83,327**	89,044
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdiction concerned	**21,615**	27,388
Tax effect of non-deductible expenses	**16,078**	7,492
Tax effect of non-taxable income	**(23,020)**	(12,904)
Tax effect of prior years' tax losses utilised	**(66)**	(80)
Tax effect of unrecognised temporary differences	**(503)**	(434)
Tax effect of unused tax losses not recognised	**2,740**	176
Tax concession	**(49)**	—
Actual tax expense	**16,795**	21,638

c) As at 31 December 2017, the undistributed profits of the Group's PRC subsidiaries amounted to approximately RMB296,857,000 (2016: RMB291,366,000) for which the potential deferred tax liabilities of approximately RMB14,843,000 (2016: RMB14,568,000) have not been recognised in these financial statements because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. DIVIDENDS

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

	2017 **RMB'000**	2016 RMB'000
Final dividend proposed after the end of the reporting period of HK3.43 cents (equivalent to RMB2.87 cents) (2016: HK2.95 cents (equivalent to RMB2.64 cents)) per ordinary share	**17,866**	**16,434**

The final dividend for the year ended 31 December 2017 proposed after the end of the reporting period is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

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

	2017 **RMB'000**	2016 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.95 cents (equivalent to approximately RMB2.47 cents) (2016: HK1.53 cents (equivalent to approximately RMB1.37 cents))	**15,350**	**8,519**

10. EARNINGS PER SHARE

a) *Basic earnings per share*

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

	2017 RMB'000	2016 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**51,060**	**46,966**
Interest imputed on the liability component of mandatorily convertible bonds	—	**272**
Earnings for the purpose of basic earnings per share	**51,060**	**47,238**

	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	**622,500**
Effect of weighted average number of ordinary shares to be issued upon the conversion of mandatorily convertible bonds*	—	**28,311**
Weighted average number of ordinary shares for the purpose of basic earnings per share	**622,500**	**650,811**

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

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

On 18 December 2017, the Company redeemed the principal moneys outstanding under the convertible bonds together with the unpaid interest accrued up to the maturity date.

b) *Diluted earnings per share*

Diluted earnings per share for the years ended 31 December 2017 and 2016 was the same as the basic earnings per share because of the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the years ended 31 December 2017 and 2016. As the conversion or exercise of the share options would have an anti-dilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the share options.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment RMB'000	Total RMB'000
2017						
Executive directors:						
Zhao Li Sheng						
(chief executive officer)	**—**	**1,246**	**—**	**16**	**256**	**1,518**
Chan Lok San	**—**	**1,039**	**—**	**16**	**231**	**1,286**
Zhou Xuhua	**—**	**853**	**739**	**53**	**231**	**1,876**
Independent non-executive directors:						
Duan Jidong	**156**	**—**	**—**	**—**	**203**	**359**
Wong Cheuk Lam	**156**	**—**	**—**	**—**	**203**	**359**
Zhang Jianbin	**156**	**—**	**—**	**—**	**203**	**359**
Non-executive director:						
Zhang Yi (resigned on 18 December 2017)	**—**	**—**	**—**	**—**	**—**	**—**
	468	**3,138**	**739**	**85**	**1,327**	**5,757**
2016						
Executive directors:						
Zhao Li Sheng						
(chief executive officer)	—	1,289	—	—	—	1,289
Chan Lok San	—	1,070	—	—	—	1,070
Zhou Xuhua	—	891	494	52	—	1,437
Independent non-executive directors:					—	
Duan Jidong	150	—	—	—	—	150
Wong Cheuk Lam	158	—	—	—	—	158
Zhang Jianbin	150	—	—	—	—	150
Non-executive director:					—	
Zhang Yi	—	—	—	—	—	—
	458	3,250	494	52	—	4,254

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

During the years ended 31 December 2017 and 2016, no amount was paid or payable to the directors or chief executive or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director or chief executive waived or agreed to waive any emolument during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 3 (2016: 3) directors during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries and other emoluments	**1,301**	1,419
Retirement scheme contributions	**29**	29
Equity-settled share-based payment	**348**	—
	1,678	1,448

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

	2017	2016
Nil to HK$1,000,000	**2**	2

13. LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES/PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment								
	Buildings held for own use (notes a and b) RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Machineries RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Sub-total RMB'000	Leasehold land held for own use under operating leases (notes a and b) RMB'000	Total RMB'000
Cost									
At 1 January 2016	—	3,838	12,620	12,701	8,611	—	37,770	—	37,770
Exchange adjustments	—	6	4	—	245	—	255	—	255
Additions	—	67	6,553	1,827	1,665	1,268	11,380	—	11,380
Disposals	—	—	(148)	(308)	(50)	—	(506)	—	(506)
At 31 December 2016	—	3,911	19,029	14,220	10,471	1,268	48,899	—	48,899
At 1 January 2017	—	3,911	19,029	14,220	10,471	1,268	48,899	—	48,899
Exchange adjustments	—	(7)	(5)	—	(361)	—	(373)	—	(373)
Transferred from deposit paid for property, plant and equipment (note 15)	12,618	—	—	—	—	—	12,618	62,382	75,000
Transferred from deposit paid for acquisition of land (note 16)	—	—	—	—	—	—	—	18,988	18,988
Other costs for acquisition of land	—	—	—	—	—	—	—	12,193	12,193
Additions	11,641	111	1,690	4,911	617	8,962	27,932	—	27,932
Transferal	—	8,588	220	—	—	(8,808)	—	—	—
Disposals	—	—	(393)	(185)	(150)	—	(728)	—	(728)
At 31 December 2017	24,259	12,603	20,541	18,946	10,577	1,422	88,348	93,563	181,911
Accumulated depreciation									
At 1 January 2016	—	3,160	6,643	4,928	7,228	—	21,959	—	21,959
Exchange adjustments	—	6	4	—	241	—	251	—	251
Charge for the year	—	277	2,422	1,134	401	—	4,234	—	4,234
Disposals	—	—	(109)	(194)	(50)	—	(353)	—	(353)
At 31 December 2016	—	3,443	8,960	5,868	7,820	—	26,091	—	26,091
At 1 January 2017	—	3,443	8,960	5,868	7,820	—	26,091	—	26,091
Exchange adjustments	—	(7)	(5)	—	(256)	—	(268)	—	(268)
Charge for the year	1,091	995	1,392	1,589	512	—	5,579	1,365	6,944
Disposals	—	—	(293)	(99)	(145)	—	(537)	—	(537)
At 31 December 2017	1,091	4,431	10,054	7,358	7,931	—	30,865	1,365	32,230
Carrying amount									
At 31 December 2017	23,168	8,172	10,487	11,588	2,646	1,422	57,483	92,198	149,681
At 31 December 2016	—	468	10,069	8,352	2,651	1,268	22,808	—	22,808

13. LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES/PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Note:

(a) Leasehold land held for own use under operating leases and buildings held for own use are situated in the PRC under medium-term leases as at 31 December 2017 and 2016.

(b) As at 31 December 2017, certain leasehold land held for own use under operating leases and buildings held for own use with a total carrying amount of RMB84,185,000 (2016: nil) were pledged to a bank for bank loans of the Group (note 27).

14. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2016	107,880
Fair value adjustment	250
At 31 December 2016 and 1 January 2017	108,130
Fair value adjustment	4,470
At 31 December 2017	112,600

a) The Group's investment properties were revalued as at 31 December 2017 and 2016 on an open market value basis calculated by reference to (i) comparable market transactions in the relevant markets or (ii) net rental income allowing for reversionary income potential. The valuations were carried out by an independent firm of qualified valuers, Cushman & Wakefield Limited ("Cushman & Wakefield") (2016: ROMA Appraisals Limited and DTZ Cushmar & Wakefield Limited), who amongst its staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed at each annual reporting date.

