国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)
(Stock code: 00570)

ANNUAL REPORT

2017

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WU Xian *(Chairman)*
Mr. WANG Xiaochun *(Managing Director)*
Mr. ZHAO Dongji
Ms. HUANG He

Non-executive Directors

Mr. LIU Cunzhou
Mr. YANG Shanhua
Ms. TANG Hua

Independent Non-executive Directors

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

JOINT COMPANY SECRETARY

Ms. LEUNG Suet Lun
Mr. ZHAO Dongji

AUDIT COMMITTEE

Mr. XIE Rong *(Chairman)*
Mr. ZHOU Bajun
Mr. YU Tze Shan Hailson
Mr. LO Wing Yat
Ms. TANG Hua

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. WANG Xiaochun
Mr. ZHOU Bajun
Mr. XIE Rong
Mr. LO Wing Yat

STRATEGIC COMMITTEE

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

REGISTERED OFFICE

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STOCK CODE

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

Stock code: 00570

AUDITORS

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

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

WEBSITE

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

Five Year Financial Summary

(Expressed in RMB)

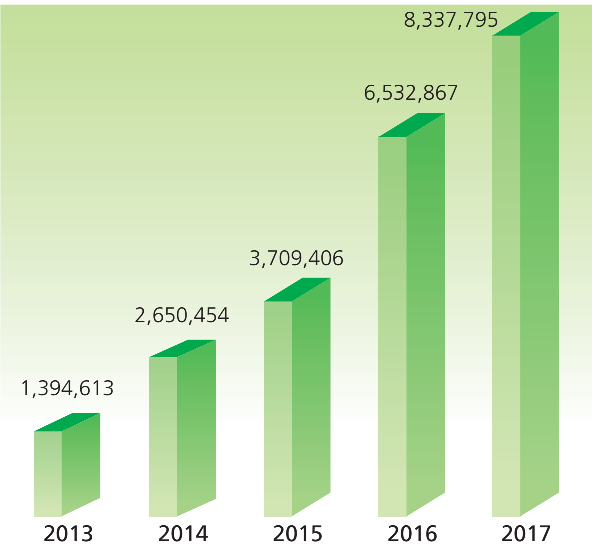
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	**2017 RMB'000**	2013-2017 Compound Annual Growth Rate
Results						
Revenue	1,394,613	2,650,454	3,709,406	6,532,867	**8,337,795**	56.37%
Gross profit	825,779	1,643,389	2,200,673	3,787,680	**4,651,582**	54.06%
Profit from operations	272,757	551,696	760,978	1,376,783	**1,786,453**	59.98%
Profit before taxation	237,575	489,119	689,160	1,303,804	**1,567,237**	60.26%
Profit attributable to the shareholders of the Company	198,463	413,090	625,596	966,927	**1,170,434**	55.84%
Profitability						
Gross profit margin	59.21%	62.00%	59.33%	57.98%	**55.79%**	
Operating profit margin	19.56%	20.82%	20.51%	21.07%	**21.43%**	
Net profit margin	14.29%	15.53%	17.36%	16.63%	**15.73%**	
Earnings per share						
Basic & Diluted	9.68 cents	16.30 cents	16.97 cents	21.73 cents	**26.41 cents**	28.52%
Financial position						
Total assets	5,066,470	5,331,852	19,208,676	21,036,784	**24,885,307**	
Total equity attributable to equity shareholders of the Company	2,759,853	3,183,756	11,133,372	11,588,327	**12,436,778**	
Total liabilities	2,231,707	2,074,730	7,068,463	8,280,922	**11,070,050**	
Cash and cash equivalents	345,411	439,416	2,101,856	2,373,356	**4,787,781**	
Debt asset ratio	44.05%	38.91%	36.80%	39.36%	**44.48%**	

(Expressed in RMB)

REVENUE
RMB'000

Annual Growth of 2016-2017

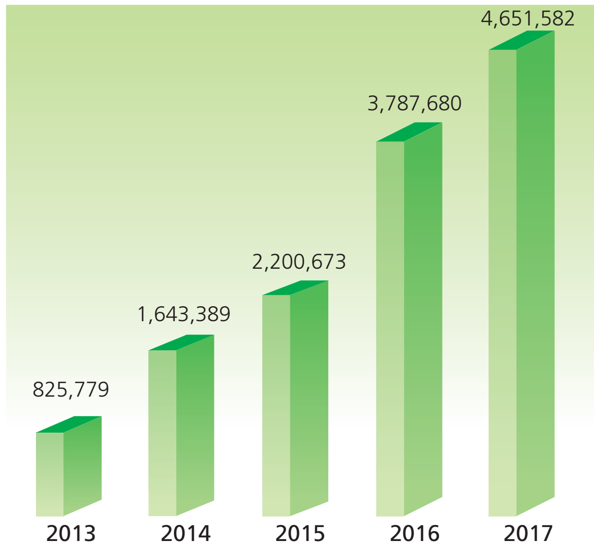
27.63%



GROSS PROFIT
RMB'000

Annual Growth of 2016-2017

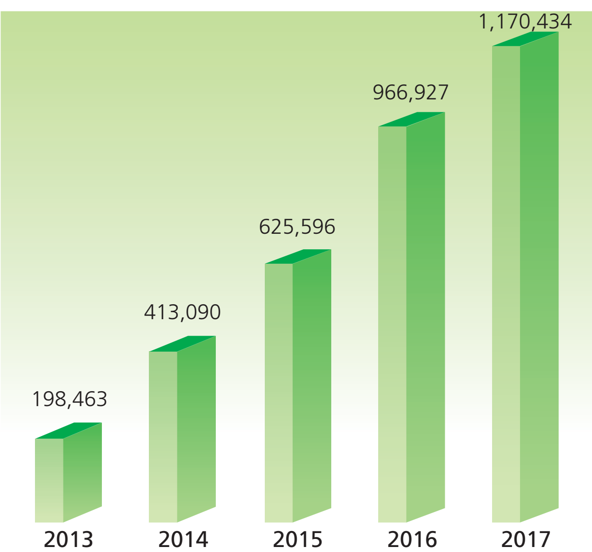
22.81%



PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY
RMB'000

Annual Growth of 2016-2017

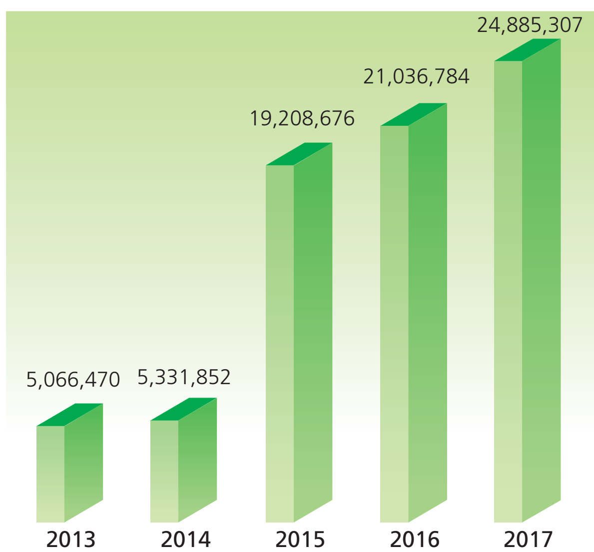
21.05%



TOTAL ASSETS
RMB'000

Annual Growth of 2016-2017

18.29%



Chairman's Statement

Chairman's Statement

Dear shareholders,

Since the incorporation into China National Pharmaceutical Group Corporation ("CNPGC") in 2013, the Company experienced an extraordinary development in the past five years.

Through two major acquisitions of Guizhou Tongjitang Pharmaceutical Co., Ltd. and Jiangyin Tianjiang Pharmaceutical Co., Ltd. and its subsidiaries ("Tianjiang Pharmaceutical"), the Group achieved a historic leap forward in its development and expanded its sole business of finished drugs to cover the whole Traditional Chinese Medicine ("TCM") industry chain with TCM decoction pieces, concentrated TCM granules, finished drugs and healthcare services.

The CAGR of revenue, profit attributable to owners of the Company and basic earnings per share of the Group for the past five years was 56.4%, 55.8% and 28.5%, respectively.

During the reporting period, revenue of the Group was RMB8,337,795,000, representing an increase of 27.6% compared to RMB6,532,867,000 in the previous year. The profit attributable to owners of the Company was RMB1,170,434,000, representing an increase of 21.0% compared to RMB966,927,000 in the previous year. The basic earnings per share increased from RMB21.73 cents last year to RMB26.41 cents in 2017, representing an increase of 21.5%.

In 2017, the Company formulated an overall layout plan in the TCM industry chain while devoted to maintaining stable growth under the leadership of the management of the Company and with the concerted efforts of all staff, fruitful achievements were made. I would like to express my sincere gratitude to all of them on behalf of the board of directors (the "Board") of the Company.

The Board has recommended the distribution of a final dividend of HK4.96 cents per share (approximately RMB3.97 cents) for the year ended 31 December 2017, with a payout ratio of 30% for the year.

I. THE GOLDEN ERA OF TCM INDUSTRY

Since the implementation of the "Law of People's Republic of China on Traditional Chinese Medicine" on 1 July 2017, the TCM business entered a new era in history with its development and management regulated according to the law. The ongoing and forthcoming changes in the TCM industry will have a profound impact on the TCM market, and will even reshape the industry landscape for the coming decades.

According to the information published by the Ministry of Industry and Information of the PRC, the total sales of TCM manufacturers above designated size in China amounted to over RMB860 billion in 2016, accounting for approximately one-third of the total sales of the pharmaceutical industry. With the continued attention to and support for the development of TCM industry by the Government, as well as the increasing public demand for TCM products and services, it is expected that the growth of the TCM industry will outpace that of the pharmaceutical industry with a rising proportion.

Among the sales of over RMB860 billion in the TCM industry, sales of decoction pieces (including concentrated TCM granules) amounted to over RMB190 billion and accounted for approximately one-fourth. With the gradual liberalization of policies, concentrated TCM granules will replace part of decoction pieces and TCM finished drugs' market. In addition, with the prosperous development of the TCM services as well as prescription and decoction in a more convenient way, decoction pieces will also be used to replace finished drugs to some extent. Therefore, it is expected that the growth of decoction pieces (including concentrated TCM granules) will outpace that of the TCM industry in the future, with a rapid increase in proportion.

According to the estimation of Frost & Sullivan, it is expected that the sales of concentrated TCM granules will increase at a CAGR of 40% in the coming four years, reaching a market scale of approximately RMB44 billion by 2020, and account for about 15% in the market of TCM decoction pieces. In view of the huge market potential, more and more pilot projects were conducted in various provinces and preferential policies were introduced to support local enterprises, which resulted in more protective measures in favour of local enterprises.

As a retrospection after five to ten years, we have now entered a golden era of the rapid-growing TCM industry. The biggest challenge that we are facing and the most urging issue that we are concerned about is how to grasp this historical opportunity for another take-off.

II. CHINESE MEDICINAL HERBS OF GOOD QUALITY, ESSENTIAL TO EXCELLENT EFFICACY OF TCM PRODUCTS

The healthy development of the TCM industry, no matter finished drugs, concentrated TCM granules, decoction pieces or herbal paste, are all ultimately determined by the quality of Chinese medicinal herbs. Without quality assurance in Chinese medicinal herbs, there will be no reliable traditional Chinese medicine. Without Chinese medicinal herbs of high quality, there will be no TCM products of high quality.

In the past, the decoction pieces segment was difficult to be regulated by GMP due to its small scale, fragmented and disorderly structure as a result of low concentration. From 2015 to 2017, a total of 445 pharmaceutical companies had their GMP certificates revoked, of which 219, or 49% were decoction pieces producers. Decoction pieces were not produced according to the standards and with poor quality, the efficacy of downstream TCM finished drugs was not warranted and there were no stringent requirements on the quality of Chinese medicinal herbs upstream. If such vicious cycle is formed, the assertion that "Chinese medical science will be ruined by traditional Chinese medicine" will not be a false alarm.

In light of the foregoing, the government places great emphasis on standardizing and strengthening the quality standards and regulatory systems for Chinese medicinal herbs, decoction pieces and concentrated TCM granules and promoting the industry integration to achieve standardized plantation and full traceability of Chinese medicinal herbs, support key decoction pieces companies to grow bigger and stronger, which will lay a solid foundation for the quality of TCM and healthy development of the industry.

III. OVERALL LAYOUT PLAN FOR THE ENTIRE TCM INDUSTRY CHAIN

Being the largest concentrated TCM granules producer in China, the Company must build up its own production capacity of the upstream decoction pieces and Chinese medicinal herbs bases, develop the decoction pieces and concentrated TCM granules businesses at an equal pace and formulate an overall layout for the entire TCM and healthcare complex industry chain so as to ride on the rapid development of the industry and achieve unwavering success in an increasingly competitive business environment.

The source of Chinese medicinal herbs is important to the efficacy and safety of drugs, and also the sustainable development of the TCM industry. The resources of Chinese medicinal herbs determine the future of the TCM industry. We should have that grand passion and vision to place resources of Chinese medicinal herbs as one of the Group's core strategies. Our plan for the Chinese medicinal herbs resources is (1) to construct production bases and increase industrial production capacity across the country; (2) to establish a strong scientific research force as support; and (3) to make available the required seed breeding, warehouse logistics and source tracking ancillary systems.

To avoid policy risks of the industry and break the barriers of protection by local governments, as well as to expand our industrial scale and consolidate our leading position in the industry, we have to accelerate the construction of production bases across the country so as to have full coverage of Chinese medicinal herbs extraction, production of concentrated TCM granules, TCM decoction pieces, and TCM intelligent distribution centers in key areas nationwide.

We will continue to provide downstream TCM healthcare services through TCM healthcare complexes, TCM pharmacies and TCM intelligent distribution centers in a more convenient and efficient way to enable that our products and services reach to more people, so as to achieve continuous growth in sales and profits.

IV. INTRODUCE PING AN LIFE INSURANCE AS STRATEGIC INVESTOR

On 19 March 2018, the Company and Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance"), a company under Ping An Group, entered into the Share Subscription Agreement. Ping An Life Insurance will subscribe for 604,296,222 new shares of the Company at the price of HK$4.43 per share. Upon the completion of the subscription, Ping An Life Insurance will hold approximately 12.0% of the total number of issued shares as enlarged of the Company. The Company is expected to raise total net proceeds of approximately HK$2,674 million through the share issue.

The Group intended to, through the share issue, introduce Ping An Group as a long-term strategic partner, which will help bring together the Group's expertise in the TCM medicinal herbs, decoction pieces, concentrated TCM granules and finished drugs businesses, and Ping An Group's customer base, sales network, and technology, platform and resources advantages in the pharmaceutical and healthcare sector for developing the TCM business. In particular, it is the Group's intention to explore and promote strategic cooperation in TCM-related businesses with Ping An Life through a joint venture being established by Ping An Life and Tsumura & Co. (a Japanese leading Kampo medicine manufacturer) as the primary strategic partner, which may bring the global advanced research and development and production technology in the TCM industry to the Group, create synergies and further enhance the value of the Company.

We will closely focus on the development strategy of the "overall layout plan for the entire TCM healthcare industry chain" and formulate a blueprint for the construction of "a large-scale TCM healthcare industry group with the most significant competitiveness". 2018 will be the year for us to achieve a sales target of RMB10 billion. Let us look forward to a new record of performance and create greater value for our shareholders.

Once again I would like to express my sincere gratitude to our shareholders and other stakeholders for their continued attention and substantial support to the Group.

Chairman
Wu Xian

Hong Kong, 28 March 2018

Management Discussion and Analysis

GROUP OVERVIEW

China Traditional Chinese Medicine Holdings Co. Limited is a leading TCM manufacturer in China, and a core TCM platform of CNPGC. The Company has a complete industry chain which integrates R&D, manufacturing and sales, including cultivation and harvesting of medicinal herbs, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, and TCM healthcare complex. The Group offers more than 700 individual concentrated TCM granule products, over 60 classical formulated granule products, and 979 finished drugs. 282 of 979 finished drugs are listed on 2017 National Drugs List for Basic Medical Insurance, including 26 exclusive products, of which Xianling Gubao Capsules/Tablets, Yu Ping Feng Granules, Bi Yan Kang Tablets, Jingshu Granules, Moisturizing and Anti-Itching Capsules, Fengshi Gutong Capsules, Zaoren Anshen Capsules and Qili Capsules are exclusive products on the National Essential Drug List.

Headquartered in Foshan, Guangdong Province, the Company has more than 10,000 employees. Manufacturing facilities are located in Foshan, Guangdong Province; Guiyang, Guizhou Province; Jiangyin, Jiangsu Province; Xuancheng and Bozhou, Anhui Province; Jining and Linyi, Shandong Province; Longxi, Gansu Province; Mianyang, Sichuan Province; and Xining, Qinghai Province. All production lines are GMP certified as required by law. In total, 48,000 tonnes of Chinese medicinal herbs can be processed and extracted annually. Annual production capacity is 14,300 tonnes of concentrated TCM granules, 40,000 tonnes of TCM decoction pieces, 10.2 billion packs of TCM finished granules, 5.65 billion tablets and 3.65 billion capsules.

BUSINESS REVIEW

As per the Group's strategic plan, in the reporting period, the Company focused on developing TCM decoction pieces and concentrated TCM granules segments, steadily promoting the TCM finished drugs business, and exploring extensions of the TCM healthcare complex segment. At the same time, we pursued mergers and acquisitions in an active but prudent manner, and reserved enterprise development resources to enhance the potential for corporate development and facilitate the Company's whole-industry chain construction. Below is a review of major accomplishments in 2017:

1. Strengthening the industrial structure of TCM decoction pieces and concentrated TCM granules

The Company ultimately plans to establish approximately 26 production bases in over 20 provinces (municipalities) across China, to synergize warehousing and production of TCM decoction pieces and concentrated TCM granules, integrate procurement with the medicinal herb source tracking system, and to break through the local protection policies by combining the Group's concentrated TCM granules industry access qualification and production quality technical standards with local quality resources.

After the completion of the industrial base structure, it is expected that the annual extraction capacity for Chinese medicinal herbs could reach 80,000 tonnes. Annual production capacity for concentrated TCM granules and TCM decoction pieces may reach 25,000 and 80,000 tonnes, respectively. The development of our production bases for TCM decoction pieces, concentrated TCM granules, and multipurpose TCM intelligent distribution centres nationwide are as follows:

- Production bases for TCM decoction pieces

  As part of its focus on developing the TCM decoction pieces industry, the Group established production bases for TCM decoction piece in more than 6 provinces (municipalities) with a total capacity of nearly 40,000 tonnes. We expect to double the production capacity of TCM decoction pieces through self-construction and acquisitions.