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

c) At 31 December 2017 and 2016, certain of the Group's investment properties with a total fair value of approximately RMB100,000,000 (2016: RMB96,000,000) were pledged as part of securities to secure bank loans and banking facilities granted to the Group (note 27).

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties*

(i) *Fair value hierarchy*

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

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

	Fair value at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**112,600**	—	—	**112,600**

14. INVESTMENT PROPERTIES *(Continued)*

d) Fair value measurement of properties (Continued)

(i) Fair value hierarchy (Continued)

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

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

		Valuation techniques	Unobservable input	Range
Investment properties – Commercial – Mainland China	(i)	Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	RMB36,712-RMB39,650 per square meter (2016: RMB37,624 - RMB41,701)
	(ii)	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	4.25%-4.50% (2016: 4.25%-4.50%)
			Expected market rental growth	4.25%-4.50% (2016: 4.25%-4.50%)
			Expected occupancy rate	100% (2016: 100%)

14. INVESTMENT PROPERTIES *(Continued)*

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

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

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

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

	2017	2016
	RMB'000	RMB'000
Investment properties – Commercial – Mainland China		
At 1 January	**108,130**	107,880
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	**4,470**	250
At 31 December	**112,600**	108,130

e) The Group leases out investment properties under operating leases. The leases run for a period for one to two years (2016: one to two years). None of the leases include contingent rentals.

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017	2016
	RMB'000	RMB'000
Within 1 year	**1,681**	2,386
After 1 year but within 5 years	**1,051**	332
	2,732	2,718

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

15. DEPOSIT PAID FOR PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2011, the Group and an independent third party (the "Vendor") entered into an agreement and a supplementary agreement (the "Agreements"), pursuant to which the Group agreed to acquire, and the Vendor agreed to sell certain properties (the "Properties") in Shenzhen, the PRC. The Properties are to be constructed by the Vendor and should be delivered to the Group after the completion of all the required procedures and used as the Group's office. The proposed consideration is RMB75,000,000 which is subject to adjustment when the details of the Properties are fixed. During the year ended 31 December 2017, the construction has been completed and the vendor had handed over the Properties to the Group which has moved in as its new office in July 2017. Accordingly, deposit paid was split and reclassified to buildings held for own use under property, plant and equipment, and leasehold land held for own use under operating leases, based on the valuation performed by an independent professional valuer, during the year ended 31 December 2017.

16. DEPOSIT PAID FOR ACQUISITION OF LAND

During the year ended 31 December 2016, the Group applied to Shenzhen Xinda Shanghenggang Cooperative Stock Company ("Shenzhen Shanghenggang") in relation to a development cooperation right.

During the year ended 31 December 2016, the Group made a successful bid at the Shenzhen Shanghenggang for the development cooperation right in respect of the land parcel currently owned by Shenzhen Shanghenggang through open tender auction organised and held by Dapeng New Area Pubilc Resources Exchange Centre. On 14 May 2016, the Group entered into cooperation agreement with Shenzhen Shanghenggang in respect of the formation of a project company for the project at the consideration of approximately RMB18,988,000 paid for the acquisition of the land.

During the year ended 31 December 2017, the registration of the land use right certificate was completed and the deposit paid was reclassified to leasehold land held for own use under operating leases.

(Expressed in Renminbi)

17. SUBSIDIARIES

The following is a list of principal subsidiaries of the Group as at 31 December 2017.

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

17. SUBSIDIARIES *(Continued)*

Notes:

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

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

c) Limited liability company established in the Mainland China.

d) The English names of the above PRC subsidiaries are for identification purpose only.

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

	Dong Di Xin	
	2017	2016
	RMB'000	RMB'000
NCI percentage	**45%**	45%
Current assets	**171,664**	199,774
Non-current assets	**99,204**	114,592
Current liabilities	**(64,152)**	(45,505)
Non-current liabilities	**(12,004)**	(14,788)
Net assets	**194,712**	254,073
Carrying amount of NCI*	**88,541**	114,835
Revenue	**209,362**	187,112
Profit for the year	**34,046**	45,098
Total comprehensive income	**33,267**	43,401
Profit allocated to NCI*	**15,472**	20,440
Dividend paid to NCI* (notes f & g)	**52,488**	721
Cash flows from operating activities	**55,811**	10,002
Cash flows from investing activities	**34,394**	17,059
Cash flows from financing activities	**(78,675)**	2,085

* These also include amounts attributable to the NCI of Shenzhen Zhilong Jinggong Technology Company Limited, a subsidiary of Dong Di Xin which is 51% owned by Dong Di Xin.

17. SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

f) Distributions declared and approved, paid or payable to the non-controlling shareholders of Dong Di Xin, and the non-controlling shareholders of a subsidiary of Dong Di Xin during the year

	2017 **RMB'000**	2016 RMB'000
Dividends declared and approved during the financial year:		
To non-controlling shareholders of Dong Di Xin		
– paid during the year	**41,400**	—
– payable at end of the year (note 26(d))	**10,000**	—
	51,400	—
To non-controlling shareholders of a subsidiary of Dong Di Xin		
– paid during the year	**1,088**	721
	52,488	721

g) Deemed distributions to non-controlling shareholders of Dong Di Xin

Included in the amount of RMB51,400,000 paid/payable to the non-controlling shareholders of Dong Di Xin are special distributions of RMB20,000,000 paid and payable by Dong Di Xin to its non-controlling shareholders in relation to undistributed profits prior to acquisition of 55% equity interest of Dong Di Xin in 2015, as agreed between the Group and non-controlling shareholders of Dong Di Xin. Accordingly, after these special distributions to the non-controlling shareholders of Dong Di Xin, the Group's interests in Dong Di Xin have been decreased by RMB11,000,000 which was regarded as deemed distributions to the non-controlling interests.

18. GOODWILL

	RMB'000
Cost	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	90,693
Accumulated impairment losses	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	—
Carrying amount	
At 31 December 2017	90,693
At 31 December 2016	90,693

The goodwill arose on acquisition of Dong Di Xin during the year ended 31 December 2015. The goodwill represented the expected future profitability of Dong Di Xim as an established business at the acquisition date.

The recoverable amount of the cash-generating units ("CGU") has been determined based on a value in use calculation. At 31 December 2017, the recoverable amount of the CGU to which goodwill in allocated is determined taking into account the valuation performed by Hong Kong Appraisal Advisory Limited (2016: ROMA Appraisals Limited), an independent firm of qualified valuers not connected to the Group, based on the cash flows forecasts derived from the most recent financial budgets for the next 5 years (2016: 4 years) approved by the management using the pre-tax discount rate of 20.70% per annum (2016: 17.07%) which reflects current market assessments of the time value of money and the risks specific to the CGU. Other key assumptions for the value in use calculations are the budgeted growth rate of -2% to 5% (2016: 3%) and budgeted gross margin of 44.5% (2016: 45.0%), which are determined based on past performance, management's expectations for the market development and market growth forecasts.

Based on the results of the valuation, the recoverable amount has been assessed as being higher than the carrying amount. Accordingly, no impairment loss (2016: nil) has been recognised for the year.

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

19. INTEREST IN A JOINT VENTURE

	2017	2016
	RMB'000	RMB'000
Share of net assets	**43,067**	69,233

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

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

Notes:

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

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

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

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

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

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

	2017 **RMB'000**	2016 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**67,152**	61,885
Non-current assets	**135,183**	119,369
Current liabilities	**(97,003)**	(27,586)
Non-current liabilities	**(19,198)**	(15,202)
Equity	**86,134**	138,466
Included in the above assets and liabilities:		
Cash and cash equivalents	**9,666**	5,656
Current financial liabilities (excluding trade and other payables)	**(1,766)**	(1,005)
Non-current financial liabilities	**(19,198)**	(15,202)
Revenue	**178,868**	153,008
Profit from continuing operations	**27,668**	12,586
Other comprehensive income	**—**	—
Total comprehensive income	**27,668**	12,586
Included in the above profit:		
Valuation gain on investment property	**15,984**	—
Depreciation	**(174)**	(221)
Interest income	**26**	19
Income tax expense	**(8,556)**	(3,898)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**86,134**	138,466
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**43,067**	69,233
Profit shared by the Group	**13,834**	6,293
Other comprehensive income shared by the Group	**—**	—
Total comprehensive income shared by the Group	**13,834**	6,293
Dividends declared and approved, paid or payable to shareholders of Zhuhai Jinming during the year:		
– paid during the year	**40,400**	—
– payable at end of the year	**39,600**	—
	80,000	—
Dividends shared by the Group during the financial year:		
– paid during the year	**20,200**	—
– payable at end of the year (note 23)	**19,800**	—
	40,000	—

(Expressed in Renminbi)

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

The fair value of Zhuhai Jinming's investment properties as at 31 December 2017 and 2016 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorised under Level 3 fair value measurements. The valuations at 31 December 2017 and 2016 were carried out by an independent firm of qualified valuers, Cushman & Wakefield Limited and DTZ Debenham Tie Leung Limited, respectively, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	Unobservable input	Range
Investment properties	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	6% (2016: 6%)
Commercial – PRC		Expected market rental growth	6% (2016: 6%)
		Expected occupancy rate	100% (2016: 100%)

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

20. INTANGIBLE ASSETS

	Customer relationship (note a) RMB'000	Patents (note b) RMB'000	Total RMB'000
Cost			
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	104,727	28,700	133,427
Accumulated amortisation and impairment losses			
At 1 January 2016	12,000	5,262	17,262
Charge for the year	13,091	5,740	18,831
At 31 December 2016	25,091	11,002	36,093
At 1 January 2017	25,091	11,002	36,093
Charge for the year	13,091	5,740	18,831
At 31 December 2017	38,182	16,742	54,924
Carrying amount			
At 31 December 2017	66,545	11,958	78,503
At 31 December 2016	79,636	17,698	97,334

Notes:

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

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

The directors of the Company conducted an impairment review of the Group's customer relationship and the patents. The recoverable amount of the customer relationship and patents have been determined taking into account the valuation performed by Hong Kong Appraisal Advisory Limited (2016: ROMA Appraisals Limited), independent firm of qualified valuers not connected to the Group, based on value in use calculations. The calculations use cash flow projections based on financial budgets approved by management covering a 5-year to 8-year period according to the remaining contractual lives for the customer relationship and patents, and at a pre-tax discount rate of 23.72% and 26.91% per annum (2016: 19.43% and 19.90%), respectively. Other key assumptions for the value in use calculations are budgeted growth rate of -2% to 5% (2016: 3%) and budgeted gross margin of 45.5% (2016: 45.0%), which are determined based on past performance, management's expectations for the market development and market growth forecasts.

As a result of the impairment review, the recoverable amounts of the customer relationship and the patents have been assessed to be higher than their respective carrying amounts and accordingly, no impairment loss is recognised for the year (2016: nil).

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	**2017** **RMB'000**	2016 RMB'000
Non-current			
Unlisted Equity Investment, at cost	(a)	**300**	300
Unlisted Equity Investments, at fair value	(b)	**13,841**	19,101
		14,141	19,401
Current			
Bank Wealth Management Products, at fair value	(c)	**25,783**	65,199

Notes:

(a) This available-for-sale investment represents investment in unlisted equity securities which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. As at 31 December 2017 and 2016, this unlisted equity securities were stated at cost less impairment, if any, because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose it in the near future.

(b) Included in unlisted equity investments measured at fair value at 31 December 2017 and 2016 are:

(i) investment in 3.89% interest in the Sinopharm Healthcare Fund L. P. (the "Fund") which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. Pursuant to a partnership agreement signed on 24 June 2015, the Group has committed to invest US$5 million (equivalent to approximately RMB33.93 million) to subscribe approximately 3.89% of the aggregate initial limited partners' interest of the Fund. At the same date, the Fund holds approximately 9.99% of the total issued share capital of the Company. During the year ended 31 December 2015 and 2016, the Group has contributed US$1.5 million (equivalent to approximately RMB10.18 million) and US$1 million (equivalent to approximately RMB6.9 million), respectively, into the Fund. The fair value of the interest in the Fund is determined taken into account the valuation performed by Hong Kong Appraisal Advisory Limited (2016: ROMA Appraisals Limited), an independent valuer not connected to the Group, based on the quoted prices of equity instruments for which the Fund invested in. During the year ended 31 December 2017, an increase in fair value amounting RMB535,000 has been recognised to other comprehensive income and year ended 31 December 2016, due to a significant decline in fair value of such investment below its cost, an impairment loss amounting RMB4,897,000 has been recognised for which RMB2,069,000 was reclassified from the fair value reserve to profit or loss. As at 31 December 2017, the fair value of the investment is approximately HK$14.9 million (equivalent to RMB12.4 million) (2016: HK$14.3 million (equivalent to RMB12.8 million)). The Group does not intend to dispose it in the near future.

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

(ii) investment in 15% interest in Dong Hua Tong Investments Limited which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. The fair value of the investment was also determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited (2016: ROMA Appraisals Limited) based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount. As at 31 December 2017, the fair value of the investment is approximately HK$1.7 million (equivalent to RMB1.4 million) (2016: HK$7.1 million (equivalent to RMB6.3 million)). The Group does not intend to dispose it in the near future.

(c) The amount represents investments in bank wealth management products issued by banks with expected return ranging from 3% to 5% (2016: 3.5% to 3.8%) per annum and will mature within one year. The carrying amount approximated the fair value. The fair values are approximate to their costs plus expected return by reference to valuation performed by Hong Kong Appraisal Advisory Limited (2016: ROMA Appraisals Limited), an independent frim of qualified valuers not connected to the Group.

22. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**7,113**	4,471
Work in progress	**5,546**	3,422
Finished goods	**136,222**	119,740
	148,881	127,633

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

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	**708,317**	726,859
Write-down of inventories	**—**	3,096
	708,317	729,955

23. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	**259,987**	295,233
Less: Allowance for doubtful debts (note (c))	**(5,440)**	(5,677)
	254,547	289,556
Other receivables	**38,979**	43,802
Other loan (note (g))	**43,743**	48,521
Amount due from a director (note (f))	**—**	1,121
Amounts due from related parties (note 36)	**553**	40
Dividend receivable from a joint venture	**19,800**	—
Loans and receivables	**357,622**	383,040
Prepayments	**22,006**	19,672
Trade and other deposits	**1,182**	1,191
Trade deposits to related parties (note 36)	**32,064**	33,971
	412,874	437,874

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

23. TRADE AND OTHER RECEIVABLES *(Continued)*

b) *Ageing analysis*

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

	2017	2016
	RMB'000	RMB'000
0-90 days	**225,323**	255,667
91-180 days	**12,002**	22,692
181-365 days	**17,209**	3,788
More than 1 year	**13**	7,409
	254,547	289,556

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

c) *Impairment of trade and bills receivables*

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

Movements in the allowance for doubtful debts:

	2017	2016
	RMB'000	RMB'000
At 1 January	**5,677**	4,726
Impairment losses recognised (note 7(c))	**—**	951
Impairment losses reversed (note 7(c))	**(237)**	—
At 31 December	**5,440**	5,677

As at 31 December 2017, the Group's trade and bills receivables of RMB5,440,000 (2016: RMB5,677,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding over a long period and the management assessed that receivables are expected to be irrecoverable. Accordingly, specific allowances for doubtful debts of RMB5,440,000 (2016: RMB5,677,000) were recognised as at 31 December 2017. The Group does not hold any collateral over these balances.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

d) *Trade and bills receivables that are not impaired*

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

	2017	2016
	RMB'000	RMB'000
Neither past due nor impaired	**225,323**	255,667
Past due but not impaired		
– 91-180 days	**12,002**	22,692
– 181-365 days	**17,209**	3,788
– More than 1 year	**13**	7,409
	29,224	33,889
	254,547	289,556

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

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

e) As at 31 December 2017, bills receivables of nil (2016: nil) were pledged for bank loans and banking facilities granted to the Group (note 27).