  The development plan of TCM decoction pieces is of great strategic significance to the Group, as they comprise both the raw materials of concentrated TCM granules and of TCM finished drugs. The products also are on the National Reimbursement Drugs List and Essential Drug List, and are directly available for sale at medical institutions and retail pharmacies. A mark-up is reserved for TCM decoction pieces when they are sold from public medical institutions. The TCM decoction pieces segment will be the major source of growth for the Group in future.

- Production bases for concentrated TCM granules

  During the reporting period, the Company operated eight self-constructed concentrated TCM granule bases in 8 provinces (municipalities), with a capacity of 14,300 tonnes. We plan to construct TCM Industrial Parks in Shaanxi, Jiangxi, Hunan, Chongqing, Yunnan and other provinces (municipalities) so as to accelerate the expansion of the production capacity of concentrated TCM granules. These will comprise an industrial chain system for the processing and extraction of medicinal herbs, production of concentrated TCM granules, and the decoction and delivery of TCM decoction pieces.

  Additionally, in order to achieve the capacity target of the eight major medicinal herb extraction bases from their current 48,000 tonnes, we continued upgrading existing extraction facilities in the reporting period.

- Multipurpose intelligent TCM distribution centers

  The rapid development of the internet and Internet of Things has made "intelligent TCM distribution" a feasible business model for delivering the supporting services of "smart medical treatment, diversified pharmacy services, real-time logistics".

  Multipurpose intelligent TCM distribution centers can provide medical institutions and retail pharmacies with "all dosage form", "personalized" and "one-stop" overall solutions with respect to quality TCM products and services. Its products and services include distribution for TCM decoction pieces and concentrated TCM granules, TCM decoction (ointment production) and delivery, in-hospital TCM preparation, TCM and Western finished drugs distribution, and medicinal wine making. Its business objectives are to improve service quality, reduce the costs of medical institutions, and enhance patient satisfaction.

As at 28 March 2018, we have established and operated six intelligent TCM distribution centers. They are located in areas of the greatest consumption of TCM decoction pieces and concentrated TCM granules, namely Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao"), Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang"), Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang") and Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices"), Feng Liao Xing (Zhongshan) Intelligent TCM Distribution Center ("Zhongshan Feng Liao Xing") and Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Sinopharm Tongjitang"). In 2017, 54.5% of sales revenue from the Group's TCM decoction pieces was contributed by the intelligent TCM distribution centers.

2. Procurement of Chinese medicinal herbs and its development plan for plantation bases

During the reporting period, the varieties of the Chinese medicinal herbs as procured by the centralized procurement platform of the Group increased from 105 to 211. At the end of the year, the inventory of the medicinal herbs was 18,000 tonnes, representing an increase of 11,000 tonnes as compared with the beginning of the year. The average price of procurement for the existing inventory decreased as compared with the beginning of 2017.

To ensure that the Group's medicinal herbs are procured from the place of origins, with optimized control over source traceability and stability of quality, the Company plans to set up plantation bases for 136 core Chinese medicinal herbs all over China in the next few years. During the reporting period, the Group completed 39 jointly-constructed plantation base projects for 29 domestic herb varieties, covering approximately 27,900 acres in total. At the same time, we also carried out resource protection and natural cultivation research for wild herb varieties, and maintained a system of strategic inventory and procurement. The Group also actively explored ways to guarantee the quality and supply of medicinal herbs through self-or joint-construction of initial processing bases in production regions.

3. Accelerating research on concentrated TCM granules standards

In response to the requirements of the "Technical Requirements on Quality Control and Standards Establishment for Concentrated TCM Granules (Draft for Comments)" (《中藥配方顆粒質量控制與標準制定技術要求（徵求意見稿）》) issued by the Chinese Pharmacopoeia Commission, the Group completed standard decoction research on more than 100 medicinal herbs and standards for 56 concentrated TCM granules are ready for application. To improve the quality of research on concentrated TCM granules, we worked with third-party research institutions on solving technical issues such as fingerprint detection and concentrated TCM granule content determination. In the process of formulating standards, we revised and upgraded internal quality controls for some medicinal herbs, decoction pieces and extracts. The Group occupied a leading position in respect to standards establishment for concentrated TCM granules in the industry.

In February 2018, the Chinese Pharmacopoeia Commission opened consultation panel for the standards establishment for concentrated TCM granules. This signified that the CFDA and Pharmacopoeia Commission had begun to actively facilitate the work of the national standards establishment for concentrated TCM granules. The Company's efforts in this regard are in line with the government's positioning and development planning for the industry, and have created a solid foundation for the Group to maintain its leading position in an increasingly competitive market.

4. Promoting clinical research on strategic blockbusters of finished drugs

The finished drug sector is an important component of the Group's businesses. During the reporting period, we continued to carry out blockbuster cultivation programs to drive the market strategy of academic promotion, with evidence-based research on six core varieties progressing smoothly.

	Name of clinical research project	Initiated hospital	Progress
Xianling Gubao Capsules (仙靈骨葆膠囊)	Post-market safety evaluation on Xianling Gubao Capsules (10,000 participants)	Beijing Wangjing Hospital	Expected to be completed by the end of 2020
	Research on Xianling Gubao Capsules for preventing bone mass loss caused by aromatase inhibitor for treatment of post-menopause breast cancer	Shanghai Longhua Hospital	Expected to be completed in the middle of 2019
Jingshu Granules (頸舒顆粒)	Multi-centered, randomized, double-blinded and placebo-controlled clinical research on the effectiveness, safety and economic effects of Jingshu Granules for treatment of nerve root type cervical spondylosis (神經根型頸椎病)	Beijing Union Medical College Hospital	Expected to be completed within the year of 2018
Fengshi Gutong Capsules (風濕骨痛膠囊)	Randomized, double-blinded, double-stimulation and multi-centered clinical research on Fengshi Gutong Capsules for treatment of ankylosing spondylitis	The Third Affiliated Hospital of Zhongshan University	Expected to be completed in April 2018
Yu Ping Feng Granules (玉屏風顆粒)	Randomized, double-blinded, placebo parallel controlled and multi-centered clinical research on the effectiveness and safety of Yu Ping Feng Granules for treatment of COPD (chronic obstructive pulmonary disease)	Guangzhou Institute of Respiratory Disease	Completed
	Randomized, double-blinded and multi-centered clinical research on the effectiveness and safety of Yu Ping Feng Granules for treatment of repeated respiratory tract infection in children (小兒反復呼吸道感染)	The First Affiliated Hospital of Tianjin Chinese Medicine University	Completed
		Beijing Children's Hospital	
	Multi-centered, randomized and placebo parallel controlled clinical trial for chronic urticaria with combined treatment of Yu Ping Feng Granules and Desloratadine Citrate Disodium Tablets	The Second Affiliated Hospital of Suzhou University	Completed
Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊)	Multi-centered, randomized, double-blinded and placebo parallel controlled clinical research on Moisturizing and Anti-Itching Capsules for the treatment of chronic eczema	Dermatology Hospital affiliated to Chinese Academy Of Medical Science	Completed
Zaoren Anshen Capsules (棗仁安神膠囊)	Randomized, double-blinded, double-stimulation and multi-centered parallel controlled clinical research on the efficacy and safety of Zaoren Anshen Capsules for the treatment of insomnia combined with Zolpidem Tartrate	Zhejiang Provincial Hospital of TCM	Expected to be completed in December 2018

5. Continued launch of smart dispensing machine system for concentrated TCM granules

The Company is committed to advancing the level of intelligent prescription of concentrated TCM granules in hospitals and improving medication experience of patients. In the past three years, we accelerated the launch of smart dispensing machine systems in medical institutions at all levels, with a focus on the more advanced third-generation of multi-stage dispensing machines.

- Number and annual growth rate of medicine dispensing machines in the market

	2017	2016	2015
Number of units at the beginning of the year	**2,541**	1,474	721
Increase	**1,332**	1,067	753
Growth rate	**52.4%**	72.4%	104.4%
Number of units at the end of the year	**3,873**	2,541	1,474

- Number and annual growth rate of healthcare institutions with medicine dispensing machines

	2017	2016	2015
Number of healthcare institutions at the beginning of the year	**1,661**	950	492
Increase	**1,007**	711	458
Growth rate	**60.6%**	74.8%	93.1%
Number of healthcare institutions at the end of the year	**2,668**	1,661	950

6. Concentrated TCM granules successfully entered the Hong Kong market

In December 2017, Jiangyin Tianjiang's concentrated TCM granules successful bided a two-year procurement contract of 18 traditional Chinese medicinal clinics and centers in Hong Kong, and enter the concentrated TCM, granules mainstream market of Hong Kong. This successful tender further improved the overseas popularity of Jiangyin Tianjiang and promoted expansion of the concentrated TCM granules business.

ANALYSIS OF BUSINESS SEGMENTS

During the reporting period, the Group's revenue was approximately RMB8,337,795,000, representing an increase of 27.6% from approximately RMB6,532,867,000 in last year. The increase was mainly attributable to rapid growth of the concentrated TCM granules business; revenue contributions from the new business segments of TCM decoction pieces and TCM healthcare complex; and recovery of the finished drugs business. An analysis of the four business segments is as follows:

1. Concentrated TCM granules

Key financial indicators for concentrated TCM granules

	Twelve months ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	
Revenue	**5,499,679**	4,358,546	26.2%
Cost of sales	**2,310,722**	1,762,653	31.1%
Gross profit	**3,188,957**	2,595,893	22.8%
Gross profit margin	**58.0%**	59.6%	-1.6ppt
Operating profit	**1,334,901**	1,042,022	28.1%
Profit for the year	**1,034,732**	854,043	21.2%
Net profit margin	**18.8%**	19.6%	-0.8ppt

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

During the reporting period, Tianjiang Pharmaceutical achieved satisfactory results and realized a rapid growth in revenue to RMB5,499,679,000, representing an increase of 26.2% compared with approximately RMB4,358,546,000 for the same period of last year, which accounted for 66.0% of total revenue.

The rapid growth in sales was mainly due to: (1) concentrated TCM granules conform to the concept of traditional Chinese medicine syndrome differentiation and the rhythm of modern life, driving continuous increase in market demand; (2) retaining sales mark-up for TCM decoction pieces (including concentrated TCM granules) in public hospitals; (3) in addition to an extensive sales network covering 30 provinces (municipalities), market penetration and hospital coverage were strengthened, and rapid expansion of terminal channels was achieved; (4) increased academic marketing so that average sales of concentrated TCM granules in class II and class III hospitals was significantly improved; and (5) further consolidation of market share in the face of a significant increase in the number of medicine dispensing machines provided to the market.

Gross profit margin decreased by 1.6 percentage points to 58.0%, compared to 59.6% for the same period of last year. The main reason for the decline was the rising prices of some medicinal herbs. The concentrated TCM granule business's operating profit and profit for the period were RMB1,334,901,000 and RMB1,034,732,000 respectively, representing respective increases of 28.1% and 21.2% compared with the same period of last year.

Revenue analysis by region

(in RMB million)

Regions	2017	Proportion	2016	Proportion	Growth amount	Change
East China	**1,884.39**	**34.3%**	1,553.47	35.6%	330.92	21.3%
South China	**1,077.58**	**19.6%**	794.60	18.2%	282.98	35.6%
Central China	**718.29**	**13.1%**	546.01	12.5%	172.28	31.6%
North China	**649.96**	**11.8%**	560.22	12.9%	89.74	16.0%
Northwest China	**386.34**	**7.0%**	303.55	7.0%	82.79	27.3%
Northeast China	**367.53**	**6.7%**	285.81	6.6%	81.72	28.6%
Southwest China	**342.27**	**6.2%**	221.29	5.1%	120.98	54.7%
Overseas and others	**73.32**	**1.3%**	93.60	2.1%	(20.28)	(21.7%)
Total	**5,499.68**	**100%**	4,358.55	100%	1,141.13	26.2%

Sales in East China, South China, Central China and North China accounted for 78.8% of total revenue, similar to last year's 79.2%. South China, Central China and Southwest China each achieved a year-on-year increase of over 30%, while Southwest China was the most prominent area of sales growth with a year-on-year increase of 54.7%. Sales in Northeast China have significantly recovered.

Notes:

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

Revenue analysis by terminal channel

(in RMB million)

	2017	Proportion	2016	Proportion	Growth amount	Change
Class III hospitals	**2,056.53**	**37.4%**	1,515.03	34.8%	541.50	35.7%
Class II hospitals	**1,584.96**	**28.8%**	1,258.60	28.9%	326.36	25.9%
Primary health care institutions	**735.96**	**13.4%**	493.29	11.3%	242.67	49.2%
Sales through agents	**1,122.23**	**20.4%**	1,091.63	25.0%	30.60	2.8%
Total	**5,499.68**	**100%**	4,358.55	100%	1,141.13	26.2%

Sales income from concentrated TCM granules of hospitals posted strong growth, and revenues from sales to class III hospitals and primary health care institutions particularly show an accelerating upward trend, representing year-on-year increases of 35.7% and 49.2% respectively. The sales structure was further optimized and the proportion of sales through agents decreased to 20.4% from 25.0% in 2016.

2. Finished drugs

Key financial indicators for the finished drugs business

	Twelve months ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	
Revenue	**2,381,202**	2,061,341	15.5%
Cost of sales	**1,018,717**	891,456	14.3%
Gross profit	**1,362,485**	1,169,885	16.5%
Gross profit margin	**57.2%**	56.8%	0.4ppt
Operating profit	**419,318**	336,222	24.7%
Profit for the year	**243,339**	233,348	4.3%
Net profit margin	**10.2%**	11.3%	-1.1ppt

Note: The business of the Group is presented in four business segments in the reporting period, the numbers for the same period in 2016 were restated.

During the reporting period, revenue from the finished drugs business was approximately RMB2,381,202,000, increased by 15.5% as compared to RMB2,061,341,000 for the same period of last year, representing 28.6% of total revenue.

The increase in revenue mainly derived from: (1) promotion of the blockbuster cultivation program and sales strategies. Core prescription products reported sales recovery, while core OTC products and other products achieved significant sales growth; (2) 2017 was the first full financial year of consolidation following the acquisition of Huayi Pharmaceutical Co., Ltd. ("Huayi Pharmaceutical") (its financial statements began to be consolidated from May 2016), and the prices of its products increased as a result of sales channel refinement during the reporting year.

Revenue analysis by product type

(in RMB million)

Type of product	2017	Proportion	2016	Proportion	Change
Core prescription products	**1,223.03**	**51.4%**	1,180.07	57.2%	3.6%
Core OTC products	**457.31**	**19.2%**	356.72	17.3%	28.2%
Other products	**700.86**	**29.4%**	524.55	25.4%	33.6%
Total	**2,381.20**	**100.0%**	2,061.34	100.0%	15.5%

Core prescription products: Products including Xianling Gubao Capsules/Tablets (仙靈骨葆膠囊／片), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Fengshi Gutong Capsules (風濕骨痛膠囊) and Zaoren Anshen Capsules (棗仁安神膠囊)

Core OTC products: 12 products including Bi Yan Kang Tablets (鼻炎康片), Feng Liao Xing Dieda Medicinal Wine (馮了性風濕跌打藥酒), Heiguteng Zhuifeng Huoluo Capsules (黑骨藤追風活絡膠囊), Chongcao Qingfei Capsules (蟲草清肺膠囊), Yao Shen Herbal Paste (腰腎膏), Shedan Chuanbei Powder (蛇膽川貝散), Shedan Chenpi Powder (蛇膽陳皮散), Vitamin C Yinqiao Tablets (維C銀翹片), Sheng Tong Luo/Nifedipine Sustained-release Tablets (III) (聖通洛／硝苯地平緩釋片(III)) and Po Chai Pills (保濟丸)

3. TCM decoction pieces business

To improve the source reliability, tracking process and quality control of upstream raw materials for the concentrated TCM granules and TCM finished drugs segments, as well as to develop the TCM decoction business and penetrate into more hospitals, the Group accelerated the expansion of its TCM decoction pieces business. The merger and acquisition of Guizhou Tongjitang Herbal Co., Ltd. (貴州同濟堂中藥飲片有限公司) ("Tongjitang Herbal") and Shanghai Tongjitang (上海同濟堂) were completed in November and December 2016, respectively. During the reporting period, their integration with the Group was completed smoothly and contributed to the steady growth of the segment.

Key financial indicators for continuing operation in the TCM decoction pieces business

	Twelve months ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	
Revenue	**398,742**	104,106	283.0%
Cost of sales	**320,758**	86,238	271.9%
Gross profit	**77,984**	17,868	336.4%
Gross profit margin	**19.6%**	17.2%	2.4ppt
Operating profit	**31,368**	2,364	1226.9%
Profit for the year	**33,081**	2,975	1012.2%
Net profit margin	**8.3%**	2.9%	5.4ppt

During the reporting period, revenue from TCM decoction pieces business amounted to approximately RMB398,742,000, representing an increase of approximately 283.0% as compared to RMB104,106,000 for the same period of last year, and accounting for 4.8% of total revenue. The rapid sales revenue growth was mainly due to: (1) the start of consolidation for financial statements of "Tongjitang Herbal" and "Shanghai Tongjitang"; (2) continued to benefit from the support of national policy on the TCM decoction pieces industry, and good market environment; and (3) rapid growth of the TCM decoction business.

Sales revenue by segment

(in RMB million)

Sales revenue by segment	2017	Proportion	2016	Proportion	Change
Decoction business	**217.45**	**54.5%**	14.37	13.8%	1,413.0%
Decoction pieces business	**181.29**	**45.5%**	89.74	86.2%	102.0%
Total	**398.74**	**100.0%**	104.11	100.0%	283.0%

During the reporting period, the TCM decoction pieces business's gross profit margin was 19.6%, representing an increase of 2.4 percentage points from 17.2% at the same period last year. The improvement was mainly due to the consolidation of decoction business financial statements from Shanghai Tongjitang, which had a higher gross profit margin and rapid growth. Operating profit of the TCM decoction pieces business was approximately RMB31,368,000, representing a 1226.9% increase over the same period last year. Profit for the period from TCM decoction pieces was approximately RMB33,081,000, representing an increase of 1012.2% compared to the same period last year.