(Expressed in Renminbi)

23. TRADE AND OTHER RECEIVABLES *(Continued)*

f)

Name of director	Zhao Li Sheng
Position	Executive director and chief executive officer
Terms of the amount due	
– duration and repayment terms	Repayable on demand
– interest rate	Interest free
– security	None
Balance of the amount due	
– at 31 December 2016	RMB1,121,000
– at 31 December 2017	—
Maximum balance outstanding	
– during 2016	RMB2,914,000
– during 2017	RMB1,121,000

There was no amount due but unpaid, or any provision made against the amount due from a director at 31 December 2017 and 2016.

g) The amount represents shareholders' loan of HK$52.3 million (equivalent to RMB43.7 million) (2016: HK$54.2 million (equivalent to RMB48.5 million)) to Dong Hua Tong Investment Limited for which the Group held 15% interests as further detailed in note 21(b)(ii). The amount is unsecured, interest-free and repayable on demand. The directors of the Company considered that no impairment on the amount is necessary, taking into account of the financial position of Dong Hua Tong Investment Limited at 31 December 2017 and the dividends received from it during the years ended 31 December 2017 and 2016.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2017 RMB'000	2016 RMB'000
Non-current			
Unlisted Equity Investments, at fair value	(a)	**4,775**	4,232
Current			
Listed securities			
– Chuangmei Pharmaceutical Co., Ltd. ("Chuangmei")	(b)	**17,895**	17,400

The above financial assets at 31 December 2017 were upon initial recognition, designated by the Company at fair value through profit or loss.

(a) The Group have invested in 10% interest in Shenzhen Qianhai Industry Internet Co., Ltd.. The fair value of the investment was determined with reference to valuation performed by Hong Kong Appraisal Advisory Limited (2016: ROMA Appraisals Limited) based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount. As at 31 December 2017, the fair value of the investment is approximately RMB4.8 million. The Group does not intend to dispose it in the near future.

(b) Chuangmei was incorporated in the PRC and the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. As at 31 December 2017, a total of 2,302,000 ordinary shares of Chuangmei were held by the Company, representing 2.13% of Chuangmei's total issued ordinary shares. As at 31 December 2017, the fair value of investment in Chuangmei ordinary shares was determined with reference to the closing market price of its shares on the date of the financial position.

25. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2017 RMB'000	2016 RMB'000
Bank balances	**232,487**	229,575
Cash on hand	**268**	409
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**232,755**	229,984
Deposit for letter of credit (note a)	**750**	9,297
Total cash and bank balances	**233,505**	239,281

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

a) As at 31 December 2017, the Group's deposit for letter of credit with use restrictions amount to RMB750,000 (2016: RMB9,297,000) (Note 26).

25. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS *(Continued)*

b) Reconciliation of liabllities arising from financing activities

	Accrued interest RMB'000	Liability component of convertible bonds RMB'000	Bank loans RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2017	–	114,909	311,196	426,105
Interest recognised in profit or loss	16,090	10,120	–	26,210
Changes from financing cash flows				
– Proceeds from new bank loans	–	–	287,595	287,595
– Repayment of bank loans	–	–	(175,572)	(175,572)
– Redemption of convertible bonds	–	(115,796)	–	(115,796)
Finance costs paid	(16,090)	(5,469)	–	(21,559)
Exchange adjustments	–	(3,764)	(10,239)	(14,003)
At 31 December 2017	–	–	412,980	412,980

26. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables (note (c))	**126,636**	237,446
Accruals	**8,500**	10,413
Other payables	**27,174**	15,999
Amount due to NCI (note (d))	**10,000**	—
Financial liabilities measured at amortised cost	**172,310**	263,858
Trade deposits received	**63,743**	7,831
Receipts in advance	**6,061**	—
	242,114	271,689

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

b) As at 31 December 2017, the security deposit amounted to RMB750,000 (2016: RMB9,297,000) was used for the issurance of letter of credit to pay back the trade payables amounted to RMB750,000 (2016: RMB16,043,000).

26. TRADE AND OTHER PAYABLES *(Continued)*

c) Ageing analysis

Included in trade and other payables are trade payables with the following ageing analysis (presented based on invoice date) as of the end of the reporting period.

	2017	2016
	RMB'000	RMB'000
0-90 days	**125,916**	233,757
91-180 days	**720**	3,689
	126,636	237,446

The credit terms granted by the suppliers were generally ranging from 45 days to 90 days.

d) Amount due to NCI represents special dividend payable to the NCI of Dong Di Xin as at 31 December 2017 (2016: nil).

27. BANK LOANS

At 31 December 2017, the bank loans were repayable as follows:

	2017	2016
	RMB'000	RMB'000
Within 1 year or on demand	**412,980**	311,196

At 31 December 2017, the bank loans were as follows:

	2017	2016
	RMB'000	RMB'000
Bank loans		
– secured (note c)	**362,980**	264,341
– unsecured	**50,000**	46,855
Total bank loans	**412,980**	311,196

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

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

	2017	2016
Effective interest rates:		
Fixed rate loans	**3.3%-5.66%**	1.8%-5.22%

27. BANK LOANS *(Continued)*

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

	2017 **RMB'000**	2016 RMB'000
Investment property (note 14)	**100,000**	96,000
Property, plant and equipment (note 13)	**23,168**	—
Leasehold land held for own use under operating lease (note 13)	**61,017**	—

The Group's bank loans amounted to RMB128,928,000 as at 31 December 2017 were secured by Group's investment property. The Group's bank loans amounted to RMB234,052,000 as at 31 December 2017 were secured by Group's leasehold land held for own use under operating lease and property, plant and equipment and guarantee by Mr. Zhao Li Sheng, the ultimate controlling party and director of the Group, and Ms. Chan Lok San, the director of the Group.

28. CONVERTIBLE BONDS

	2017 **RMB'000**	2016 RMB'000
Liability component:		
At 31 December	**—**	114,909

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

28. CONVERTIBLE BONDS *(Continued)*

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

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

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

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

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

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

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

28. CONVERTIBLE BONDS *(Continued)*

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2016	4,155	94,905	99,060
Extinguishment of convertible bonds	—	(94,905)	(94,905)
Recognition of new convertible bonds	106,642	6,259	112,901
Imputed interest charged to consolidated statement of profit or loss	5,764	—	5,764
Interest paid	(7,581)	—	(7,581)
Exchange adjustment	5,929	—	5,929
At 31 December 2016 and 1 January 2017	114,909	6,259	121,168
Imputed interest charged to consolidated statement of profit or loss	10,120	—	10,120
Interest paid	(5,469)	—	(5,469)
Exchange adjustment	(3,764)	—	(3,764)
Redemption	(115,796)	—	(115,796)
Transferred to retained profits	—	(6,259)	(6,259)
At 31 December 2017	—	—	—

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

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

The convertible bonds matured on 18 December 2017 and all these convertible bonds were redeemed by the Group on the same day.