4. TCM healthcare complex

Key financial indicators of continuing operation in TCM healthcare complex

	Twelve months ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	
Revenue	**58,172**	8,874	555.5%
Cost of sales	**36,016**	4,840	644.1%
Gross profit	**22,156**	4,034	449.2%
Gross profit margin	**38.1%**	45.5%	-7.4ppt
Operating profit	**865**	-3,825	122.6%
Profit for the year	**279**	-3,825	107.3%
Net profit margin	**0.5%**	-43.1%	43.6ppt

In January 2017 the Company completed the acquisition of 60% registered capital in Guizhou Tongjitang Pharmacy Chain Co., Ltd. ("Guizhou Tongjitang Pharmacy Chain"), which promoted the development of the TCM healthcare complex business and began to achieve a profit.

During the reporting period, revenue from the TCM healthcare complex business amounted to approximately RMB58,172,000, representing an increase of approximately 555.5% as compared to RMB8,874,000 for the same period last year. The rapid growth of sales revenue was mainly due to: (1) financial statements of Guizhou Tongjitang Pharmacy Chain began to be consolidated; (2) rapid growth of Feng Liao Xing TCM Healthcare Complex. During the reporting period, a positive marketing strategy has increased the brand awareness of Feng Liao Xing TCM Healthcare Complex; there were nearly 37,000 outpatients and physiotherapy visits, representing an increase of approximately 82.0% compared with the same period last year. In September 2017, the Chongqing TCM Healthcare Complex started operation as well.

Revenue analysis by segment

(in RMB million)

	2017	**Proportion %**	2016	Proportion %	Change
Medicine/healthcare products	**39.17**	**67.3%**	6.42	72.4%	510.1%
Outpatient clinic	**2.03**	**3.5%**	0.77	8.6%	163.6%
Medical service	**16.97**	**29.2%**	1.68	19.0%	910.1%
Total	**58.17**	**100.0%**	8.87	100.0%	555.5%

INVESTMENT PROJECTS

In February 2018, the acquisitions of four companies by the Group from China National Traditional Chinese Medicine Corporation at approximately RMB499.3 million were completed. The four companies included Beijing Huamiao, Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company ("Beijing Huatai"), Heilongjiang Sinopharm Medicinal Materials Co., Limited ("HLJ Sinopharm") and Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Sichuan Jiangyou"). The completion of the acquisitions allowed the company to achieve rapid expansion of the production capacity and sales network of the decoction pieces business.

Beijing Huamiao

Feng Liao Xing Material & Slices, an indirect wholly-owned subsidiary of the Group, completed the acquisition of 100% equity interest of Beijing Huamiao at approximately RMB216.6 million (equivalent to approximately HK$255.6 million) on 8 February 2018. Beijing Huamiao is principally engaged in the manufacture and sale of TCM decoction pieces in Beijing, the PRC. Beijing Huamiao produces more than 800 kinds of TCM decoction pieces products which are mainly sold to hospitals and medical institutions in Beijing as well as TCM manufacturers. It also produces health products for end-users and provides decoction services to several hospitals in Beijing.

Beijing Huatai

Feng Liao Xing Material & Slices completed the acquisition of 100% equity interest of Beijing Huatai at approximately RMB139.6 million (equivalent to approximately HK$164.7 million) on 31 January 2018. The major asset of Beijing Huatai is an industrial complex in Beijing. Phase I and Phase II of the industrial complex are currently leased to Huayi Pharmaceutical and Beijing Huamiao respectively for production use.

HLJ Sinopharm

Feng Liao Xing Material & Slices completed the acquisition of 100% equity interest of HLJ Sinopharm at approximately RMB61.4 million (equivalent to approximately HK$72.5 million) on 24 January 2018. HLJ Sinopharm is principally engaged in the distribution of TCM products and chemical drugs to pharmaceutical companies in several regions and hospitals in Heilongjiang Province, the PRC. It also holds certain retail properties in Harbin which are being leased to independent third parties for rental income and operates a retail pharmacy through its wholly-owned subsidiary. In addition, HLJ Sinopharm owns two plantation bases of medicinal herbs in Heilongjiang Province, the PRC.

Sichuan Jiangyou

Feng Liao Xing Material & Slices completed the acquisition of 100% equity interest of Sichuan Jiangyou at approximately RMB81.7 million (equivalent to approximately HK$96.4 million) on 12 January 2018. Sichuan Jiangyou is principally engaged in the manufacture and sale of TCM decoction pieces in Sichuan Province, the PRC. Sichuan Jiangyou had invested approximately RMB50 million in the establishment of a new production plant in Sichuan which commenced production at the end of 2016, with an annual production capacity of 4,000 tonnes.

For details of the acquisitions of four companies., please refer to the announcement dated 22 October 2017 and the circular dated 23 November 2017 of the Company.

The newly acquired companies, together with the Group's existing decoction pieces business in Shanghai, Guiyang, Guangdong and Gansu, form extensive geographical coverage of TCM decoction pieces business in the key regions in the PRC. Through the acquisitions, the Group also achieved the localization of the concentrated TCM granules business in regions such as Beijing and Heilongjiang, and made use of the mature hospital network of the newly acquired subsidiaries, and the synergy and scale advantage of the Group's existing sales channels in order to achieve the rapid expansion of the shares for the concentrated TCM granules and decoction pieces market.

OUTLOOK FOR 2018

The Group has formulated mid-and-long-term strategic objectives. We will focus on the following aspects: the whole-industry chain layout of TCM, as we believe that an extensive and in-depth industrial structure will help us to resist industrial policy and operational risks; research on standards for concentrated TCM granules and classical formulated granule products to elevate our technological position in the industry; clinical research on finished drug blockbusters, exploring the clinical value of products to bring new vitality into our product line; pursuing technological innovation and accelerating the development of intelligent TCM distribution centres and TCM workshops; the cultivation of core Chinese medicinal herbs whilst ensuring controllable source tracking and consistent quality.

In 2018, to achieve the strategic planned objectives of the Group, we will pay close attention to changes in national industry policies and focus on principal operations to promote the continuous development and expansion of the Company's four core business segments.

- **Accelerating expansion in the layout and development of the TCM decoction pieces and concentrated TCM granules segments**

  In 2018, we will continue to expedite the layout planning of production bases for the TCM decoction pieces and concentrated TCM granules across the country and focus on business development targeting at top 100 large-scale hospitals to ensure the achievement of our annual operation and management goals. The Group will further establish "Tianjiang" and "Yifang" as leading brands of concentrated TCM granules, create barriers to competition and consolidate the leading industry position through participating in the formulation of the industry standard of concentrated TCM granules.

- **Expediting the development of intelligent TCM distribution centers**

  We will expedite the development of multipurpose intelligent TCM distribution centers by integrating quality TCM resources including medicinal herb bases, traditional decoction pieces and concentrated TCM granules, and leveraging on the Big Data platform of "Internet + medical treatment". In 2018, we plan to set up and operate approximately 30 intelligent TCM service centers in major provinces of China in cooperation with regional leading hospitals, one of which will be an automatic TCM distribution center in Beijing. In this way, we aim to gradually achieve regional network coverage of hospitals and rapid expansion of market share.

- **Bringing vitality to finished drug products to achieve sustainable growth**

  In respect to the key varieties of finished drugs, the Group will conduct a series of academic research projects, including evidence-based clinical studies, drug safety, and pharmacoeconomic studies, to enhance the academic value of its products. At the same time, we will strengthen the market planning and brand-building of OTC products and cooperate with large-scale chain pharmacies to realize product revitalization and achieve sustainable growth.

- **Accelerating the extension of TCM healthcare complex business**

  In 2018, we will speed up the development of TCM Healthcare Complex business and launch the construction and opening of Foshan Nanhai TCM Healthcare Complex and Jiangyin Complex, so as to gradually achieve scale effect and brand effect of the TCM healthcare complex business and reduce supply chain and management costs.

- **Improving the TCM source tracking system**

  Sources of the Group's Chinese medicinal herbs procured from local production bases will be traceable and quality controllable to the maximum possible extent. To achieve this, the Group cooperated with herb-producing companies and households to gradually establish and improve a management system for medicinal herb bases and guarantee their quality and supply. At the same time, we will accelerate the construction of initial processing bases in production regions and optimize our industrial structure to reduce production costs and improve operational efficiency. The Group is also committed to enhancing the quality of domestic medicinal herbs and making contributions to the conservation of herb resources.

- **Advancing the "development strategy of granules of TCM classical prescriptions"**

  In response to national policy support for TCM classical prescriptions, the Company will take the lead in declaring the national key science and technology project of "TCM classical prescriptions development based on TCM classics " in alliance with Tianjiang Pharmaceutical, Yifang Pharmaceutical, Beijing University of Chinese Medicine and Guangdong Second Traditional Chinese Medicine Hospital. The Company will take this project as an opportunity to accumulate experience and ideas on the research of TCM classical prescriptions.

- **Constructing a large-scale TCM warehousing and trading platform**

  We will construct a TCM warehousing and trading platform in strict accordance with GMP requirements. Standard warehouses with a gross floor area of 600,000 square meters will be established in Longxi, Gansu Province; Bozhou, Anhui Province; Mianyang, Sichuan Province; Guilin, Guangxi Province; and other locations. The trading platform will establish a TCM quality inspection center recognized by CNCA and CNAS (Laboratory accreditation, inspection institution accreditation and national qualification accreditation).

  The TCM warehousing and trading platform will integrate transactions, delivery, storage, logistics, inspection, financing and quality tracking services under the new "Internet + TCM industry + financial service + modern logistics" model. It will provide services to upstream Chinese medical herb suppliers and downstream herb purchasing enterprises, and aims to completely change the current industrial situation of fragmentation, non-transparency and mixed counterparties.

- **Initiating a cloud computing data center project**

  In future, a cloud computing data center will coordinate with the Company's specialized backbone network to provide business system services and network support for its national business sections and branches. The business activities of all segments will be shared to the data center for centralized operation and maintenance, and provide external service support. Subsequently, distribution centers, industrial parks, TCM healthcare complex and subsidiaries in various regions will see dramatic decrease in the costs of construction, operation and maintenance of machine rooms and servers, thus reducing mid-and long-term cost input.

- **Implementing the profit-oriented evaluation and incentive model**

  On the premise of compliance, we will implement a new evaluation and incentive model centered on profit, safe production, environmental protection and quality, and delegate powers sufficiently to lower levels to further stimulate the vitality and creativity of the Group.

FINANCIAL REVIEW

The Group completed the acquisition of 100% equity interest of Huayi Pharmaceutical, Tongjitang Herbal and Shanghai Tongjitang in 2016, and completed the acquisition of 60% equity interest in Guizhou Tongjitang Pharmacy Chain in January 2017. During the year, Tongjitang Herbal, Shanghai Tongjitang and Feng Liao Xing Material & Slices were consolidated into the TCM decoction pieces business of the Group, and Guizhou Tongjitang Pharmacy Chain and Feng Liao Xing TCM Healthcare Complex were consolidated into the TCM healthcare complex business of the Group. The comparative segment information during the year under review have been restated to comform with the presentation adopted in current year.

Revenue

During the year under review, the Group's revenue amounted to approximately RMB8,337,795,000, representing an increase of 27.6% from approximately RMB6,532,867,000 for last year, mainly attributable to the rapid growth of the concentrated TCM granules business, revenue contribution brought by the new businesses of the TCM decoction pieces and TCM healthcare complex and the sale improvement in the finished drug business.

Cost of sales and gross profit margin

During the year under review, the Group's cost of sales was approximately RMB3,686,213,000, representing an increase of 34.3% from approximately RMB2,745,187,000 for last year. Gross profit for the year was approximately RMB4,651,582,000, representing an increase of 22.8% from approximately RMB3,787,680,000 for last year. Gross profit margin for the year dropped by 2.2 percentage points to 55.8% from 58.0% of last year. The decrease in gross profit margin was mainly due to the raw material costs increased and the gross profit margins of the newly consolidated companies were lower than the gross profit margins of the original businesses of the Group.

During the year under review, the cost of sales for the concentrated TCM granules business was approximately RMB2,310,722,000, representing an increase of 31.1% as compared with approximately RMB1,762,653,000 for last year. Gross profit amounted to approximately RMB3,188,957,000, representing an increase of 22.8% from approximately RMB2,595,893,000 for last year. The gross profit margin for the year was 58.0%, representing a drop of 1.6 percentage points as compared to 59.6% for last year, which was mainly due to increasing raw material costs.

During the year under review, the cost of sales for the finished drug business was approximately RMB1,018,717,000, representing an increase of 14.3% as compared with approximately RMB891,456,000 for last year. Gross profit amounted to approximately RMB1,362,485,000, representing an increase of 16.5% from approximately RMB1,169,885,000 for last year. The gross profit margin for the year was 57.2%, representing an increase of 0.4 percentage point as compared to 56.8% for last year.

During the year under review, the cost of sales for the TCM decoction pieces business and TCM healthcare complex business were approximately RMB320,758,000 and RMB36,016,000, respectively. Gross profits amounted to approximately RMB77,984,000 and RMB22,156,000, respectively, and gross profit margins were 19.6% and 38.1%, respectively.

Other income

During the year under review, the Group's other income was approximately RMB119,544,000, representing an increase of 45.1% as compared to approximately RMB82,363,000 for last year. The increase in other income was mainly due to an increase in interest income on bank deposits and the compensation from ex-shareholder of Tianjiang Pharmaceutical.

	2017	2016	Change
	RMB'000	RMB'000	
Interest income	**32,561**	14,590	123.2%
Government grants	**62,851**	66,893	-6.0%
Rental income	**1,162**	880	32.0%
Others	**22,970**	–	N/A
Total	**119,544**	82,363	45.1%

Other Gains and Losses

During the year under review, the Group's other losses was approximately RMB4,103,000 (2016: other losses of approximately RMB8,010,000). The reasons for changes in other gains and losses for the year: gains from changes in fair value arising from the forward foreign exchange contract were approximately RMB32,224,000 last year, and actual amount settled during the year was less than the changes in fair value recognized last year, which resulted to losses of approximately RMB16,751,000; there was a substantial increase in the Company's Renminbi ("RMB") revenue stream and debt levels last year, and the directors of the Company re-assessed and considered that RMB is the functional currency of the Company so as to mitigate the impact of exchange rate fluctuations on the Company, with a decrease of approximately RMB39,441,000 in exchange gains for the year as compared with last year; the Group strengthened the collection of trade receivables during the year and the long-aging trade receivables decreased, with a reversed impairment loss of approximately RMB18,462,000.

Selling and distribution costs

During the year under review, the Group's selling and distribution costs amounted to approximately RMB2,437,167,000 (2016: RMB1,968,432,000).

	2017	2016	Change
	RMB'000	RMB'000	
Advertising, promotion and traveling expenses	**1,281,717**	921,472	39.1%
Salary expenses of sales and marketing staff	**380,461**	367,133	3.6%
Distribution costs	**116,498**	70,188	66.0%
Other selling and distribution costs	**658,491**	609,639	8.0%
Total	**2,437,167**	1,968,432	23.8%

During the year under review, the selling and distribution costs of the Group increased by 23.8% as compared to that of last year, the selling and distribution costs as a percentage of the revenue was 29.2%, representing a fall of 0.9 percentage point as compared to 30.1% for last year, which was mainly due to the decrease in selling expenses margin as a result of the enhancement of operation efficiency of the sales team through the introduction of the responsibility system to the finished drug business last year, while the selling expenses margins of the newly consolidated companies were lower than that of the Group's original business. The growth of the advertising, promotion and traveling expenses for the year is mainly due to the concentrated TCM granules business increased marketing input for developing new markets and new customers. The selling and distribution costs of the concentrated TCM granules business for the year were approximately RMB1,603,209,000, representing an increase of 29.7% as compared to approximately RMB1,236,083,000 for last year.

Research and development costs and administrative expenses

During the year under review, the Group's research and development costs and administrative expenses amounted to approximately RMB551,609,000 (2016: RMB516,818,000).

	2017	2016	Change
	RMB'000	RMB'000	
Salary	**189,518**	152,010	24.7%
Depreciation and amortisation	**37,854**	32,750	15.6%
Office rental cost and other expenses	**122,077**	145,226	-15.9%
Subtotal	**349,449**	329,986	5.9%
Research and development costs	**202,160**	186,832	8.2%
Total	**551,609**	516,818	6.7%

Research and development costs and administrative expenses increased by 6.7% as compared to last year, the research and development costs and administrative expenses as a percentage to revenue was 6.6%, representing a fall of 1.3 percentage points as compared to 7.9% of last year. The decrease in the administrative expenses as a percentage to revenue was due to the effective control of the rising administrative expenses while revenue increased.

Profit from operations

During the year under review, the Group's profit from operations was approximately RMB1,786,453,000, representing an increase of 29.8% as compared to RMB1,376,783,000 for last year, while operating profit margin (defined as profit from operations divided by revenue) was 21.4%, representing an increase of 0.3 percentage point from 21.1% for last year. The increase in operating profit margin was due to the effective control of selling and distribution costs and administrative expenses while revenue increased, so that the growth rate of costs for the period was kept lower than the growth rate of revenue.

Regarding the concentrated TCM granules business, profit from operations was approximately RMB1,334,901,000 (after deducting depreciation and amortisation of approximately RMB110,592,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical in the consolidated financial statements), representing an increase of 28.1% as compared to RMB1,042,022,000 for last year. The operating profit margin increased by 0.4 percentage point from 23.9% of last year to 24.3% for the year. Regarding the finished drug business, the profit from operations was approximately RMB419,318,000, representing an increase of 24.7% as compared to approximately RMB336,222,000 for last year. The operating profit margin increased from 16.3% of last year to 17.6% for the year. During the year, the operating profit margins of TCM decoction pieces business and TCM healthcare complex business were 7.9% and 1.5%, respectively.

Finance costs

During the year under review, the Group's finance costs amounted to approximately RMB221,068,000 (2016: RMB73,423,000). The increase in financial costs as compared to last year was mainly due to the corporate bonds issued in November 2016 and June 2017, respectively, with nominal values of RMB2.5 billion and RMB2.0 billion respectively. Bank and other loans held by the Group as at 31 December 2017 amounted to approximately RMB671,697,000 and corporate bonds of approximately RMB4,481,958,000 were held. Bank and other loans held by the Group as at 31 December 2016 amounted to approximately RMB1,424,339,000 and corporate bonds amounted to approximately RMB2,485,604,000. During the year under review, the effective interest rate of the Group was 4.06% (2016: 2.34%). The Group will continue to pay attention to the changes in market interest rates and adjust the borrowings and fund raising mechanism on a timely basis. When there is opportunity to negotiate better terms, the Group will refinance the existing loans or secure new bank loans.

Income from investment in associates

During the year under review, the Group shared gains from associates of approximately RMB1,852,000, compared with shared income of approximately RMB444,000 last year.

Earnings per share

During the year under review, basic earnings per share were RMB26.41 cents, representing an increase of 21.5% as compared to RMB21.73 cents of last year. Basic earnings per share increased as profit attributable to owners of the Company for the year increased by 21.0% to approximately RMB1,170,434,000 (2016: RMB966,927,000).

Liquidity and financial resources

As at 31 December 2017, the Group's current assets amounted to approximately RMB11,384,050,000 (31 December 2016: RMB8,070,408,000), which included cash, cash equivalents and deposits with banks of approximately RMB4,787,781,000 (31 December 2016: RMB3,425,582,000), among which the carrying amount of pledged bank deposits was nil (31 December 2016: RMB2,226,000). Trade and other receivables amounted to approximately RMB3,024,076,000 (31 December 2016: RMB2,716,250,000). Current liabilities amounted to approximately RMB4,694,887,000 (31 December 2016: RMB3,506,824,000). Total net current assets were approximately RMB6,689,163,000 (31 December 2016: RMB4,563,584,000). The Group's current ratio was 2.4 (31 December 2016: 2.3). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to owners of the Company) increased to 41.4% from 34.0% as at 31 December 2016. The higher gearing ratio was mainly due to the issuance of corporate bonds with nominal value of RMB2.0 billion during the year, which led to an increase in bank and other loans and bonds payable from approximately RMB3,909,943,000 as at 31 December 2016 to approximately RMB5,153,655,000.

Bank and other loans and pledge of assets

As at 31 December 2017, the balance of the Group's bank and other loans was approximately RMB671,697,000 (31 December 2016: RMB1,424,339,000), of which approximately RMB243,824,000 (31 December 2016: RMB144,479,000) was secured by the Group's assets with book value of approximately RMB141,409,000 (31 December 2016: RMB39,028,000) in total. The decrease in bank loans was mainly due to the repayment of Hong Kong dollar loan of HK$730 million during the year. The balance of the Group's bank and other loans included approximately RMB638,697,000 and RMB33,000,000, which are required to be paid within one year and more than one year, respectively (31 December 2016: approximately RMB1,001,392,000 and RMB422,947,000 respectively).

Capital Source

The Group meets its working capital needs mainly through its operating activities and external financing activities. During the year under review, the Group's net cash inflow generated from operating activities was approximately RMB1,235,594,000, representing a decrease of 15.6% as compared with that of approximately RMB1,464,640,000 in 2016, which was mainly due to the increase of inventory reserves during the year. Net cash inflow from investing activities was approximately RMB392,959,000, while the net cash outflow was approximately RMB2,500,259,000 in 2016. The change from net cash outflow to net cash inflow was mainly due to the maturity of fixed deposits of RMB1,050,000,000 during the year. The net cash paid for acquisition of subsidiaries was approximately RMB1,328,209,000 last year, while the net cash paid was approximately RMB108,457,000 during the year. Net cash inflow from financing activities was approximately RMB785,592,000, representing a decrease of 30.4% as compared with that of approximately RMB1,127,931,000 in 2016, which was mainly due to the cash inflow of approximately RMB1,987,830,000 from the issue of corporate bonds during the year, while the cash inflow from the issue of corporate bonds was approximately RMB2,485,000,000 last year. The Group had sufficient working capital and stable financial position as it has an unutilized bank loan facility of approximately RMB800,000,000.

Capital expenditure

During the year under review, the cash paid by the Group for the purchase of equipment, construction of plants, purchase of land use rights and intangible assets amounted to approximately RMB627,543,000, representing an increase in expenditure of 161.1% as compared with approximately RMB255,842,000 of last year. The significant increase in the capital expenditure was mainly due to the promotion of development plan of TCM decoction pieces and concentrated TCM granules industries and the establishment of production bases of TCM decoction pieces and concentrated TCM granules in various provinces and cities by the Group.

Financing Capacity

As at 31 December 2017, the capital commitments which the Group has entered into but outstanding and not provided for in the financial statements were approximately RMB1,459,726,000 (31 December 2016: approximately RMB966,992,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities and investment payment. The Group believes that, with the available cash balances, stable cash inflow from operating activities, the undrawn bank facilities already granted by the bank, the net proceeds of HK$2,674 million to be obtained as a result of introducing Ping An Life Insurance as a strategic investor, as well as the fact that it has been well recognized and supported by the major financial institutions, the Group will be capable of fully satisfying the liquidity needs and the abovementioned funding needs.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2017 (31 December 2016: nil).

Financial risk

The Group mainly operates in mainland China with most of the transactions originally denominated and settled in Renminbi, of which foreign exchange risk is considered insignificant. During the year under review, the Group repaid bank borrowings of HK$730 million, and Hong Kong dollar borrowings therefore decreased from HK$1,200 million as at 31 December 2016 to HK$470 million as at 31 December 2017, and the foreign exchange risk decreased. On 31 December 2017, no forward foreign exchange contract has been entered into by the Group. Forward foreign exchange contract amounting to HK$1.17 billion which was still outstanding on 31 December 2016 expired during the year under review. In future, the Group will continue to perform regular reviews on its net foreign exchange exposures and take appropriate measures on a timely basis to mitigate the impact of exchange rate fluctuations.

Employees and remuneration policies

As at 31 December 2017, the Group had a total of 10,706 employees (including directors of the Company) (31 December 2016: 9,539), of which the number of sales staff, manufacturing staff and those engaged in R&D, administration and senior management were 4,213, 4,201 and 2,292 respectively. Remuneration packages are mainly comprised of salary and discretionary bonus based on individual performance. The Group's total remuneration amount during the year was approximately RMB890,531,000 (2016: RMB734,939,000).

SUBSEQUENT EVENTS

Subscription of new shares by Ping An Life Insurance Company of China, Ltd. under specific mandate

On 19 March 2018, the Company and Ping An Life Insurance entered into the Subscription Agreement. Ping An Life Insurance will subscribe for 604,296,222 new shares of the Company at the price of HK$4.43 per share. Upon the completion of the subscription, Ping An Life Insurance will hold approximately 12.0% of the total number of issued shares as enlarged of the Company. The Company is expected to raise total net proceeds of approximately HK$2,674 million through the share issue.

For details, please refer to the announcement dated 19 March 2018 of the Company.

FINAL DIVIDEND

The Board recommended a final dividend of HK4.96 cents (approximately RMB3.97 cents) per share for the year ended 31 December 2017 (2016: HK3.59 cents (approximately RMB3.19 cents) per share). The final dividend for the year 2017 is subject to the approval by the shareholders at the forthcoming annual general meeting and is expected to be payable on 28 June 2018 to the shareholders on the register of members of the Company on 19 June 2018.

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

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2017, and an indication of likely future development in the Group's business, can be found in the "Five Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Consolidated Financial Statements" sections of this report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" section of this report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 71 to 168 of this report.

An interim dividend of HK4.75 cents (approximately RMB4.05 cents) per share for the six months ended 30 June 2017 was paid on 26 October 2017 (six months ended 30 June 2016: HK6.44 cents (approximately RMB5.54 cents) per share).

The Board recommended a final dividend of HK4.96 cents (approximately RMB3.97 cents) per share for the year ended 31 December 2017 (2016: HK3.59 cents (approximately RMB3.19 cents) per share). The total distribution for year ended 31 December 2017 is HK9.71 cents (approximately RMB8.02 cents) per share (2016: HK10.03 cents (approximately RMB8.73 cents) per share).

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB1,170,434,000 (2016: RMB 966,927,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements.

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

Details of movements in investment property, other property, plant and equipment and leasehold land during the year are set out in notes 16 and 17 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 33 and the Consolidated Statement of Changes in Equity in the financial statements, respectively.

EQUITY-LINKED AGREEMENTS

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in notes 31 and 32 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

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

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2017 are set out in note 43 to the financial statements.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

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

Executive Directors

Mr. WU Xian	*Chairman*
Mr. WANG Xiaochun	*(appointed as Managing Director on 31 March 2017)*
Mr. ZHAO Dongji	*(re-designated from Non-executive Director to Executive Director on 5 June 2017)*
Ms. HUANG He	*(re-designated from Non-executive Director to Executive Director on 5 June 2017)*
Mr. YANG Bin	*(resigned as Executive Director & Managing Director on 31 March 2017)*

Non-executive Directors

Mr. LIU Cunzhou	
Mr. YANG Shanhua	*(appointed on 28 March 2018)*
Ms. TANG Hua	
Mr. DONG Zenghe	*(resigned on 28 March 2018)*

Independent Non-executive Directors

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

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

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

In accordance with Article 92 of the Company's Articles of Association, Mr. YANG Shanhua shall hold office only until the next general meeting of the Company and, shall then be eligible of re-election.

In accordance with Article 101 of the Company's Articles of Association, Mr. ZHAO Dongji, Mr. LIU Cunzhou, and Mr. XIE Rong˙ shall retire by rotation at the AGM and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS AND SENIOR MANAGEMENT

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

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

Mr. WANG Xiaochun renewed into an appointment letter with the Company for a term of two years commencing from 23 October 2015. Due to re-designation of Mr. Wang as the Managing Director with effect from 31 March 2017, Mr. WANG entered a supplemental appointment letter with the Company for an initial term of two years on 3 April 2017.

Mr. ZHAO Dongji renewed an appointment letter with the Company for a term of two years commencing from 5 February 2017. Due to re-designation of Mr. ZHAO Dongji as an Executive Director with effect from 5 June 2017, Mr. ZHAO entered a supplemental appointment letter with the Company for an initial term of two years on 5 June 2017.

Ms. HUANG He entered into an appointment letter with the Company for a term of two years commencing from 23 August 2016. Due to re-designation of Ms. HUANG He as an Executive Director with effect from 5 June 2017, Ms. HUANG entered a supplemental appointment letter with the Company for an initial term of two years on 5 June 2017.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

Mr. YANG Shanhua entered into an appointment letter with the Company for a term of two years commencing from 28 March 2018.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

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

Mr. YU Tze Shan Hailson renewed an appointment letter with the Company for a term of two years commencing from 25 November 2017.

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

MANAGEMENT CONTRACTS

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

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to approximately RMB1,903,000.

DIRECTORS OF SUBSIDIARIES

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

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration committee of the Company (the "Remuneration Committee") and the emoluments of the non-executive Director and independent non-executive Directors are recommended by the Remuneration Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2017, the fee for the eligible executive and independent non-executive Directors were fixed at HK$234,000 and HK$250,000 per annum respectively.

PERMITTED INDEMNITY PROVISION

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

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

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

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company as at the date of 2017 interim report is as follows:

– Mr. DONG Zenghe resigned as a non-executive director with effect from 28 March 2018.

– Mr. YANG Shanhua was appointed as a non-executive Director with effect from 28 March 2018.

– Mr. YU Tze Shan Hailson was appointed as an independent non-executive director of China NT Pharma Group Company Limited (stock code: 01011) with effect from June 2017.

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

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2017, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

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

Note:

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

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2017, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2017, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
Sinopharm Hongkong	Beneficial owner	1,614,313,642 (long position) *(Note 1)*	36.43%
CNPGC	Interest of controlled corporations	1,614,313,642 (long position) *(Note 1)*	36.43%
Hanmax	Beneficial owner	376,735,042 (long position)	8.50%
GIC Private Limited	Investment Manager	306,260,000 (long position) *(Note 2)*	6.91%
Profit Channel Development Limited	Beneficial owner	243,735,042 (long position) *(Note 3)*	5.50%

Notes:

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

2. The number of shares held by GIC Private Limited is based on the information of Corporate Substantial Shareholder Notice (Form 2) dated 5 December 2017.

3. The number of shares held by Profit Channel Development Limited is based on the information of Corporate Substantial Shareholder Notice (Form 2) dated 15 May 2017.

4. On 31 December 2017, the total number of issued shares of the Company is 4,431,505,630.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2017.

CONNECTED TRANSACTIONS

Acquisition of four pharmaceutical companies

On 20 October 2017, Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. (國藥集團馮了性（佛山）藥材飲片有限公司) (a wholly-owned subsidiary of the Company) (the "Purchaser') and China National Traditional Chinese Medicine Corporation (the "Vendor") entered into the following agreements:

(i) The Huamiao Agreement in relation to the Beijing Huamiao Pharmaceutical Co., Limited ("Huamiao") Acquisition

Pursuant to the Huamiao Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of Huamiao free from encumbrances and together with all rights attaching thereto from the date of Huamiao Completion. The consideration was approximately RMB216,600,000 (equivalent to approximately HK$255,600,000) and was determined after arm's length negotiations between the Purchaser and the Vendor taking into account the profitable track record of Huamiao, the complementary nature of Huamiao's business with those of the Group and the synergy expected to be created by consolidating the TCM decoction pieces business of Huamiao with those of the Group. Huamiao is principally engaged in the manufacture and sale of TCM decoction pieces in Beijing, the PRC.

The Huamiao Agreement was completed on 8 February 2018.

(ii) The Huatai Agreement in relation to the Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company ("Huatai") Acquisition

Pursuant to the Huatai Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of Huatai free from encumbrances and together with all rights attaching thereto from the date of Huatai Completion. Apart from the lease of certain properties which are being leased to Huamiao, Huayi (an indirect wholly-owned subsidiary of the Company) and Huatai respectively, Huatai does not have other business operation. The consideration was approximately RMB139.6 million (equivalent to approximately HK$164.7 million). At the same time, the Purchaser had agreed to guarantee the settlement of the amount owed by Huatai to the Vendor of approximately RMB163.6 million (equivalent to approximately HK193.0 million) after the Huatai Completion.

The Huatai Agreement was completed on 31 January 2018.

(iii) The HLJ Sinopharm Agreement in relation to the Heilongjiang Sinopharm Medicinal Materials Co., Limited ("HLJ Sinopharm") Acquisition

Pursuant to the HLJ Sinopharm Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of HLJ Sinopharm free from encumbrances and together with all rights attaching thereto from the date of the HLJ Sinopharm Completion. The consideration was approximately RMB61,400,000 (equivalent to approximately HK$72,500,000). HLJ Sinopharm is principally engaged in the distribution of TCM products and chemical drugs to pharmaceutical companies in several regions and hospitals in Heilongjiang Province, the PRC. It also holds certain retail properties in Harbin, the PRC which are being leased to independent third parties. In addition, it owns two plantation bases of medicinal herbs in Heilongjiang Province, the PRC.

The HLJ Sinopharm Agreement was completed on 24 January 2018.

(iv) The Jiangyou Agreement in relation to the Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Jiangyou") Acquisition

Pursuant to the Jiangyou Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of Jiangyou free from encumbrances and together with all rights attaching thereto from the date of the Jiangyou Completion. The consideration was approximately RMB81,700,000 (equivalent to approximately HK$96,400,000). Jiangyou is principally engaged in the manufacture and sale of TCM decoction pieces in Sichuan Province, the PRC. Jiangyou had invested approximately RMB50 million in the establishment of a new production plant in Sichuan which completed in late 2016. The production plant is equipped with a production capacity of 4,000 tonnes of TCM decoction pieces of toxic Chinese medicinal herbs.

The Jiangyou Agreement was completed on 12 January 2018.

Through the acquisition of Huamiao and HLJ Sinopharm, the Company can leverage on their mature hospital sales networks to bring synergetic effects and economies of scale into with the existing sales channels of the Group in order to expand the Company's market share of its concentrated TCM granule business in Beijing and the northeast region.

The acquisition of Huamiao and Jiangyou was in line with the Group's mission to strengthen this segment and would immediately enhance the Group's production capacity, market share and distribution channel in Beijing and Sichuan Province respectively. Together with its existing production bases in Guangdong, Shanghai, Guiyang and Gansu, the Group would have nationwide geographical coverage of TCM decoction pieces business in the key regions in the PRC (such as the eastern, northern, southern, southwestern and northwestern regions) after the acquisitions and benefit from integration of resources in terms of management, procurement, production and financial aspects.

These three enterprises have their own characteristics. Huamiao is the largest manufacturing and processing company for TCM decoction pieces in Beijing which owns more than 800 kinds of TCM decoction pieces. As an authorised manufacturer in respect of 28 kinds of toxic TCM materials designated by Beijing Food and Drug Administration, it also holds the production and processing permit for the processed products of some of the endangered and protected wild animals. Huamiao's modernized decoction and storage centre built in Beijing greatly facilitates the expansion of the Company's decoction business. Jiangyou possesses the largest production base for toxic decoction pieces in the PRC. Leveraging on its special Aconite decoction pieces business, the Company will develop the best Aconite brand in China within the sub-category of toxic decoction pieces after the acquisition. HLJ Sinopharm is the only enterprise in Heilongjiang Province that holds the qualification of poppy shell operation. In the meantime, its possession of retail pharmacies and direct sales qualification is of strategic significance to the Company's business expansion towards retailing of pharmaceutical products in the future. Making use of HLJ Sinopharm's rich TCM resources, distribution channels and retail platforms, it is able to position itself as a northeast TCM resources centre, warehousing and sales centre as well as logistics centre, covering the three northeast provinces and the Northern China region to promote the Company's concentrated TCM granules, finished drugs and decoction pieces businesses in those regions.

Huatai owns an industrial complex in Beijing, which comprises two production plants currently being leased to Huamiao and Huayi respectively for their production use. The Huatai Acquisition merely represents an asset reorganisation to enhance management efficiency and realign the ownership and user of the assets.

On 20 October 2017, the Company was owned as to approximately 36.43% by Sinopharm Hongkong, which was the controlling shareholder of the Company and a wholly-owned subsidiary of the Vendor. Accordingly, the Vendor was a connected person of the Company and the Acquisitions constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

From time to time, Huamiao, HLJ Sinopharm and Jiangyou purchase TCM materials from the CNPGC Group and sell various pharmaceutical products to the CNPGC Group. Upon completion of the Huamiao Acquisition, the HLJ Sinopharm Acquisition and the Jiangyou Acquisition, such three enterprises had become the indirect subsidiaries of the Company and such transactions became continuing connected transactions for the Company under Chapter 14A of the Listing Rules and fall within the transactions contemplated under the master purchase agreement and the master supply agreement as disclosed in the circular of the Company dated 19 December 2016 in relation to the continuing connected transactions. Transaction amount of each of such transactions will account for the usage of the annual caps. The Company will continue to monitor the usage of the annual caps and comply with the Listing Rules as and when necessary.