No new shares of the Company issued upon exercise of the mandatorily convertible bonds or Convertible Bonds during the years ended 31 December 2017 and 2016.

29. CURRENT AND DEFERRED TAX

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

	2017 **RMB'000**	2016 RMB'000
At 1 January	**15,503**	17,059
Provision for the year		
– Hong Kong Profits Tax	**6,035**	7,308
– PRC Enterprise Income Tax	**13,288**	17,614
	19,323	24,922
Paid during the year	**(24,798)**	(26,478)
At 31 December	**10,028**	15,503
Representing		
– Hong Kong Profits Tax	**(316)**	823
– PRC Enterprise Income Tax	**10,344**	14,680

b) *Deferred tax liabilities recognised*

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

	Amortisation of intangible assets RMB'000	**Revaluation of investment properties** RMB'000	**Revaluation of other property** RMB'000	**Convertible bonds** RMB'000	**Total** RMB'000
At 1 January 2016	17,425	12,585	172	—	30,182
Charged to equity	—	—	—	1,271	1,271
(Credited)/charged to consolidated statement of profit or loss (note 8(a))	(2,824)	18	—	(478)	(3,284)
At 31 December 2016	14,601	12,603	172	793	28,169
At 1 January 2017	**14,601**	**12,603**	**172**	**793**	**28,169**
(Credited)/charged to consolidated statement of profit or loss (note 8(a))	**(2,824)**	**1,089**	**—**	**(793)**	**(2,528)**
At 31 December 2017	**11,777**	**13,692**	**172**	**—**	**25,641**

c) *Deferred tax assets and liabilities not recognised*

Save as disclosed in note 8(c), there were no significant unrecognised deferred tax assets and liabilities of the Group and the Company as at 31 December 2017 and 2016.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Current:				
Other financial assets (note (a))	**—**	**—**	533	—
Other financial liabilities (notes (b) and (c))	**—**	**—**	—	13,623
	—	**—**	533	13,623

a) Other financial asset

The other financial asset of the Group as at 31 December 2016 represented the profit guarantee (the "Profit Guarantee") provided by the vendors to the Group in respect of the acquisition of 55% equity interest in Dong Di Xin and the asset component of currency swaps (note c). The vendors undertake that the consolidated profit of Dong Di Xin shall not be less than RMB32,047,000, RMB35,252,000 and RMB38,777,000 for the years ended 31 December 2015, 2016 and 2017, respectively, and will compensate the Group for any shortfall between the guaranteed profits and the actual profits for the relevant years. The Profit Guarantee represents a right to the return of previously transferred consideration for the acquisition of Dong Di Xin when the specified conditions are met and hence constitutes a kind of contingent consideration arrangement to be accounted for as a financial asset at fair value through profit or loss in accordance with HKFRS 3 and HKAS 39. The Profit Guarantee was initially recognised in the consolidated statement of financial position at the acquisition-date fair value of RMB7,177,000, as determined by reference to a valuation performed by ROMA Appraisals Limited, an independent professionally qualified valuer.

The fair value of the Profit Guarantee was determined to be zero by ROMA Appraisals Limited as at 31 December 2016, and a fair value loss on the other financial asset of RMB4,604,000 was recognised in profit or loss for the year ended 31 December 2016.

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

The fair value of currency swaps as at 31 December 2016 was determined to be RMB533,000 by ROMA Appraisal Limited. At 31 December 2017, the Group had no outstanding currency swap contracts.

30. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

b) *Other financial liabilities*

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

In the previous years, the contingent liabilities arose from the potential tax liabilities related to Caretalk Technology Co., Ltd ("Caretalk"), incorporated in the Bristish Virgin Islands and a former subsidiary of Dong Di Xin, which existed prior to the completion of the acquisition of 55% equity interest in Dong Di Xin in early 2015. The fair value of the provision for contingent liabilities in respect of Caretalk was recognised at the acquisition date, and at 31 December 2015 and 2016. Caretalk was disposed by Dong Di Xin to an independent third party in early 2015. Based on the information made available to management of the Group, during the period since acquisition date and up the date of approval for the consolidated financial statements, neither Dong Di Xin nor the Group was required to make any payments relating to any potential exposure of Caretalk. In addition, based on the tax indemnity clause of the sale and purchase agreement made between the non-controlling shareholders of Dong Di Xin, as vendors, and the Group in connection of the acquisition of 55% equity in Dong Di Xin in early 2015, the non-controlling shareholders of Dong Di Xin, as vendors, shall indemnify the Group for any exposure to tax liabilities of Dong Di Xin prior to acquisition date.

As at 31 December 2017, management of both Dong Di Xin and the Group reassessed and concluded that the exposure of contingent liabilities in respect of Caretalk shall be very remote and the provision for contingent liabilities in respect of Caretalk with a fair value of RMB13,255,000, previously recognised and brought forward from 31 December 2016, was no longer required and accordingly, it was derecognised and credited to the profit or loss for the year ended 31 December 2017.

c) *Currency swaps*

In 2016, the Group entered into a number of currency swap contracts in which the Group is obligated to exchange certain amount in RMB for US$ at a specified rate (market rate), and use RMB to exchange back the same amount in HKD on a specified date at a specified rate. As at 31 December 2016, the Group had outstanding currency swap contracts to sell RMB for HKD with notional amount of RMB178,335,400. The fair value of currency swap as at 31 December 2016 was determined to be RMB368,000 by ROMA Appraisals Limited. The fair value of currency swaps at 31 December 2016 was included in other financial asset and other financial liabilities. At 31 December 2017, the Group had no outstanding currency swap contracts.

31. SHARE CAPITAL AND RESERVES

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

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Contributed surplus RMB'000 (note d)	Convertible bonds equity reserve RMB'000 (note e)	Exchange reserve RMB'000 (note g)	Captial reserve RMB'000 (note h)	Other reserve RMB'000 (note i)	Retained profits RMB'000	Total RMB'000
At 1 January 2017	**53,468**	**152,700**	**95,863**	**6,259**	**(20,476)**	**753**	**(19,654)**	**(80,036)**	**188,877**
Change in equity:									
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(30,544)**	**(30,544)**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**2,873**	**—**	**—**	**—**	**2,873**
Total comprehensive income/ (loss) for the year	**—**	**—**	**—**	**—**	**2,873**	**—**	**—**	**(30,544)**	**(27,671)**
Transfer of convertible bonds equity reserve and other reserve upon derecognition (note 28)	**—**	**—**	**—**	**(6,259)**	**—**	**—**	**19,654**	**(13,395)**	**—**
Equity settled share-based transactions	**—**	**—**	**—**	**—**	**—**	**7,356**	**—**	**—**	**7,356**
Dividends (note 9)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(15,350)**	**(15,350)**
At 31 December 2017	**53,468**	**152,700**	**95,863**	**—**	**(17,603)**	**8,109**	**—**	**(139,225)**	**153,212**
At 1 January 2016	53,468	152,700	95,863	94,905	(21,271)	210	—	(50,282)	325,593
Change in equity:									
Loss for the year	—	—	—	—	—	—	—	(21,235)	(21,235)
Other comprehensive income for the year	—	—	—	—	795	—	_	—	795
Total comprehensive (loss)/ income for the year	—	—	—	—	795	—	—	(21,235)	(20,440)
Equity settled share-based transactions	—	—	—	—	—	543	—	—	543
Extinguishment and recognition of convertible bonds (note 28)	—	—	—	(88,646)	—	—	(19,654)	—	(108,300)
Dividends (note 9)	—	—	—	—	—	—	—	(8,519)	(8,519)
At 31 December 2016	53,468	152,700	95,863	6,259	(20,476)	753	(19,654)	(80,036)	188,877

31. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1 each			
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1 each			
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	622,500	62,250	53,468

b) *Share premium*

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

c) *Statutory and discretionary reserves*

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

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

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

31. SHARE CAPITAL AND RESERVES *(Continued)*

d) *Contributed surplus*

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

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

e) *Convertible bonds equity reserve*

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

f) *Fair value reserve*

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

g) *Exchange reserve*

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

h) *Capital reserve*

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

i) *Other reserve*

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

31. SHARE CAPITAL AND RESERVES *(Continued)*

j) *Distributable reserves*

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

ii) At 31 December 2017, the aggregate amount of reserves available for distribution to owners of the Company was RMB109,238,000 (2016: RMB168,527,000). After the end of the reporting period, the directors proposed a final dividend of HK3.43 cents (equivalent to RMB2.87 cents) (2016: HK2.95 cents (equivalent to RMB2.64 cents)) per share amounting to RMB17,866,000 (2016: RMB16,434,000) (note 9). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

k) *Capital management*

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

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

The Group's net debt to equity ratio at 31 December 2017 and 2016 were as follows:

	2017 **RMB'000**	2016 RMB'000
Bank loans	**412,980**	311,196
Liability component of convertible bonds	**—**	114,909
Total debt	**412,980**	426,105
Less: Cash and bank balances	**(233,505)**	(239,281)
Adjusted net debt	**179,475**	186,824
Total equity	**641,635**	638,650
Net debt to equity ratio	**27.97%**	29.25%

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include cash and cash equivalents, available-for-sale financial assets, trade and other receivables and payables, financical assets at fair value through profit or loss, pledged bank deposits, other financial asset and liabilities, and bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

i) As at 31 December 2017 and 2016, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any impairment allowance.

ii) In respect of trade and bills receivables, in order to minimise the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Trade and bills receivables are usually due within 30 days to 90 days.

iii) In respect of trade and bills receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had certain concentration of credit risk of 10.78% (2016: 4.34%) of the total trade and bills receivables due from the Group's largest debtor and 31.61% (2016: 20.00%) of the total trade and bills receivables due from the Group's five largest debtors as at 31 December 2017.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables are set out in note 23.

iv) In respect of other receivables and other financial asset, the credit quality of the debtors is assessed by taking into account of their financial position, relationship with the Group, credit history and other factors. Management regularly reviews the recoverability about these other receivables and follow up the amounts overdue, if any. The directors are of the opinion that the probability of default by counterparties is low.

v) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings given by international credit-rating agencies.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay:

	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2017			
Non-derivative financial liabilities			
Trade and bills payables	**126,636**	**126,636**	**126,636**
Accruals	**8,500**	**8,500**	**8,500**
Other payables (excluding trade deposit received and receipts in advance)	**27,174**	**27,174**	**27,174**
Amount due to NCI	**10,000**	**10,000**	**10,000**
Bank loans	**446,942**	**446,942**	**412,980**
	619,252	**619,252**	**585,290**
2016			
Non-derivative financial liabilities			
Trade and bills payables	237,446	237,446	237,446
Accruals	10,413	10,413	10,413
Other payables (excluding trade deposit received and receipts in advance)	15,999	15,999	15,999
Bank loans	313,696	313,696	311,196
Liability component of convertible bonds	125,554	125,554	114,909
	703,108	703,108	689,963

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk*

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

i) *Interest rate profile*

The following table details the interest rate profile of the Group's bank loans, bank balances and deposits at the end of the reporting period:

	2017 Effective interest rates %	**2017** RMB'000	2016 Effective interest rates %	2016 RMB'000
Fixed rate borrowings:				
Bank loans	**3.3% - 5.66%**	**412,980**	1.8%-5.22%	311,196
Variable rate borrowings:				
Bank loans	**—**	**—**	—	—
Total borrowings		**412,980**		311,196
Net fixed rate borrowings as a percentage of total borrowings		**100%**		100%
Fixed rate pledged bank deposits		**750**		9,297
Variable rate bank balances		**232,755**		229,984

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk* *(Continued)*

ii) *Sensitivity analysis*

All bank loans and pledged deposits of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates for bank balances, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB2,335,000 (2016: RMB2,393,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until end of next annual reporting period. The analysis is performed on the same basis for the 2016.

d) *Currency risk*

The Group is exposed to currency risk primarily through purchases which give rise to trade and other payables, cash and cash equivalents, trade and other receivables and bank loans. The carrying values of these financial assets and liabilities are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, HK$ and Euro and RMB to the extent that they are not the functional currency of the operations to which the transactions and balances related. The Group used derivative contracts to hedge against its exposure to currency risk during the year (2016: Nil) and did not have any such outstanding derivative contracts as at 31 December 2017 (2016: derivative financial assets of HK$533,000 and derivative financial liabilities of HK$367,000). The management monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk* *(Continued)*

i) *Exposure to currency risk*

	2017 **RMB'000**	2016 RMB'000
Assets/(liabilities)		
Cash and cash equivalents		
US$	**62,253**	69,647
HK$	**84**	90
RMB	**4,259**	2,952
Euro	**14,285**	41
Trade and other receivables		
US$	**27,934**	25,020
RMB	**—**	1
Trade and other payables		
US$	**(18,026)**	(6)
HK$	**(80,155)**	(181,485)
EUR$	**(849)**	1
Bank loans		
US$	**—**	(46,855)
HK$	**(103,928)**	(156,538)
Total assets		
US$	**90,187**	94,667
HK$	**84**	90
RMB	**4,259**	2,953
Euro	**14,285**	41
Total liabilities		
US$	**(18,026)**	(46,861)
HK$	**(184,083)**	(338,023)
Euro	**(849)**	—

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk* *(Continued)*

ii) *Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2017			
US$	**5%**	**3,608**	**—**
	(5%)	**(3,608)**	**—**
HK$	**5%**	**(9,200)**	**—**
	(5%)	**9,200**	**—**
RMB	**5%**	**213**	**—**
	(5%)	**(213)**	**—**
EUR$	**5%**	**672**	**—**
	(5%)	**(672)**	**—**
At 31 December 2016			
US$	5%	2,390	—
	(5%)	(2,390)	—
HK$	5%	(16,897)	—
	(5%)	16,897	—
RMB	5%	148	—
	(5%)	(148)	—
EUR$	5%	2	
	(5%)	(2)	—

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk* *(Continued)*

ii) Sensitivity analysis (Continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until end of next annual reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2016.

e) *Business risk*

The Group has a certain concentration of business risk as 44.8% (2016: 50.5%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In November 2013, the Group entered into a one-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. The distribution agreement was renewed in December 2016 for one-year period. If there is any change in consumer taste and demand of the product, or the supplier does not further renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *Fair value*

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

Fair value hierachy

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

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

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

The Group uses independent valuers to perform valuations of financial instruments which are categorised into Level 2 and Level 3 of the fair value hierachy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent valuer at each interim and annual reporting date, and are reviewed and approved by the financial controller. Discussion of the valuation process and results with the financial controller is held twice a year to coincide with the reporting dates.