The acquisition agreements of the above four pharmaceutical factories were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 22 December 2017. For details of such connected transactions, please refer to the announcement and the circular of the Company dated 20 October 2017 and 24 November 2017 respectively.

Acquisition of Shanghai Tongjitang in 2016

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

The Board would like to provide information disclosed in the "Acquisition of Shanghai Tongjitang" in the Report of the Directors of annual report 2016 of the Company (the "Annual Report 2016") that the Shanghai Tongjitang Vendors guaranteed that the audited net profit after tax (excluding non-recurring gains and losses) for each of the two years ended 31 December 2016 and 2017 shall be not less than RMB43 million (equivalent to approximately HK$49.9 million) (the "Guaranteed Profits"). In the event that the audited net profit after tax (excluding non-recurring gains and losses) for any of the two years is less than the Guaranteed Profits, the consideration will be adjusted to RMB500 million (equivalent to approximately HK$580 million).

The audited net profit after tax (excluding non-recurring gains and losses) of Shanghai Tongjitang for the year ended 31 December 2016 and 31 December 2017 were RMB47,475,240 and RMB45,598,765 respectively, which is higher than the Guaranteed Profits. Directors considered that it is not for consideration to adjust.

CONTINUING CONNECTED TRANSACTIONS

New Master Purchase Agreement and New Master Supply Agreement with CNPGC

On 18 November 2016, the Company entered into the agreements to govern the terms of the Purchases and the Sales and to set the annual caps for the three financial years ending 31 December 2017, 2018 and 2019.

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

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

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

CNPGC is beneficially interested in 1,614,313,642 shares as at 18 November 2016, representing approximately 36.43%, of the total issued shares of the Company and is the controlling shareholder and a connected person of the Company under the Listing Rules. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively constitute continuing connected transactions of the Company under the Listing Rules. The transaction is a connected transaction under Chapter 14A and it has complied with the requirements in Chapter 14A. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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

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

During the period from 1 January 2017 to 31 December 2017, the actual purchases of materials by the Group from CNPGC Group amounted to RMB20,408,000 (including value added tax) which was below the cap amount of RMB 45,000,000 for the year ended 31 December 2017.

During the period from 1 January 2017 to 31 December 2017, the actual sales of products by the Group to CNPGC Group amounted to RMB335,431,000 (including value added tax) which was below the cap amount of RMB 800,000,000 for the year ended 31 December 2017.

Research and Development Agreements with SIPI and SPERC

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

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry ("CSIPI"), which is a subsidiary of CNPGC. CNPGC is the ultimate holding company of Sinopharm Hongkong which is in turn the controlling shareholder beneficially interested in 1,139,879,044 shares, 1,121,023,044 shares and 1,614,313,642 shares as at 23 December 2013, 5 March 2014 and 31 December 2015 respectively, representing approximately 44.99%, 44.24% and 36.00% respectively, of the total issued shares of the Company respectively. Accordingly, each of SIPI and SPERC is a connected person of the Company and the transactions contemplated under the R&D Agreements constitute continuing connected transaction of the Company under the Listing Rules. The transaction is a connected transaction under Chapter 14A and it has complied with the requirements in Chapter 14A. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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

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

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

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

During the period from 1 January 2017 to 31 December 2017, there is no actual research and development fee payable by the Group to SIPI and SPERC. The sum of such fees payable by the Group to SIPI and SPERC during 2014 to 2017 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

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

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

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

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

During 2017, the Group entered into certain transactions with related parties as defined in accordance with applicable accounting standards, and details of which are set out in note 42 of the audited consolidated financial statements of this report. Such related party transactions include the connected transactions as disclosed in the "CONNECTED TRANSACTIONS" of this section. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules.

Review by the Auditors

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

(i) have not been approved by the Board;

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

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

(iv) have exceeded the annual cap.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

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

DEBENTURS ISSUED

For the year ended 31 December 2017, no debenture is issued by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 4.0% and 11.5 % of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 4.0% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and five largest suppliers accounted for around 7.3% and 17.1% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 0.3% of the Group's total purchases during the year.

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

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in note 34 to the financial statements.

CHANGE OF AUDITOR

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

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

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

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2017 have been reviewed by the audit committee ("Audit Committee"). Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 45 to 59 of this report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 45 to 59 of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

By Order of the Board

WU Xian
Chairman

Hong Kong, 28 March 2018

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the corporate governance practices and complied with all of the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2017.

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

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

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

Executive Directors:

Mr. WU Xian	*Chairman*
Mr. WANG Xiaochun	*(appointed as Managing Director on 31 March 2017)*
Mr. ZHAO Dongji	*(re-designated from Non-executive Director to Executive Director on 5 June 2017)*
Ms. HUANG He	*(re-designated from Non-executive Director to Executive Director on 5 June 2017)*
Mr. YANG Bin	*(resigned as Executive Director and Managing Director on 31 March 2017)*

Non-executive Directors:

Mr. LIU Cunzhou	
Mr. YANG Shanhua	*(appointed on 28 March 2018)*
Ms. TANG Hua	
Mr. DONG Zenghe	*(resigned on 28 March 2018)*

Independent Non-executive Directors:

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

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

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

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

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

– issue and buy back of shares of the Company;

– setting the Group's overall objectives and strategies;

– approval of annual budgets and business plans;

– evaluating and monitoring operating and financial performance;

– reviewing and monitoring internal control and risk management;

– approval of announcements of financial results

– declaration and recommendation of the payment of dividend;

– appointment of new directors; and

– appointment and dismissal of senior management of the Company.

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

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in note 12 to the financial statements.

The remuneration of the members of the senior management, other than Directors, by band for the year ended 31 December 2017 is set out below:

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

For the year ended 31 December 2017, the Company had convened five Board meetings, the 2017 annual general meeting (the "2017 AGM") and two extraordinary general meeting (collectively terms as the "General Meetings"). The following table shows the details of Directors' attendance

	Attendance/Number of Meetings		
Directors	**Board Meetings**	**2017 AGM**	**Extra-ordinary General Meetings**
Executive Directors:			
Mr. WU Xian *(Chairman)*	5/5	1/1	0/2
Mr. WANG Xiaochun *(appointed as Managing Director on 31 March 2017)*	5/5	1/1	1/2
Mr. ZHAO Dongji *(re-designated from Non-executive Director to Executive Director on 5 June 2017)*	5/5	1/1	2/2
Ms. HUANG He *(re-designated from Non-executive Director to Executive Director on 5 June 2017)*	5/5	1/1	0/2
Mr. YANG Bin *(resigned as Executive Director and Managing Director on March 2017)*	1/1	N/A	0/1
Non-executive Directors:			
Mr. LIU Cunzhou	5/5	0/1	0/2
Mr. DONG Zenghe *(resigned on 28 March 2018)*	4/5	0/1	0/2
Ms. TANG Hua	5/5	1/1	0/2
Independent Non-executive Directors:			
Mr. ZHOU Bajun	5/5	1/1	2/2
Mr. XIE Rong	5/5	1/1	0/2
Mr. YU Tze Shan Hailson	5/5	1/1	0/2
Mr. LO Wing Yat	2/5	1/1	1/2

Chairman and Managing Director

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

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

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

Appointment and Re-election of Directors

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

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

Continuous Professional Development of Directors

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

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

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

Directors	**Training Types**
Executive Directors:	
Mr. WU Xian *(Chairman)*	A, B
Mr. WANG Xiaochun *(appointed as Managing Director on 31 March 2017)*	A, B
Mr. ZHAO Dongji *(re-designated from non-executive Director to executive Director on 5 June 2017)*	A, B
Ms. HUANG He *(re-designated from non-executive Director to executive Director on 5 June 2017)*	A, B
Mr. YANG Bin *(resigned as executive Director and Managing Director on 31 March 2017)*	A, B

Directors	Training Types
Non-executive Directors:	
Mr. LIU Cunzhou	A, B
Ms. TANG Hua	A, B
Mr. DONG Zenghe *(resigned on 28 March 2018)*	A, B
Independent Non-executive Directors:	
Mr. ZHOU Bajun	A, B
Mr. XIE Rong	A, B
Mr. YU Tze Shan Hailson	A, B
Mr. LO Wing Yat	A, B

A: Attending trainings on topics of Corporate Governance and Recent Update on Listing Rules

B: Reading materials

Nomination Committee

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

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

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

Members of the Nomination Committee	Attendance/Number of Meetings
Executive Directors:	
Mr. WU Xian *(Chairman)*	2/2
Mr. WANG Xiaochun *(appointed on 31 March 2017)*	2/2
Mr. YANG Bin *(resigned on 31 March 2017)*	1/1
Independent Non-executive Directors:	
Mr. ZHOU Bajun	2/2
Mr. XIE Rong	2/2
Mr. LO Wing Yat	1/2

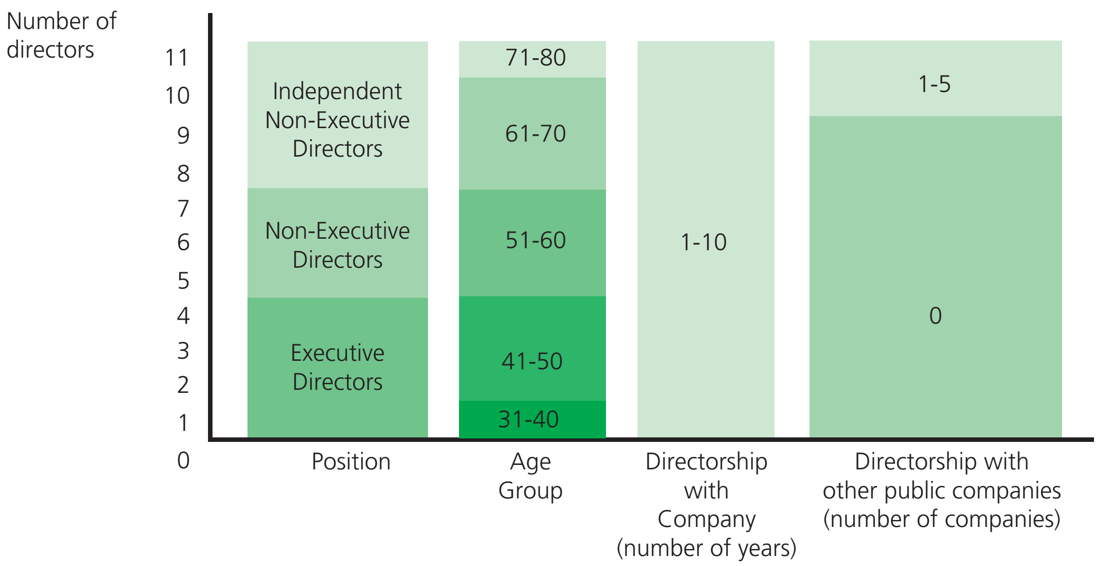
Board Diversity Policy

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

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

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

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



Audit Committee

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

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;
– overseeing the Group's financial reporting system, internal control procedures and reviewing risk management system; and
– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

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

Members of the Audit Committee	**Attendance/ Number of Meetings**
Non-executive Directors:	
Ms. HUANG He *(re-designated from Non-executive Director to Executive Director on 5 June 2017)*	1/1
Ms. TANG Hua	2/2
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman)*	2/2
Mr. ZHOU Bajun	2/2
Mr. YU Tze Shan Hailson	1/1
Mr. LO Wing Yat	0/2

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2016 and the interim results and the interim report of the Group for the year 2017, as well as the effectiveness of the internal control and risk management system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;
– providing basic remuneration to the employees that is competitive to the industry and general market condition;
– awarding employees in recognition of good individual and corporate performance; and
– encouraging future employee contributions to achieve overall corporate goals.

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

Members of the Remuneration Committee	**Attendance/ Number of Meetings**
Non-Executive Directors:	
Mr. LIU Cunzhou	3/3
Independent Non-executive Directors:	
Mr. ZHOU Bajun *(Chairman)*	3/3
Mr. XIE Rong	3/3
Mr. LO Wing Yat	1/3

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

Strategic Committee

The Board set up a strategic committee ("Strategic Committee") in January 2014. As at the date of this report, the Strategic Committee comprises of the five Directors including Mr. WU Xian, Mr. WANG Xiaochun, Mr. LIU Cunzhou, Mr. ZHOU Bajun and Mr. YU Tze Shan Hailson. Mr. LIU Cunzhou was appointed as the chairman. During the year, no Strategic Committee meeting was held.

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

For the year ended 31 December 2017, the Group has been complying with applicable laws and regulations applicable to the Group, including "Pharmaceutical Administration Law of the People's Republic of China" and its implementation regulations, "Regulations of the People's Republic of China on Traditional Chinese Medicine", "Regulations on Protection of Traditional Chinese Medicines", "Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers", "Law of the People's Republic of China on Traditional Chinese Medicine", "Trademark Law of the People's Republic of China", "Patent Law of the People's Republic of China" and its rules for implementation, "Environmental Protection Law of the People's Republic of China" and "Labor Contract Law of the People's Republic of China". The Group attaches great importance to product safety and conducts multiple quality inspection in the production process to ensure the compliance with the applicable quality regulations promulgated by the relevant authorities. As of this year, the company's production subsidiaries have passed the relevant drug production quality audit and obtained the GMP certification.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has commenced preparation of the Company's environmental, social and governance report in accordance with the "Environmental, Social and Governance Reporting Guide" issued by the Stock Exchange, which is planned to released in or before July 2018.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

FINANCIAL REPORTING

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

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2017, the Directors have:

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

– selected and applied consistently appropriate accounting policies;

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

– prepared the accounts on a going concern basis.

The statement about the auditors' reporting responsibilities is set out in the Independent Auditor's Report on pages 65 to 70 of this report.

AUDITORS' REMUNERATION

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

Services rendered	**Fee paid/payable in 2017**
	RMB'000
Audit service	4,320
Non-audit service *(Note)*	5,568
Total	9,888

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

COMPANY SECRETARY

From 20 October 2016, the Company appointed a representative of an external service provider, Ms. LEUNG Suet Lun, as the Company Secretary. From July 21, 2017, Mr. ZHAO Dongji, an executive director, was appointed as a joint company secretary. On the same day, Ms. LEUNG continues to serve as the joint company secretary of the Company. The main contact person of the Company is Mr. SITU Min, the Chief Financial Officer of the Company. Both Ms. LEUNG and Mr. ZHAO confirmed that they had taken not less than 15 hours' relevant professional training complied with code provision 3.29 of the Code during the reporting period.

INTERNAL CONTROLS

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

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

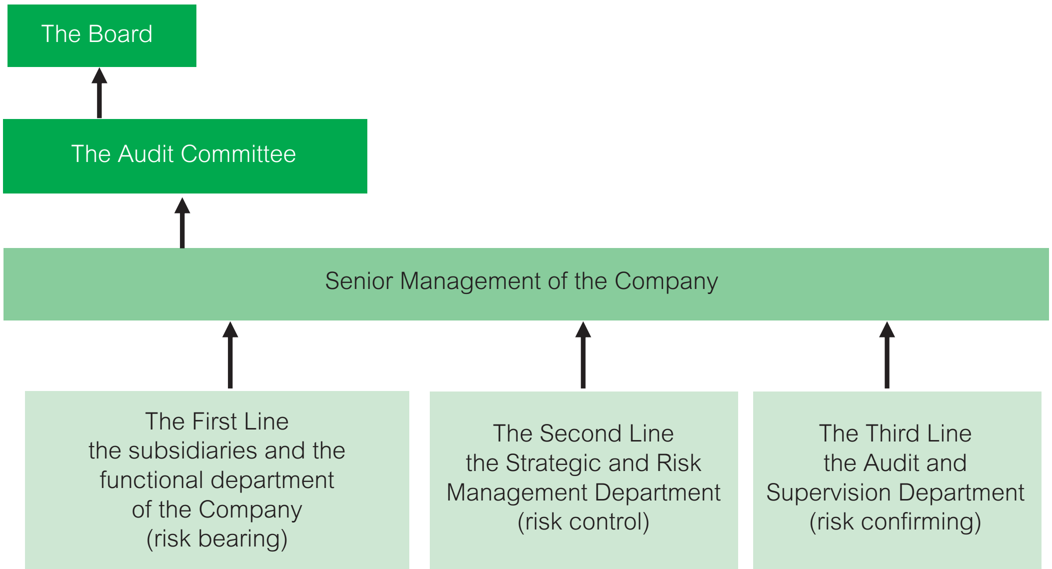
RISK MANAGEMENT

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

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

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

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



During the reporting period, the Company further demonstrated the role of "three lines" and carried out internal control works of each business procedure, emphasizing on strengthening the control of various aspects including marketing sales, procurement, safety and environmental protection, quality management, information management, human resources, financial management, investment and merger and acquisition. Based on the existing management system, the Company emphasized on reviewing the establishment of systems, design of internal control and deficiencies of implementation in 2017, so as to deeply promote the standardization construction and continue to strengthen the compliance for ensuring the stable operation of the enterprise.

The Company upgraded or revised 43 systems, sorted out and solidified 57 work procedures during the year, which defined and refined the compliance management system of the Company. Meanwhile, several compliance trainings were organized in 2017, covering aspects of production, marketing and finance, which enhanced the compliance awareness of employees of all levels. The subsidiaries and functional departments of the Group could thus fully perform their roles as the first line and effectively prevent compliance risks. During the reporting period, the audit and supervisory department also carried out several internal reviews on the Group's risk management and commenced external auditing works by coordinating with the National Audit Office, so as to fully guarantee the compliance of each business section of the Company.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

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

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

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

(e) general meetings; and

(f) meetings with investors and analysts.

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

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

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the code provision D.3.1 of the Code, including:

(a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board;

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

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

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

(e) to review the issuer's compliance with the code and disclosure in the Corporate Governance Report.

ARTICLES OF ASSOCIATION

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

SHAREHOLDERS' RIGHTS

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

CONVENING OF GENERAL MEETING ON REQUEST

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

Putting Forward Proposals at Annual General Meeting

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

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 51, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has over 29 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He has been the director, general manager and deputy secretary to the Party Committee of China National of Traditional & Herbal Medicine Co., Ltd. (formerly named as China National Corp. of Traditional & Herbal Medicine) since August 2010. He is re-designated from deputy secretary of the Party Committee to secretary of the Party Committee since January 2018.

Mr. WANG Xiaochun, aged 50, was appointed to the Board on 23 October 2013. Mr. WANG was the chairman of the board of directors and the chief executive officer of Tongjitang Chinese Medicines Company, which was listed on the New York Stock Exchange in 2007 and subsequently privatised in 2011. He has been a director of Tongjitang Pharmaceutical (Hong Kong) Limited (a subsidiary of the Tongjitang Chinese Medicines Company) since 2008, a director of Unisources Enterprises Limited (a subsidiary of Tongjitang Chinese Medicines Company) since 2005 and the chairman of the board of directors and the president of Guizhou Tongjitang Pharmaceutical Co., Ltd. (a subsidiary of Tongjitang Chinese Medicines Company) since 1997. Mr. WANG received his bachelor's degree in law from the Southwest University of Political Science and Law in China in 1989.

Mr. ZHAO Dongji, aged 50, was appointed to the Board on 5 February 2013. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 26 years of related working experience, including over 15 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the manager of Investment Management Department of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since 2011. Mr. ZHAO is the deputy general manager of China National Traditional Chinese Medicine Corporation since November 2014.

Ms. HUANG He, aged 39, was appointed to the Board on 23 August 2016. Ms. HUANG graduated from Renmin University of China with a bachelor degree in International Accounting in July 2001 and a master degree in Accounting in July 2004. Ms. HUANG is an auditor and a senior human resources officer. She was the accountant of the finance department, the vice manager of the operation and audit department and the manager of the strategic planning department of Traditional & Herbal Medicine Company from July 2004 to December 2007; the manager of the audit department, the employee supervisor of the board of supervisors and the manager of the human resources department of China National Corporation of Traditional and Herbal Medicine from January 2008 to December 2013; the director of human resources and the manager of the human resources department of China National Traditional Chinese Medicine Corporation from January 2014 to January 2015. Currently, Ms. HUANG is the director of operations and the manager of the human resources department of China National Traditional Chinese Medicine Corporation.

Mr. YANG Bin, aged 50, was appointed to the Board on 6 February 2009. Mr. YANG was the Managing Director of the Company since 11 February 2009. Mr. YANG graduated from 中央民族大學 (Minzu University of China) majoring in Biochemistry. Mr. YANG engaged in research and development of new products in 佛山市醫藥總公司 (Foshan City Medical Corporation), and served as the Deputy General Manager of 佛山市醫藥銷售有限公司 (Foshan City Medical Sale Co., Ltd.), director of 佛山市生物化學製藥廠 (Foshan City Biochemical Pharmaceutical Factory) and General Manager of 佛山市華衛醫藥有限公司 (Foshan City Huawei Medical Co., Ltd.). Mr. YANG has over 21 years of experience in registration of medicines and drugs, research and development and sale of medical products. He had successfully launched a series of new products with good response from the market and enjoys high reputation in the sales market. Mr. YANG is currently the Chairman and a director of Guangdong Medi-World and a director of 山東魯亞製藥有限公司 (Shandong Luya Pharmaceutical Co., Ltd.). Mr. YANG resigned as an executive Director and managing director of the Company on 31 March 2017.

NON-EXECUTIVE DIRECTORS

Mr. LIU Cunzhou, aged 73, was appointed to the Board on 5 February 2013. Mr. LIU completed a master's course in management engineering from Harbin University of Science and Technology in March 1997. Mr. LIU has over 36 years of management experience in pharmaceutical equipment, pharmaceutical and healthcare products industry. Mr. LIU is currently the chief expert of CNPGC. Mr. LIU was the head of equipment department and engineer of Harbin Pharmaceutical Factory from January 1976 to March 1983, and the deputy plant manager for production and plant manager of Harbin Pharmaceutical Factory from April 1984 to April 1989. From April 1989 to July 1997, Mr. LIU was the deputy general manager of Harbin Pharmaceutical Group Co., Ltd. and plant manager of Harbin Pharmaceutical Factory. He was the chairman and general manager of Harbin Pharmaceutical Group Co., Ltd. from August 1997 to October 2004. Mr. LIU was also a director of CNPGC from December 2005 to October 2011, and had served as the chairman from August 2007 to May 2009. Mr. LIU is also a director of Jihua Group Corporation Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., both of which are listed on the Shanghai Stock Exchange ("SSE").

Mr. YANG Shanhua, aged 51, was appointed to the Board on 28 March 2018. Mr. YANG graduated from Southwestern University of Finance and Economics in 1993, with a master degree in accounting major and he obtained a doctoral degree in accounting from Chinese Academy of Fiscal Science in 2005. He is a senior accountant. Mr. YANG was chief financial officer and manager of financial department in Beijing Oriental Yuhong Waterproof Technology Co., Ltd, chief accountant in China National Biotec Group Company Limited, deputy general manager in China National Pharmaceutical Group Corporation, one after another, from June 2000 to May 2017. He is currently the chief accountant of China National Pharmaceutical Group Corporation.

Mr. DONG Zenghe, aged 52, was appointed to the Board on 6 March 2013. Mr. DONG graduated from East China Institute of Chemical Technology (華東化工學院) (currently known as East China University of Science and Technology (華東理工大學)) with a bachelor's degree in engineering in 1989 and obtained a master's degree of business administration in 2011 from the School of Economics and Management of Tsinghua University, majoring in Senior Business Administration. Mr. DONG is also a senior engineer. Mr. DONG has over 25 years of experience in the pharmaceutical production and management industry. Mr. DONG had been the chief of 東北製藥總廠 ("Northeast General Pharmaceutical Factory"), the chairman of the board of 東北製藥集團股份有限公司 ("Northeast Pharmaceutical Group Co., Ltd.") (a company listed on the Shenzhen Stock Exchange, stock code: 000597), as well as the chairman of the board and general manager of 東北製藥有限責任公司 (Northeast Pharmaceutical Group Co., Ltd.) from February 2005 to January 2007. Mr. DONG had also been the deputy general engineer of CNPGC from January 2007 to September 2007 and has been the deputy general manager of CNPGC since September 2007 as well as the chairman of the board of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since June 2012. Mr. DONG Zenghe resigned as non-executive Director of the Company on 28 March 2018.

Ms. TANG Hua, aged 50, was appointed to the Board on 20 October 2016. Ms. TANG graduated from Beijing Union University with a major in accounting and an EMBA of Renmin University of China in 1990 and 2007 respectively. Ms. TANG graduated from the school of business in Renmin University of China with a master degree in Accounting. She is a senior accountant and a Chinese certified public accountant. Ms. TANG was the manager of finance department of Beijing GRINM Semiconductor Materials Co., Ltd, the vice director of finance department of China National Pharmaceutical (Group) Company, the vice director of finance department of China National Medicines Corporation Ltd., the manager of finance department of Reed Sinopharm Exhibitions Co. Ltd. and the financial controller of China National Pharmaceutical Industry Corporation, one after another, from July 1990 to June 2011. Ms. TANG is currently the financial controller and the manager of finance department of China National Traditional Chinese Medicine Corporation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHOU Bajun, aged 69, was appointed to the Board on 5 February 2013. Mr. ZHOU obtained a doctorate degree in economics from East China Normal University in October 1988. Mr. ZHOU has over 30 years of working experience, including over 20 years working experiences in Hong Kong's financial market or China's securities market. Mr. ZHOU worked in Sun Hung Kai Financial Group as head of China Business and Director of China Studies from November 1990 to November 1998. Mr. ZHOU worked as deputy general manager of the China Business Department of Hong Kong Construction (Hong Kong) Limited from March 1999 to February 2000 and was in charge of the development of Yangpu, Hainan, and has been a director of China Everbright Research Limited since March 2000 to June 2014. Since February 2002 to present, he has been senior research fellow of China Everbright Holdings Company Limited. Mr. ZHOU was a member of the Commission on Strategic Development of the Hong Kong Special Administrative Region from November 2005 to June 2012. He was a visiting professor of School of Business, Hong Kong Baptist University from October 2007 to August 2009. He has been a standing commissioner of the Hong Kong and Macau Research Center of Shanghai Academy of Social Science since March 2007. Mr. ZHOU has served as an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since August 2009 to September 2014.

Mr. XIE Rong, aged 66, was appointed to the Board on 5 February 2013. Mr. XIE has over 49 years of working experience. He obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002, respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the SSE) since April 2003 and was its independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the SSE), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the SSE), China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the SSE), Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the SSE), Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) and Shanghai Baosight Software Co., Ltd. (a company listed on the SSE) from May 2003 to May 2009, from June 2003 to May 2010, from February 2007 to October 2012, from April 2008 to April 2014, from August 2007 to September 2014 and from April 2010 to April 2016 respectively. Mr. XIE has been an independent non-executive director of each of China Everbright Bank Company Limited (a company listed on the Stock Exchange and the SSE) and Shenwan Hongyuan Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since January 2013 and January 2015, respectively. Mr. XIE was the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012 and is currently a professor of the Shanghai National Accounting Institute.

Mr. YU Tze Shan Hailson, aged 61, was appointed to the Board on 25 November 2013. Upon completing the Electrical Engineering Degree in 1979, Mr. YU worked as an assistant engineer in Ampex Ferrotec Limited (安培泛達有限公司). After three years, he became the manager of equipment maintenance and testing laboratory and subsequently managed the computer engineering and system engineering team for product and system design, product development plan and the establishment of CAD center. In 1987, Mr. YU joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited (中國國際信託投資(香港集團)有限公司) as a general manager of engineering research and development department. During such period, he improved the business of subsidiaries engaged in technology sector and monitored the venture capital operation in respect of the high-technology business of the U.S. company. He also made contribution to the successful listing of two subsidiaries in the U.S. and the asset trading of several subsidiaries and later became the consultant for oil development and LPG terminal project. Since 1998, Mr. YU has been a deputy managing director of Versitech Limited (港大科橋有限公司) and deputy director of Technology Transfer Office of the University of Hong Kong, a technology transfer and commercial company of The University of Hong Kong which mainly commercializes and transfers achievements in scientific research to the business sectors. Additional, Mr. YU has been an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since September 2014. Mr. YU also serves as an independent non-executive director of China NT Pharma Group Company Limited since June 2017.

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

Mr. LO Wing Yat, aged 59, was appointed to the Board on 27 January 2015. Mr. LO was an independent non-executive director of the Company from February 2009 to February 2013. Mr. LO is an executive director of FDG Electric Vehicles Limited (Stock Code: 729) and has been an executive director of FDG Kinetic Limited (formerly known as CIAM Group Limited (Stock Code: 378) from April 2008 to March 2016, both shares are listed on the Stock Exchange. He is also a director and the Chief Executive Officer of both CITIC International Assets Management Limited and CITIC International Financial Holdings Limited. Mr. LO graduated from the University of Hong Kong with a bachelor's degree in Laws. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. He served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and a partner of Linklaters. During his legal career, Mr. LO was specialized in banking project financing primarily in the PRC.

SENIOR MANAGEMENT

Mr. ZHANG Qingsheng, aged 57, was appointed as a vice president of the Company in July 2013, and the party secretary of the Company in October 2013 respectively. Mr. ZHANG has over 30 years of working experience, and he currently takes charge of the party committee, human resources and assist the Managing Director on investing activities management. Mr. ZHANG has served as several positions including vice president, director, chairman of the labor union and secretary of the board of directors of China National Corp. of Traditional & Herbal Medicines (currently known as China National Traditional Chinese Medicine Corporation) from 2005 to 2013.

Mr. HUANG Zhangxin, aged 49, was appointed as a vice president of the Company in November 2013, in charge of work relating to the production and R&D of the products. Mr. HUANG has engaged in management of drug research and development, manufacturing and sales business for over 20 years. He served as director of Research and Development, assistant to general manager and deputy general manager of Winteam Pharmaceutical Group Limited; deputy general manager of Guangdong Medi-World Pharmaceutical Co., Ltd., and deputy general manager of Shunde Nanfang Bio-Pharmaceutical Co., Ltd. (順德南方生物製藥有限公司). Mr. HUANG obtained the qualification of pharmaceutical engineer, and was awarded as Foshan City Advanced Innovation Character third prize and Shunde Technology Progress second prize.

Mr. SITU Min, aged 48, was appointed as the Director of Investment of the Company in October 2013 and has served as acting Chief Financial Officer of the Company since April 2016. Mr. SITU previously served in the Board of Wing Shan International Limited and Winteam Pharmaceutical Group Limited from September 2001 to February 2013. He is a fellow member of the Association of Chartered Certified Accountants and is also a member of Chinese Institute of Certified Public Accountants. Mr. SITU has extensive experience in financial management, and corporate finance and acquisitions.

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 168, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment on goodwill and other intangible assets	
Refer to notes 4, 15, 18 and 19 We identified the annual impairment assessment of goodwill and other intangible assets allocated to the cash-generating units ("CGUs") including, as defined in note 19, Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang as a key audit matter due to significant judgements exercised and assumptions used by the management in the impairment assessment. As disclosed in note 4 and 19 to the consolidated financial statements, in determining whether goodwill and other intangible assets are impaired required an estimation of the recoverable amounts (i.e. the value in use) of the CGUs to which goodwill and other intangible assets have been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the corresponding CGUs, with key assumptions including the growth rates, budgeted sales and gross profit margin, and suitable discount rates in order to calculate the present values. The carrying amounts of goodwill and other intangible assets allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang were in aggregate of RMB3,292,693,000 and RMB4,107,865,000, respectively, at 31 December 2017. The management has determined that there were no impairments identified on those goodwill and other intangible assets.	Our procedures in relation to evaluating the appropriateness of impairment assessment of goodwill and other intangible assets allocated to the CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang included: • Understanding how the management performed the impairment assessment; • Evaluating the appropriateness of the value in use calculations prepared by the management; • Assessing the reasonableness of the key assumptions used by the management in determining the value in use of the CGUs including discount rates, growth rates, budgeted sales and gross margin; • Evaluating the historical accuracy of the cash flow forecasts by comparing that the historical cash flow forecasts with the actual performance of the CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang; and • Evaluating the potential impacts on the recoverable amounts of the CGUs on the reasonably possible changes of discount rates and growth rates assessed by the management.
Valuation of trade receivables	

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Refer to notes 4 and 22 We identified the valuation of trade receivables as a key audit matter due to the significant judgments involved by the management on the assessment of the recoverability of trade receivables. As disclosed in notes 4 and 22 to the consolidated financial statements, in determining whether an allowance for doubtful debts is required, the Group takes into consideration of the credit history of the customers, including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables. The carrying amount of trade receivables of the Group was RMB1,758,258,000 (net of allowance for doubtful debts of RMB113,092,000) at 31 December 2017.	Our procedures in relation to evaluating the appropriateness of the assessment of the recoverability of trade receivables included: • Understanding the Group's credit risk assessment and impairment assessment process; • Testing, on a sample basis, the accuracy of the aging analysis of trade receivables to the relevant documents; • Assessing the reasonableness of the recoverability of trade receivables and the allowance for doubtful debts with reference to the credit history of the customers, including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables; and • Evaluating the historical accuracy of the management estimates on the allowance of doubtful debts by comparing the historical allowance made to the actual settlement and actual loss incurred, and testing, on a sample basis, the details of the settlement during the year and the subsequent settlements to the settlement details.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is David Leung Ho Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 March 2018

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	*5*	**8,337,795**	6,532,867
Cost of sales		**(3,686,213)**	(2,745,187)
Gross profit		**4,651,582**	3,787,680
Other income	*6*	**119,544**	82,363
Other gains and losses	*7*	**4,103**	(8,010)
Selling and distribution expenses		**(2,437,167)**	(1,968,432)
Administrative expenses		**(349,449)**	(329,986)
Research and development expenses		**(202,160)**	(186,832)
Profit from operations		**1,786,453**	1,376,783
Finance costs	*8*	**(221,068)**	(73,423)
Share of results of associates	*20*	**1,852**	444
Profit before tax	*10*	**1,567,237**	1,303,804
Income tax expense	*9*	**(255,804)**	(217,264)
Profit for the year		**1,311,433**	1,086,540
Other comprehensive income (expense) for the year			
Item that will not be reclassified to profit or loss:			
– Exchange differences arising on translation of functional currency to presentation currency		**–**	674,584
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**–**	(779,189)
Other comprehensive expense for the year, net of income tax		**–**	(104,605)
Total comprehensive income for the year		**1,311,433**	981,935

	NOTE	2017 RMB'000	2016 RMB'000
Profit for the year attributable to:			
Owners of the Company		**1,170,434**	966,927
Non-controlling interests		**140,999**	119,613
		1,311,433	1,086,540
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,170,434**	862,322
Non-controlling interests		**140,999**	119,613
		1,311,433	981,935
EARNINGS PER SHARE			
Basic (RMB cents)	*14*	**26.41**	21.73

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*16*	**2,386,927**	2,019,036
Prepaid lease payments	*17*	**346,457**	334,244
Investment properties	*16*	**6,840**	2,376
Goodwill	*15*	**3,486,372**	3,456,353
Other intangible assets	*18*	**6,703,786**	6,763,921
Interests in associates	*20*	**92,576**	88,784
Deposits and prepayments	*21*	**338,894**	161,946
Deferred tax assets	*30*	**139,405**	139,716
		13,501,257	12,966,376
CURRENT ASSETS			
Inventories	*24*	**3,551,829**	1,894,169
Trade and other receivables	*22*	**3,024,076**	2,716,250
Prepaid lease payments	*17*	**19,673**	10,122
Held for trading investments	*25*	**691**	591
Derivative financial instruments	*26*	**–**	23,694
Pledged bank deposits	*27*	**–**	2,226
Fixed deposits	*27*	**–**	1,050,000
Bank balances and cash	*27*	**4,787,781**	2,373,356
		11,384,050	8,070,408
CURRENT LIABILITIES			
Trade and other payables	*28*	**3,856,512**	2,303,735
Bank borrowings	*31*	**638,697**	1,001,392
Tax liabilities		**199,678**	201,697
		4,694,887	3,506,824
NET CURRENT ASSETS		**6,689,163**	4,563,584
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,190,420**	17,529,960

At 31 December 2017 (continued)

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred government grants	*29*	**145,507**	142,630
Deferred tax liabilities	*30*	**1,714,698**	1,722,917
Unsecured notes	*32*	**4,481,958**	2,485,604
Bank borrowings	*31*	**33,000**	422,947
		6,375,163	4,774,098
NET ASSETS		**13,815,257**	12,755,862
CAPITAL AND RESERVES			
Share capital	*33*	**9,809,935**	9,809,935
Reserves		**2,626,843**	1,778,392
Equity attributable to owners of the Company		**12,436,778**	11,588,327
Non-controlling interests		**1,378,479**	1,167,535
TOTAL EQUITY		**13,815,257**	12,755,862