	Fair value at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Fair value at 31 December 2016 RMB'000	Fair value measurements as at 31 December 2016 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements								
Assets:								
Available-for-sale investments, at fair value								
– Unlisted equity investments	**13,841**	**—**	**12,460**	**1,381**	19,101	—	12,761	6,340
– Bank wealth management products	**25,783**	**—**	**—**	**25,783**	65,199	—	—	65,199
Financial assets at fair value through profit or loss								
– Unlisted equity investments	**4,775**	**—**	**—**	**4,775**	4,232	—	—	4,232
– Listed securities	**17,895**	**17,895**	**—**	**—**	17,400	17,400	—	—
Other financial assets	**—**	**—**	**—**	**—**	533	—	533	—
Liabilities:								
Other financial liabilities	**—**	**—**	**—**	**—**	13,623	—	367	13,256

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the Reporting Period in which they occur.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Note:

1. The valuation techniques and key inputs used of bank wealth management products for level 3 fair value measurement at the end of the reporting period are as follows:

	Valuation technique	**Significant unobservable inputs**	**Range**
Bank wealth management products	Market comparable products	Return of comparable products	3% to 5% (2016: 3.48% to 3.63%)

   The increase in return of comparable products would result in increase in fair value measurement of bank wealth products. No sensitivity analysis is disclosed for the impact of changes in return of comparable products as the exposure is insignificant to the Group.

2. The valuation techniques and key inputs used of unlisted equity investments for level 2 fair value measurement are as follows:

   The fair value of unlisted equity investments is assessed to approximate the share of net asset values of the Fund, which take into consideration the fair value of the assets held under the investments.

3. For fair value of other financial instruments for level 2 and level 3, the valuation techniques and key inputs used included discount for lack of marketability and change in share price of comparable companies. No sensitivity analysis is disclosed for the impact of changes as the management considers that the exposure is insignificant to the Group.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value* *(Continued)*

Fair value hierachy (Continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the years ended 31 December 2017 and 31 December 2016.

			Available-for-sale investments		Financial assets at fair value through profit or loss	
	Other financial asset RMB'000	Other financial liabilities RMB'000	Unlisted equity investments RMB'000	Bank wealth management products RMB'000	Unlisted equity investments RMB'000	Total RMB'000
At 1 January 2016	4,604	(16,362)	1,138	86,296	—	75,676
Addition	—	—	—	64,500	5,000	69,500
Redemption	—	—	—	(86,296)	—	(86,296)
Fair value loss recognised in profit or loss	(4,604)	3,106	—	—	(768)	(2,266)
Fair value gain recognised in other comprehensive income	—	—	5,202	699	—	5,901
At 31 December 2016	—	(13,256)	6,340	65,199	4,232	62,515
At 1 January 2017	**—**	**(13,256)**	**6,340**	**65,199**	**4,232**	**62,515**
Addition	**—**	**—**	**—**	**25,700**	—	**25,700**
Redemption	**—**	**—**	**—**	**(65,199)**	**—**	**(65,199)**
Change in fair value on other financial liabilities recognised in profit or loss	**—**	**13,256**	**—**	**—**	**—**	**13,256**
Fair value loss recognised in profit or loss	**—**	**—**	**—**	**—**	**543**	**543**
Fair value gain recognised in other comprehensive income	**—**	**—**	**(4,959)**	**83**	**—**	**(4,876)**
At 31 December 2017	**—**	**—**	**1,381**	**25,783**	**4,775**	**31,939**

33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) *Depreciation and amortisation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

b) *Impairment of assets*

If circumstances indicate that carrying value of the Group's property, plant and equipment, deposit paid for property, plant and equipment, intangible assets and available-for-sale financial assets, at cost may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties or the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

d) *Impairment of receivables*

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

e) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) *Income tax*

Determining income tax provision involves judgement on the future tax treatment of certain transactions. The directors carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

g) *Investments in subsidiaries*

Investments in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

h) *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

i) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB90,693,000 (2016: RMB90,693,000). Further details of impairment testing of goodwill are given in note 18 to the financial statements.

j) *Share-based payments*

Share options granted during the year were measured at fair value on the date of grant (note 38). In assessing the fair values of the share options, the generally accepted option pricing models were used to calculate the fair values of the share options. The option pricing models require the input of subjective assumptions, including the expected volatility and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair values of the share options.

k) *Convertible bonds*

The Group's recognition and measurement of convertible bonds involved significant judgement and estimates. The fair value of convertible bonds that are not traded in an active market is determined by using valuation techniques with estimates including expected volatility of share price.

l) *Dong Di Xin Litigation*

As at 31 December 2017, a claim has been filed by the former Chief Executive Officer of Dong Di Xin (the "Plaintiff") against the substantial shareholder of Dong Di Xin (the "Substantial Shareholder") and Dong Di Xin. The related appeal has been lodged by Dong Di Xin (the"Appeal") to Shenzhen Intermediate People's Court of Guangdong Province (廣東省深圳市中級人民法院) (the"Court") against the judgment handed down by Shenzhen Nanshan District People's Court of Guangdong Province (廣東省深圳市南山區人民法院) (the"Judgment") ordering: (1) the Substantial Shareholder to transfer his 15% equity interest in Dong Di Xin to the Plaintiff (the "Equity Transfer"); (2) the Substantial Shareholder and Dong Di Xin to assist in all relevant procedures for completing the Equity Transfer; and (3) the litigation fee of RMB2,900 shall be borne by the Substantial Shareholder and Dong Di Xin. As disclosed in the 2016 Annual Report, the Judgement will not have any material adverse impact on the Group's ordinary operations and financial positions as the Company will not bear any liability or any significant litigation fee being ordered to pay and there will be no dilutive effect on the Group's holding in the equity interest in Dong Di Xin. As at the date of this report, the Appeal had been heard but has not yet to be decided by the Court,

34. COMMITMENTS

a) *Commitments under operating lease*

The Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year	**8,866**	7,596
In the second to fifth year inclusive	**16,644**	9,670
	25,510	17,266

The Group leases certain premises for use as its office and warehouse under operating leases arrangements. Leases for properties are negotiated for terms ranging from one to five years (2016: one to five years). None of the leases include contingent rentals.

b) *Capital Commitments*

Capital commitments of the Group at the end of the reporting period are as follows:

	2017 **RMB'000**	2016 RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	**2,525**	20,256
Capital commitment for the investment in 3.89% equity interest in the Sinopharm Healthcare Fund L.P. (note 21(b)(i))	**16,268**	10,405
Authorised but not contracted for	**150,000**	—

Apart from the above, the Group did not have other significant capital commitment as at 31 December 2017 and 2016.

35. EMPLOYEE RETIREMENT BENEFITS

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

Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (2016: HK$30,000). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB10,449,000 (2016: RMB8,953,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

36 RELATED PARTY TRANSACTIONS

a) During the year, the directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related parties	**Relationship**
Mr. Zhao Li Sheng ("Mr. Zhao")	The Company's director and the ultimate controlling party of the Group. Mr. Zhao is the sole shareholder of the ultimate holding company of the Company.
Ms. Chan Lok San ("Ms. Chan")	The Company's director and the wife of Mr. Zhao
Morning Gold Medicine Company Limited ("Morning Gold")	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited ("Yuen Tai")	Subsidiary of Morning Gold
深圳金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("SZ Industry")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
Golden Morning International Limited	Shareholder of Kingworld Medicines Group Limited
Golden Land International Limited	Shareholder of Kingworld Medicines Group Limited
Kingworld Bright Future Limited	Common director of Kingworld Medicines Group Limited
Kingkok International Enterprises Limited	Wholly owned by both Mr.Zhao and Ms.Chan

Notes:

i) The English names of the above PRC incorporated entities are for identification purpose only.