The consolidated financial statements on pages 71 to 168 were approved and authorised for issue by the Board of Directors on 28 March 2018 and are signed on its behalf by:

WANG Xiaochun
Executive Director

ZHAO Dongji
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company							
	Share capital RMB'000 (note 33)	Translation reserve RMB'000 (note c)	Statutory surplus reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016	9,809,935	(60,578)	190,170	(53,039)	1,246,884	11,133,372	1,006,841	12,140,213
Profit for the year	–	–	–	–	966,927	966,927	119,613	1,086,540
Other comprehensive income (expense)								
– Exchange differences arising on translation of functional currency to presentation currency	–	674,584	–	–	–	674,584	–	674,584
– Exchange differences arising on translation of foreign operations	–	(779,189)	–	–	–	(779,189)	–	(779,189)
Subtotal of other comprehensive expense	–	(104,605)	–	–	–	(104,605)	–	(104,605)
Total comprehensive (expense) income for the year	–	(104,605)	–	–	966,927	862,322	119,613	981,935
Dividends paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	(117)	(117)
Dividends paid	–	–	–	–	(245,148)	(245,148)	–	(245,148)
Acquisition of a subsidiary	–	–	–	–	–	–	41,198	41,198
Shares repurchased during the year	–	–	–	–	(162,219)	(162,219)	–	(162,219)
Transfer to statutory surplus reserve	–	–	10,083	–	(10,083)	–	–	–
At 31 December 2016	9,809,935	(165,183)	200,253	(53,039)	1,796,361	11,588,327	1,167,535	12,755,862
Profit and total comprehensive income for the year	–	–	–	–	1,170,434	1,170,434	140,999	1,311,433
Dividends paid to non-controlling interests a subsidiary	–	–	–	–	–	–	(51,907)	(51,907)
Dividends paid	–	–	–	–	(321,983)	(321,983)	–	(321,983)
Acquisition of subsidiaries (note 35(a)&(b))	–	–	–	–	–	–	41,634	41,634
Capital injection from non-controlling equity holders	–	–	–	–	–	–	80,218	80,218
Transfer to statutory surplus reserve	–	–	111,135	–	(111,135)	–	–	–
At 31 December 2017	9,809,935	(165,183)	311,388	(53,039)	2,533,677	12,436,778	1,378,479	13,815,257

Notes:

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

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

(c) Following the change of functional currency of the Company from HK$ to RMB during the year ended 31 December 2016 as more fully explained in note1, all the Group's operations have used RMB as the functional currency and for presentation of their financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Operating activities		
Profit before tax	**1,567,237**	1,303,804
Adjustments for:		
Depreciation and amortisation	**423,389**	336,760
Amortisation of deferred government grants	**(33,017)**	(2,356)
Impairment losses (reversed) recognised in respect of		
– trade receivables	**(18,462)**	78,368
– other receivables	**5,751**	1,811
(Reversal of) write down of inventories	**(8,088)**	16,008
Finance costs	**221,068**	73,423
Interest income	**(32,561)**	(14,590)
Loss on disposal of property, plant and equipment	**892**	1,528
Gain on disposal of other intangible assets	**(278)**	–
Fair value changes on held for trading investments	**(100)**	3
Fair value changes on foreign currency forward contracts	**16,751**	(23,694)
Net foreign exchange gain	**(15,546)**	(54,987)
Compensation from ex-shareholder of Jiangyin Tianjiang Group	**(22,970)**	–
Share of results of associates	**(1,852)**	(444)
Operating cash flows before movements in working capital	**2,102,214**	1,715,634
Increase in inventories	**(1,622,566)**	(600,092)
(Increase) decrease in trade and other receivables	**(316,891)**	155,463
Decrease in pledged bank deposit	**2,226**	33,804
Increase in trade and other payables	**1,363,476**	364,161
Cash generated from operations	**1,528,459**	1,668,970
PRC Enterprise Income Tax paid	**(292,865)**	(204,330)
Net cash from operating activities	**1,235,594**	1,464,640

	NOTE	2017 RMB'000	2016 RMB'000
Investing activities			
Cash consideration paid for the acquisition of subsidiaries, net of cash acquired	35	**(108,457)**	(1,328,209)
Remaining proceeds received from disposal of a subsidiary		**–**	10,618
Placement of fixed deposits		**–**	(1,050,000)
Withdrawal of fixed deposits		**1,050,000**	–
Cash paid to acquire other financial assets		**–**	(300,000)
Proceeds on disposal of other financial assets		**–**	400,000
Purchase of property, plant and equipment and payment for construction in progress		**(595,069)**	(227,972)
Proceeds from disposal of property, plant and equipment		**1,069**	2,400
Deposit paid for acquisition of a subsidiary		**–**	(26,317)
Purchase of prepaid lease payments		**(24,599)**	(20,263)
Purchase of other intangible assets		**(7,875)**	(7,607)
Assets-related government grants received		**44,972**	32,705
Proceeds from disposal of other intangible assets		**357**	–
Capital contribution to an associate		**–**	(204)
Interest received		**32,561**	14,590
Net cash from (used in) investing activities		**392,959**	(2,500,259)
Financing activities			
New bank borrowings raised		**1,406,322**	1,093,957
Repayment of bank borrowings		**(2,169,913)**	(1,758,074)
Dividend distribution		**(316,083)**	(245,148)
Payment for repurchase shares		**–**	(162,219)
Interest paid		**(156,682)**	(59,450)
Dividends paid to non-controlling interests of a subsidiary		**(21,757)**	(117)
Proceeds from issue of unsecured notes		**2,000,000**	2,500,000
Expenses on issue of unsecured notes		**(12,170)**	(15,000)
Capital injection from non-controlling equity holders		**80,218**	–
Increase in restricted bank deposits		**(257,304)**	(226,018)
Decrease in restricted bank deposits		**226,018**	–
Net proceed received on maturity of derivative financial instruments		**6,943**	–
Net cash from financing activities		**785,592**	1,127,931
Net increase in cash and cash equivalents		**2,414,145**	92,312
Cash and cash equivalents at beginning of the year		**2,147,338**	2,101,856
Effect of foreign exchange rate changes		**(31,006)**	(46,830)
Cash and cash equivalents at end of the year, represented by bank balances and cash		**4,530,477**	2,147,338

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL

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

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

As a result of a substantial increase in the Company's Renminbi ("RMB") revenue stream and debt levels in last year, the directors of Company re-assessed and considered that RMB is the functional currency of the Company.

The consolidated financial statements are presented in RMB, which is also the functional currency of the Company and all the Group's subsidiaries.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to 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

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

Amendments to HKAS 7 Disclosure Initiative

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

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

Amendments to HKAS 7 Disclosure Initiative (continued)

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

A reconciliation between the opening and closing balances of these items is provided in note 41. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 41, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(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	Applying 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 HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
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.

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

HKFRS 9 "Financial Instruments"

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

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

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company have assessed the potential impact on initial application of HKFRS 9 as follows:

Classification and measurement:

- Certain of the trade receivables and bills receivables carried at amortised cost as disclosed in note 22 are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

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

HKFRS 9 "Financial Instruments" (continued)

- Certain of the trade receivables and bills receivables carried at amortised cost as disclosed in note 22 are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the trade receivables and bills receivables. Accordingly, these part of the trade receivables and bills receivables will be subsequently measured at FVTOCI upon the application of HKFRS 9, and the fair value gains or losses accumulated in the revaluation reserve will be subsequently reclassified to profit or loss when the trade receivables and bills receivables are derecognised or reclassified upon the initial applications of HKFRS 9. Fair value gains and or losses representing the difference between the amortised cost and fair value will be adjusted to other comprehensive income as at 1 January 2018.

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

Impairment

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

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and other receivables and deposits with financial institutions. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

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.

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

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

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

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

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

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

The directors of the Company have assessed that the application of HKFRS 15 would result in more disclosures, but would not have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

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

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

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

HKFRS 16 "Leases" (continued)

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB12,985,000 as disclosed in note 36. The directors of the Company have assessed that these arrangements met the definition of a lease. Upon application of HKFRS 16, the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB33,176,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

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

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

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). Any impairment is recognised immediately as an expense and is not subsequently reversed.

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

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

Investments in associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

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

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

Revenue recognition

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

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

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

Service income is recognised when services are provided.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and building

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

Borrowing costs

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

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

Government grants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

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

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

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

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Transfer from owner-occupied property to investment property

An item of property, plant and equipment becomes an investment property when its use has changed as evidenced by end of owner-occupation.

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

Buildings under development for future owner-occupied purpose

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

Investment properties

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Internally-generated intangible assets-research and development expenditure

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Intangible assets acquired in a business combination (continued)

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.

At the end of the reporting period, the Group reviews the useful life of an intangible asset that is not being amortised to determine whether events and circumstances continue to support an indefinite useful life assessment of that asset.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Inventories

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

Financial instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Loans and receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest and principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

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

Equity instruments

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

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

Effective interest method

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

Financial liabilities at amortised cost

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

Derivative financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment assessment of goodwill and other intangible assets allocated to CGUs of Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang, those names are defined in note 19.

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

At 31 December 2017, the carrying amounts of goodwill and other intangible assets allocated to Jiangyin Tianjiang Group, Dezhong, Tongjitang Pharmaceutical, Jingfang and Shanghai Tongjitang were in aggregate RMB3,292,693,000 (31 December 2016: RMB3,292,693,000) and RMB4,107,865,000 (31 December 2016: RMB4,107,865,000) respectively. Details of the recoverable amounts are disclosed in note 19.

Impairment assessment of other intangible assets with finite useful lives

Customer relationships with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable at the end of each reporting period. In the opinion of directors of the Company, there is no indicator of impairment (including adverse changes on financial performance such as profit margin, adverse changes on continuing customer portfolios etc.) identified for customer relationships at 31 December 2017.

The Group assesses annually whether other intangible assets with finite useful lives have any indication of impairment, in accordance with the relevant accounting policies. The recoverable amounts of other intangible assets with finite useful lives have been determined based on the higher of the fair value less cost of disposal and value in use calculations. These calculations and valuations require the use of judgment and estimates on future operating cash flows and discount rates adopted. In case where the recoverable amounts of other intangible assets with finite useful lives assessed are higher or less than expected, a material reversal or recognition of impairment of other intangible assets with finite useful lives may arise, which would be recognised in profit or loss in the period in which such recognition takes place.

At 31 December 2017, the carrying amount of other intangible assets with finite useful lives was in aggregate RMB2,580,809,000 (31 December 2016: RMB2,640,944,000). Details of the recoverable amounts are disclosed in note 18.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Valuation of trade receivables

The Group estimates allowance for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are made on trade receivables whenever there is any objective evidence that the balances may not be recoverable. In determining whether an allowance for doubtful debts is required, the Group takes into consideration of the credit history of the customers, including default or delay in payments, settlement records, and aging analysis of trade receivables. Where the expectation on the recoverability of the debts is different from the original estimate, such difference will impact the carrying amounts of debtors and doubtful debt expenses in the period in which such estimate has been changed. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, further allowance for doubtful debts is required. At 31 December 2017, the carrying amount of trade receivables was RMB1,758,258,000 (net of allowance for doubtful debts of RMB113,092,000) (31 December 2016: RMB1,758,510,000 (net of allowance for doubtful debts of RMB141,325,000)) as disclosed in note 22.

Depreciation of property, plant and equipment

The Group's management determines the estimated useful lives, residual value and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The management will increase the depreciation charge where useful lives are expected to be shorter than previously estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned. Changes in these estimations may have a material impact on the results of the Group. At 31 December 2017, the carrying amount of property, plant and equipment was RMB2,386,927,000 (31 December 2016: RMB2,019,036,000) as disclosed in note 16.

Amortisation of other intangible assets with finite useful lives

Other intangible assets with finite useful lives are amortised on a straight-line basis over the estimated useful lives of the assets. The Group determines the estimated useful lives of other intangible assets on initial recoginition in order to determine the amount of amortisation expense to be recorded during any reporting period. The useful lives are determined taking into account the factors including expected changes in market demands for the Group's products, the Group's historical experience with similar assets, the useful lives of similar intangible assets in certain comparable transactions, historical customer data, anticipated technological changes, legal or similar limits on the use of other intangible assets and management's experience and industry knowledge. The amortisation expense for future periods is adjusted if there are significant changes from previous estimates. At 31 December 2017, the carrying amount of other intangible assets with finite useful lives was RMB2,580,809,000 (31 December 2016: RMB2,640,944,000) as disclosed in note 18.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Assessment of the indefinite useful lives of the trademarks (including brand names) and product protection rights arising from the acquisition of Jiangyin Tianjiang

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

The useful lives of the trademarks (including brand names) and product protection rights could change significantly as a result of regulatory, commercial and technological environment. When the actual useful lives of trademarks (including brand names) and product protection rights due to the change of regulatory, commercial and technological environment are different from their estimated useful lives, such difference will impact the amortisation charges and the amounts of assets written down for future periods. The carrying amount of the trademarks (including brand names) and product protection rights with infinite useful lives was RMB1,594,548,000 and RMB2,166,163,000 respectively at 31 December 2017 (31 December 2016: RMB1,594,548,000 and RMB2,166,163,000). Details of impairment testing of the trademarks (including brand names) and product protection rights with indefinite useful lives are disclosed in note 19.

Impairment of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales. The management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow moving items. Although the Group carries periodic reviews on the net realisable value of inventories, the actual realisable value of inventories is not known until the sale was concluded. At 31 December 2017, the carrying amount of inventories, net of allowance for slow-moving and obsolete inventories, were RMB3,551,829,000 (31 December 2016: RMB1,894,169,000) as disclosed in note 24.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Recognition of deferred tax assets

As at 31 December 2017, deferred tax assets of RMB139,405,000 (31 December 2016: RMB139,716,000) have been recognised in the consolidated statement of financial position. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place. Besides, no deferred tax assets has been recognised in respect of certain deductible tax losses of RMB6,275,000 (31 December 2016: nil) due to the unpredictability of future profits streams, details of which are set out in note 30. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted and recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which such a situation take place.

5. REVENUE AND SEGMENT INFORMATION

Revenue

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

	2017 **RMB'000**	2016 RMB'000 (Restated)
Sale of pharmaceutical products		
– Finished drugs	**2,381,202**	2,061,341
– Concentrated Traditional Chinese Medicine ("TCM") granules	**5,499,679**	4,358,546
– TCM decoration pieces	**398,742**	104,106
– TCM healthcare complex	**58,172**	8,874
	8,337,795	6,532,867

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue in both current and prior years.

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting

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

In prior year, there were two reportable and operating segments, namely (i) finished drugs and (ii) concentrated TCM granules.

During the current year, in view of the significance of the operation of the TCM decoction pieces business segment upon the acquisitions of Tongjitang Herbal and Shanghai Tongjitang in late 2016, and the acquisition of Guizhou Tongjitang Pharmacy Chain and Sichuan Tianxiong Pharmaceutical Co., Ltd. ("Sichuan Tianxiong") in the current year (note 35), the CODM revised the organisation of the finished drugs segment that were used to allocate resources and assess performance, and changed its analysis to (i) finished drugs; (ii) TCM decoction pieces and (iii) TCM healthcare complex, which is currently the basis used for the purpose of allocating resources and assessing their performance, and also the basis of organisation of the Group for managing the business operations. Other than finished drugs, TCM decoction pieces and TCM healthcare complex business, the CODM continues to review the performance of concentrated TCM granules on a similar basis as prior years.

Accordingly, there are four reportable and operating segments in the current year, namely (i) finished drugs; (ii) concentrated TCM granules; (iii) TCM decoction pieces; and (iv) TCM healthcare complex.

Consequently, the comparative segment information for the year ended 31 December 2016 or as at 31 December 2016 have been restated in order to conform with the presentation adopted in current year. The changes in the segment information do not have any impact on the Group's consolidated financial statements.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

(i) Segment results, assets and liabilities

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

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

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments. Further details of the adjusted items are set out in note 5(ii).

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting (continued)

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

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

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

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

	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Total RMB'000
For the year ended 31 December 2017					
Reportable segment revenue	2,415,838	5,514,655	490,508	58,172	8,479,173
Eliminated of inter-segment revenue	(34,636)	(14,976)	(91,766)	–	(141,378)
Revenue from external customers	2,381,202	5,499,679	398,742	58,172	8,337,795
Reportable segment profit (adjusted EBITDA)	557,082	1,579,672	48,986	11,223	2,196,963
Interest income	5,624	25,383	1,505	49	32,561
Finance costs	95,993	124,334	672	69	221,068
Depreciation and amortisation	118,358	275,500	19,122	10,409	423,389
As at 31 December 2017					
Reportable segment assets	8,009,975	19,229,770	973,948	178,323	28,392,016
Reportable segment liabilities	3,844,653	7,891,874	552,577	13,647	12,302,751

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting (continued)

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

	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Total RMB'000
For the year ended 31 December 2016 (restated)					
Reportable segment revenue	2,061,341	4,358,789	144,644	8,874	6,573,648
Eliminated of inter-segment revenue	–	(243)	(40,538)	–	(40,781)
Revenue from external customers	2,061,341	4,358,546	104,106	8,874	6,532,867
Reportable segment profit (adjusted EBITDA)	383,193	1,251,618	3,699	(3,633)	1,634,877
Interest income	7,953	4,900	1,735	2	14,590
Finance costs	38,719	34,372	332	–	73,423
Depreciation and amortisation	112,243	221,257	3,065	195	336,760
As at 31 December 2016 (restated)					
Reportable segment assets	6,113,657	14,946,411	830,445	14,266	21,904,779
Reportable segment liabilities	3,573,177	2,812,688	739,793	3,461	7,129,119

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

	2017 RMB'000	2016 RMB'000
Reportable segment profit (adjusted EBITDA)	**2,196,963**	1,634,877
Depreciation and amortisation	**(423,389)**	(336,760)
Interest income	**32,561**	14,590
Finance costs	**(221,068)**	(73,423)
Rental income	**1,162**	880
Fair value changes on derivative financial instruments	**(16,751)**	23,694
Fair value changes on held for trading investments	**100**	(3)
Net exchange gain	**15,546**	54,987
Share of results of associates	**1,852**	444
Head office and corporate expenses	**(19,739)**	(15,482)
Consolidated profit before taxation	**1,567,237**	1,303,804

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment reporting (continued)

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

	2017 RMB'000	2016 RMB'000 (Restated)
Assets		
Reportable segment assets	**28,392,016**	21,904,779
Elimination of inter-segment receivables	**(3,669,786)**	(1,951,873)
	24,722,230	19,952,906
Held for trading investments	**691**	591
Derivative financial instruments	**–**	23,694
Deferred tax assets	**139,405**	139,716
Unallocated head office and corporate assets	**22,981**	919,877
Consolidated total assets	**24,885,307**	21,036,784
Liabilities		
Reportable segment liabilities	**12,302,751**	7,129,119
Elimination of inter-segment payables	**(3,669,786)**	(1,951,873)
	8,632,965	5,177,246
Tax liabilities	**199,678**	201,697
Deferred tax liabilities	**1,714,698**	1,722,917
Unallocated head office and corporate liabilities	**522,709**	1,179,062
Consolidated total liabilities	**11,070,050**	8,280,922

(iii) Geographical information

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

6. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Government grants		
– Unconditional subsidies (note i)	**29,834**	64,537
– Conditional subsidies	**33,017**	2,356
Interest income on bank deposits	**32,561**	8,155
Interest income on other financial assets	**–**	6,435
Compensation from ex-shareholder of Jiangyin Tianjiang Group (note ii)	**22,970**	–
Rental income from investment properties	**1,162**	880
	119,544	82,363

Notes

(i) The amount represents subsidy income received from various government authorities as incentives to the Group to recognise their contribution to the local economy with conditions which have been satisfied.