36. RELATED PARTY TRANSACTIONS *(Continued)*

b) *Related party transactions and balances*

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

	Note	2017 RMB'000	2016 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**9,187**	—
Yuen Tai	(i)	**3,174**	—
		12,361	—
Rental expenses			
SZ Industry	(i)	**479**	—
		479	—
Advertising expenses			
SZ Industry	(i)	**150**	—
		150	—

	Note	2017 RMB'000	2016 RMB'000
Trade deposits included in trade and other receivables (note 23)			
Yuen Tai	(ii)	**2,526**	3,008
SZ Kingworld Lifeshine	(ii)	**29,538**	30,963
		32,064	33,971
Amount due from a director included in trade and other receivables (note 23)			
Mr. Zhao	(iii)	**—**	1,121
Amount due from related parties (note 23)			
Golden Morning International Limited	(iii)	**19**	15
Golden Land International Limited	(iii)	**19**	15
Kingworld Bright Future Limited	(iii)	**13**	10
Kingkok International Enterprises Limited	(iii)	**502**	—

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related parties transactions were conducted in the ordinary course of business.

ii) The amounts are unsecured and interest-free and will be set-off against the Group's purchases from the respective related parties in next twelve months after the end of the reporting period.

iii) The amount is unsecured, interest-free and repayable on demand.

36. RELATED PARTY TRANSACTIONS *(Continued)*

c) *Key management personnel remuneration:*

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11, certain of the highest paid employees as disclosed in note 12, and the senior management of the Group is as follows:

	2017 **RMB'000**	2016 RMB'000
Short-term employee benefits	**7,374**	7,409
Post employment benefits	**228**	193
Equity-settled share-based payment	**2,453**	—
	10,055	7,602

37. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate holding company of the Group as at 31 December 2017 to be Golden Land International Limited, a company incorporated in the BVI which does not produce financial statements available for public use, and the ultimate controlling party of the Group as at 31 December 2017 to be Zhao Li Sheng, an executive director of the Company.

38. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for shares in the Company to eligible participants ("Eligible Participants"), including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 4 November 2021, after which no further options will be granted.

Options granted on 1 June 2015 to the directors, employees and consultants vest after one to three years from the date of grant and are then exercisable within a period of one year. Of the share option granted on 9 October 2015 to a consultant vest and exercisable from the date of grant after the market conditions are met.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(Expressed in Renminbi)

38. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 1 June 2015	3,572,000	One to three years from the date of grant	4 years
Options granted to employees:			
– on 1 June 2015	13,236,000	One to three years from the date of grant	4 years
Options granted to other eligible participants			
– on 1 June 2015	300,000	One year from the date of grant	2 years
– on 9 October 2015	6,200,000	After the market conditions are met	3 years
Total share options granted	23,308,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2017		2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	**HK$2.54**	**22,840,000**	HK$2.54	22,840,000
Lapsed during the period	**HK$2.54**	**(6,491,000)**	—	—
Outstanding at the end of the period	**HK$2.54**	**16,349,000**	HK$2.54	22,840,000
Exercisable at the end of the period	**HK$2.54**	**4,079,000**	HK$2.54	300,000

The share options outstanding at 31 December 2017 had an exercise price of HK$2.54 (2016: HK$2.54) and a weighted average remaining contractual life of 1.2 years (2016: 2.3 years).

(Expressed in Renminbi)

38. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured by reference to valuations performed by DTZ Debenham Tie Leung Limited, independent professional valuer not connected to the Group, based on the Monte Carlo Method and Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions

	On 1 June 2015				On 9 October 2015
Fair value at measurement date	HK$0.770 and HK$0.768	HK$0.781 and HK$0.782	HK$0.839 and HK$0.841	HK$0.768	HK$0.259 and HK$0.230
Share price	HK$2.450	HK$2.450	HK$2.450	HK$2.450	HK$1.360
Exercise price	HK$2.540	HK$2.540	HK$2.540	HK$2.540	HK$2.540
Risk-free interest rate (based on Exchange Fund Notes)	0.438%	0.657%	0.876%	0.438%	0.606%
Expected Life:	2 years	3 years	4 years	2 years	3 years
Expected volatility	63.07%	54.39%	52.13%	63.07%	59.49%
Expected dividends Yield:	1.89%	2.25%	2.34%	1.89%	2.04%
Early Exercise Behavior:	280% and 220%	280% and 220%	280% and 220%	220%	220%
Valuation method used	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model	Monte Carlo Method

The expected volatility of the underlying security of the Share Options was determined with reference to the historical volatility of the Company, as extracted from Bloomberg Terminal; The expected dividend yields of the underlying security of the Share Options was determined by the historical dividend yield of the underlying security of the Company, as extracted from Bloomberg Terminal. Changes in the subjective input assumptions could materially affect the fair value estimate.

The fair value of the share options granted to the consultants are measured at fair values of options granted as these participants are providing services that are similar to those rendered by employees.

39. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2017 RMB'000	2016 RMB'000
Non-current assets		
Investments in subsidiaries	**216,957**	216,957
Current assets		
Other receivables	**502**	130
Amount due from a subsidiary	**245,923**	263,700
Cash and cash equivalents	**6,065**	38,183
	252,490	302,013
Current liabilities		
Other payables	**1,894**	4,768
Amounts due to subsidiaries	**80,289**	53,086
Bank loans	**234,052**	156,537
Liability component of convertible bonds	**—**	114,909
	316,235	329,300
Net current liabilities	**(63,745)**	(27,287)
Total assets less current liabilities	**153,212**	189,670
Non-current liabilities		
Deferred tax liabilities	**—**	793
NET ASSETS	**153,212**	188,877
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**99,744**	135,409
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**153,212**	188,877

(Expressed in Renminbi)

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[4]
HKFRS 17	Insurance Contracts[4]
HKFRS (IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
HKFRS (IFRIC) - Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[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[3]
Amendments to HKFRS 40	Transfers of Investment Property[1]
Amendments to HKFRS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Expect for the new and amendments to HKFRSs and interpretations mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss.

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

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

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

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments revise existing requirements in HKFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) in the case of negative compensation payments (where the lender has to make a settlement payment in the event of termination by the borrower).

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

The directors do not anticipate that the application of the HKFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

HKFRS 15 Revenue from contracts with customers

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

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 15 Revenue from contracts with customers *(Continued)*

Specifically, the HKFRS 15 introduces a 5-step approach to revenue recognition:

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

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

HKFRS 16 Leases

As disclosed in note 2(h), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. The directors are currently assessing the impact of the adoption of HKFRS 16 on the Group's consolidated financial statements and do not anticipate that the application of HKFRS 16 will have a material impact on the Group's consolidated financial statements.

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HK(IFRIC)-Int 22 Foreign Currency Transactions and Advance Consideration

HK(IFRIC)-Int 22 addresses how to determine the "date of transaction" for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The directors of the Company do not anticipate that the application of both interpretations will have a material impact on the Group's financial statements.

Amendments to HKFRS 2 Classification and measurement of Share-based payment transactions

The amendments specifically clarified how market and non-market vesting conditions and non-vesting conditions should be reflected in the measurement of a cash-settled share-based payment transaction.

The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's financial statements as the Group does not have any cash-settled Share-based payment transactions.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction. For example, change in use for transfer from properties under development for sale in the ordinary course of business to investment properties could be evidenced by inception of an operating lease to another party. Currently, the Group accounts for such transfer only upon commencement of an operating lease.

The directors anticipate that the application of these amendments will result in early recognition of such transfers on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with current year's presentation.

Financial Summary

The following table summarizes the consolidated results of the Group for the five years ended 31 December:

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**1,031,488**	1,053,527	713,548	660,323	554,763
Profit before taxation	**83,327**	89,044	51,322	48,667	63,214
Income tax	**(16,795)**	(21,638)	(11,935)	(10,802)	(16,037)
Profit for the year	**66,532**	67,406	39,387	37,865	47,177
Attributable to:					
Owners of the Company	**51,060**	46,966	31,205	37,865	47,177
Asset and Liabilities					
Total assets	**1,332,398**	1,393,739	1,089,331	1,019,489	730,083
Total liabilities	**690,763**	755,089	402,065	448,514	272,659
Equity attributable to owners of the Company	**553,094**	523,815	537,918	570,975	457,424