(ii) The amount represented compensation received from an ex-shareholder of a subsidiary for the potential loss of the acquired subsidiaries as more fully explained in note 28(b).

7. OTHER GAINS AND LOSSES

	2017 RMB'000	2016 RMB'000
Loss on disposal of property, plant and equipment	**(892)**	(1,528)
Gain on disposal of other intangible assets	**278**	–
Fair value changes on derivative financial instruments	**(16,751)**	23,694
Fair value changes on held for trading investments	**100**	(3)
Net foreign exchange gain	**15,546**	54,987
Impairment losses reversed (recognised) in respect of		
– trade receivables	**18,462**	(78,368)
– other receivables	**(5,751)**	(1,811)
Others	**(6,889)**	(4,981)
	4,103	(8,010)

8. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings	**72,079**	62,640
Effective interest expense on unsecured notes	**148,989**	10,783
	221,068	73,423

9. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**279,443**	259,979
Under (over) provision in prior years	**9,893**	(2,661)
	289,336	257,318
Deferred tax credit (note 30)	**(33,532)**	(39,681)
Effect of change in tax rate	**–**	(373)
	255,804	217,264

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

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

(1) Feng Liao Xing, Guangdong Medi-World, Jiangyin Tianjiang, Guangdong Yifang Pharmaceutical Co., Ltd. ("GD Yifang") and Anhui Tianxiang Pharmaceutical Co., Ltd. ("Tianxiang") were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% for the year ended 31 December 2017 (31 December 2016: The PRC Enterprise Income Tax rate applicable to Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang, Jiangyin Tianjiang, GD Yifiang and Tianxiang was of 15%) pursuant to documents issued by local government authorities;

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

9. INCOME TAX EXPENSE (CONTINUED)

(3) Guizhou Tongjitang Herbal Co., Ltd ("Tongjitang Herbal") and Sichuan Tianxiong Pharmaceutical Co., Ltd. ("Sichuan Tianxiong"), being qualified enterprise with operation of medicinal plants primary processing business in the PRC, enjoy a full enterprise income tax exemption from 1 January 2017 to 31 December 2017 pursuant to the EIT Law, Order of the President [2007] No. 63; and

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

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

	2017 **RMB'000**	2016 RMB'000
Profit before tax	**1,567,237**	1,303,804
Tax at the domestic income tax rate	**391,809**	325,951
Tax effect of expenses not deductible for tax purposes	**8,617**	2,544
Tax effect of income not taxable for tax purposes	**(4,598)**	(4,326)
Income tax at concessionary rate	**(176,471)**	(122,912)
Effect of tax exemptions granted to PRC subsidiaries	**(1,528)**	(1,586)
Under(over) provision in respect of prior years	**9,893**	(2,661)
Tax effect of tax losses not recognised	**375**	2,123
Utilisation of tax losses previously not recognised	**(1,289)**	–
Withholding tax on interest income from PRC entities	**10,996**	–
Withholding tax on distributable profits of PRC entities	**18,000**	18,504
Others	**–**	(373)
Income tax expense for the year	**255,804**	217,264

The domestic tax rate (which is PRC corporate tax rate) in the jurisdictions where the operation of the Group is substantially based is used.

10. PROFIT BEFORE TAX

	2017 RMB'000	2016 RMB'000
Profit before tax has been arrived at after charging:		
Directors' remuneration	**4,249**	4,924
Other staff costs		
Salaries, wages and other benefits	**825,298**	692,867
Contributions to defined contribution retirement plans	**65,233**	42,072
	890,531	734,939
Auditors' remuneration	**4,320**	4,402
Depreciation		
– investment properties	**159**	137
– property, plant and equipment	**234,827**	182,208
Amortisation of prepaid lease payments	**19,673**	10,122
Amortisation of other intangible assets	**168,730**	144,293
Total depreciation and amortisation	**423,389**	336,760
(Reversal of) impairment losses recognised in respect of		
– trade receivables	**(18,462)**	78,368
– other receivables	**5,751**	1,811
(Reversals of) write-down of inventories	**(8,088)**	16,008
Minimum lease payments under operating leases in respect of land and buildings	**9,464**	6,399
Gross rental income from investment properties	**(1,162)**	(880)
Less: direct operating expenses incurred for investment properties	**326**	131
	(836)	(749)

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	2017			
	Directors' fees RMB'000	Salaries and allowances RMB'000	Retirement benefit RMB'000	Total RMB'000
Executive directors				
Wu Xian	–	–	–	–
Wang Xiaochun	202	1,691	78	1,971
Yang Bin (note a)	50	421	33	504
Zhao Dongji (note b)	–	281	68	349
Huang He (note c)	–	281	68	349
Non-executive directors				
Liu Cunzhou	90	–	–	90
Dong Zenghe	–	–	–	–
Tang Hua (note d)	–	–	–	–
Independent non-executive directors				
Zhou Bajun	216	35	–	251
Xie Rong	216	35	–	251
Yu Tze Shan Hailson	216	35	–	251
Lo Wing Yat	216	17	–	233
	1,206	2,796	247	4,249

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

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

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

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

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

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

Notes:

(a) Resigned as an executive director on 31 March 2017.

(b) Re-designated as an executive director on 5 June 2017.

(c) Appointed as a non-executive director on 23 August 2016 and re-designated as an executive director on 5 June 2017.

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

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

Mr. Wang Xiaochun is the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive.

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

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one director (2016: two directors), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining four (2016: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries and allowance	**5,660**	3,238
Retirement benefits	**159**	92
	5,819	3,330

12. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The emoluments of the four (2016: three) individuals with highest emoluments are within the following bands:

	2017 Number of individuals	2016 Number of individuals
HK$		
Nil-1,000,000	**–**	1
1,000,001-1,500,000	**2**	1
1,500,001-2,000,000	**1**	1
2,000,001-2,500,000	**–**	–
2,500,001-3,000,000	**1**	–

13. DIVIDENDS

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

	2017 RMB'000	2016 RMB'000
2017 interim – HK4.75 cents (2016 interim: HK6.44 cents) per share	**184,966**	245,148
2017: 2016 final dividend of HK3.59 cents (2016: nil) per share	**137,017**	–
	321,983	245,148

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of HK4.96 cents per share has been proposed by the directors of the Company and is subject to approval by the shareholders at the forthcoming annual general meeting. The total amount of the proposed final dividend amounting to HK$219,803,000, calculated based on the Company's number of shares issued at the date of issuance of these consolidated financial statements, is not recognised as a liability in the consolidated statement of financial position.

14. EARNINGS PER SHARE

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

	2017	2016
	RMB'000	RMB'000
Profit attributable to the owners of the Company	**1,170,434**	966,927
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,431,505**	4,450,435

No diluted earnings per share for both 2017 and 2016 were presented as there were no potential ordinary shares in issue for both 2017 and 2016.

15. GOODWILL

	RMB'000
COST AND CARRYING AMOUNT	
At 1 January 2016	3,341,045
Acquired through business combination	150,308
Adjustment for provisional consideration (note)	(35,000)
At 31 December 2016	3,456,353
Acquired through business combination (note 35(a))	30,019
At 31 December 2017	3,486,372

Particulars regarding to the carrying amount of goodwill and impairment testing on goodwill are disclosed in note 19.

Note: As at 31 December 2015, the directors of the Company were in the process of assessing fair values of the consideration and the identifiable net assets and liabilities assumed of the Jiangying Tianjiang Group at the date of the acquisition and goodwill was determined provisionally in accordance with HKFRS 3 "Business Combinations". On 31 May 2016, the Company further agreed a compensation of RMB35,000,000 with two of the remaining ex-shareholders and the compensation was deducted against the goodwill in the consolidated financial statements for the year ended 31 December 2016.

16. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Office equipment and others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
COST								
At 1 January 2016	1,071,571	506,223	36,868	179,086	215,533	2,009,281	6,252	2,015,533
Additions	23,549	74,420	4,338	239,959	41,682	383,948	–	383,948
Acquisitions of subsidiaries	122,200	27,115	1,920	–	735	151,970	–	151,970
Transfer from construction in progress	47,857	18,110	–	(79,870)	13,903	–	–	–
Disposals	–	(15,826)	(5,104)	–	(4,373)	(25,303)	–	(25,303)
At 31 December 2016	1,265,177	610,042	38,022	339,175	267,480	2,519,896	6,252	2,526,148
Additions	38,663	195,820	4,371	325,039	25,234	589,127	–	589,127
Acquisitions of subsidiaries (note 35)	14,857	4,656	360	99	203	20,175	–	20,175
Transfer from construction in progress	241,285	85,926	–	(348,102)	20,891	–	–	–
Transfer to investment properties	(5,886)	–	–	–	–	(5,886)	5,886	–
Disposals	(5,060)	(20,560)	(3,878)	–	(5,870)	(35,368)	–	(35,368)
At 31 December 2017	1,549,036	875,884	38,875	316,211	307,938	3,087,944	12,138	3,100,082
ACCUMULATED DEPRECIATION								
At 1 January 2016	85,684	186,106	15,544	–	52,693	340,027	3,739	343,766
Charge for the year	58,055	87,393	4,881	–	31,879	182,208	137	182,345
Written back on disposals	–	(14,047)	(3,608)	–	(3,720)	(21,375)	–	(21,375)
At 31 December 2016	143,739	259,452	16,817	–	80,852	500,860	3,876	504,736
Charge for the year	77,268	110,518	5,197	–	41,844	234,827	159	234,986
Transfer to investment properties	(1,263)	–	–	–	–	(1,263)	1,263	–
Written back on disposals	(4,585)	(20,154)	(3,508)	–	(5,160)	(33,407)	–	(33,407)
At 31 December 2017	215,159	349,816	18,506	–	117,536	701,017	5,298	706,315
NET BOOK VALUE								
At 31 December 2017	1,333,877	526,068	20,369	316,211	190,402	2,386,927	6,840	2,393,767
At 31 December 2016	1,121,438	350,590	21,205	339,175	186,628	2,019,036	2,376	2,021,412

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

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

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

(b) All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2017 was RMB32,000,000 (31 December 2016: RMB14,610,000) by reference to net rental income allowing for reversionary income potential. The fair value of the investment properties as at 31 December 2017 and 31 December 2016 has been arrived at on the basis of valuation carried out on the respective date by an independent qualified professional valuers.

(c) Certain of the Group's buildings with carrying value of RMB31,477,000 (31 December 2016: RMB30,740,000) were pledged to secure certain bank borrowings granted to the Group.

(d) The Group has not yet obtained the ownership certificate for the building situated in the PRC with an aggregate carrying value of RMB11,085,370 (31 December 2016: RMB18,007,300). Management of the Group considers there is no material legal impediment for the Group to obtain the ownership certificate.

17. PREPAID LEASE PAYMENTS

	2017 **RMB'000**	2016 RMB'000
CARRYING AMOUNT		
At beginning of the year	**344,366**	307,666
Additions	**24,599**	20,263
Acquisition of subsidiaries (note 35(b))	**16,838**	27,673
Disposals	**–**	(1,114)
Charge to profit or loss for the year	**(19,673)**	(10,122)
At the end of the year	**366,130**	344,366
Analysed for reporting purposes as:		
Current portion	**19,673**	10,122
Non-current portion	**346,457**	334,244
	366,130	344,366

17. PREPAID LEASE PAYMENTS (CONTINUED)

The Group's prepaid lease payments are situated in the PRC and are held on medium/long term leases of 50 to 70 years. At 31 December 2017, the remaining period of the prepaid lease payments ranged from 20 years to 50 years (31 December 2016: 21 years to 48 years).

Certain of the Group's prepaid lease payments with carrying value of RMB3,581,000 (31 December 2016: RMB1,559,000) were pledged to secure certain bank borrowings granted to the Group.

18. OTHER INTANGIBLE ASSETS

	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Licenses and franchises RMB'000	Total RMB'000
COST							
At 1 January 2016	2,784,012	1,895,106	59,000	1,142	2,173,630	–	6,912,890
Acquisition of subsidiaries	37,655	110,403	–	178	71,922	–	220,158
Additions	4,026	1,081	–	2,500	–	–	7,607
At 31 December 2016	2,825,693	2,006,590	59,000	3,820	2,245,552	–	7,140,655
Acquisition of subsidiaries (note 35)	–	–	–	–	–	100,799	100,799
Additions	–	–	–	7,875	–	–	7,875
Disposals	–	(310)	–	–	–	–	(310)
At 31 December 2017	2,825,693	2,006,280	59,000	11,695	2,245,552	100,799	7,249,019
ACCUMULATED AMORTISATION							
At 1 January 2016	125,776	17,233	40,808	901	47,723	–	232,441
Amortisation for the year	29,344	954	5,900	440	107,655	–	144,293
At 31 December 2016	155,120	18,187	46,708	1,341	155,378	–	376,734
Amortisation for the year	38,300	1,026	5,900	1,406	116,233	5,865	168,730
Written back on disposals	–	(231)	–	–	–	–	(231)
At 31 December 2017	193,420	18,982	52,608	2,747	271,611	5,865	545,233
NET BOOK VALUE							
At 31 December 2017	2,632,273	1,987,298	6,392	8,948	1,973,941	94,934	6,703,786
At 31 December 2016	2,670,573	1,988,403	12,292	2,479	2,090,174	–	6,763,921

18. OTHER INTANGIBLE ASSETS (CONTINUED)

At 31 December 2017, the carrying amount of other intangible assets with finite useful lives is RMB2,580,809,000 (31 December 2016: RMB2,640,944,000). Other intangible assets with finite useful lives are amortised on a straight-line basis over the following periods:

		Carrying amount as at	
		31.12.2017	31.12.2016
		RMB'000	RMB'000
Product protection rights	5 to 25 years	**466,110**	504,410
Trademarks	10 to 44 years	**30,484**	31,589
Distribution network	10 years	**6,392**	12,292
Software	5 to 10 years	**8,948**	2,479
Customer relationship	5 to 21 years	**1,973,941**	2,090,174
Licenses and franchises	12 to 20 years	**94,934**	–
		2,580,809	2,640,944

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

The following other intangible assets, trademarks (including brand names) and product protection rights, acquired through business combinations, are assessed to have indefinite useful lives. The product protection rights and trademarks have a legal life of 5 years and 10 years respectively but are renewable at minimal cost. The directors of the Company are of the opinion that the Group could renew the product protection rights and maintain the trademarks (including brand names) continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks (including brand names) and product protection rights have no foreseeable limit to the period over which the products are expected to generate net cash flows for the Group. As a result, the trademarks (including brand names) and product protection rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks (including brand names) and product protection rights will not be amortised until the useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in note 19.

	Trademarks		Product protection rights	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Tongjitang Group				
– Tongjitang Pharmaceutical	**198,972**	198,972	**–**	–
– Jingfang	**37,779**	37,779	**–**	–
– Guizhou LLF	**10,075**	10,075	**–**	–
– Pulante	**5,037**	5,037	**–**	–
– Shanghai Tongjitang	**110,403**	110,403	**–**	–
Jiangyin Tianjiang Group	**1,594,548**	1,594,548	**2,166,163**	2,166,163
	1,956,814	1,956,814	**2,166,163**	2,166,163

At 31 December 2017, certain product protection rights with carrying value of nil (31 December 2016: RMB2,250,000) were pledged to secure certain bank borrowings granted to the Group.

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

For the purposes of impairment testing, goodwill, trademarks (including brand names) and product protection rights with indefinite useful lives set out in notes 15 and 18 have been allocated to individual cash generating units (CGUs) as below:

	Goodwill		Trademarks		Product protection rights	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Manufacture and sale of pharmaceutical products						
Dezhong	**100,391**	100,391	**–**	–	**–**	–
Feng Liao Xing	**23,664**	23,664	**–**	–	**–**	–
Guangdong Medi-World	**26,055**	26,055	**–**	–	**–**	–
Luya	**11,221**	11,221	**–**	–	**–**	–
Tongjitang Group						
– Tongjitang Pharmaceutical	**733,037**	733,037	**198,972**	198,972	**–**	–
– Jingfang	**139,184**	139,184	**37,779**	37,779	**–**	–
– Guizhou LLF	**37,116**	37,116	**10,075**	10,075	**–**	–
– Pulante	**18,558**	18,558	**5,037**	5,037	**–**	–
Jiangyin Tianjiang Group	**2,208,980**	2,208,980	**1,594,548**	1,594,548	**2,166,163**	2,166,163
Huayi	**9,774**	9,774	**–**	–	**–**	–
Shanghai Tongjitang	**111,101**	111,101	**110,403**	110,403	**–**	–
Tongjitang Herbal	**29,433**	29,433	**–**	–	**–**	–
Sale of pharmaceutical products						
Feng Liao Xing Material & Slices	**2,449**	2,449	**–**	–	**–**	–
Guizhou Tongjitang Pharmacy Chain (note 35(a))	**30,019**	–	**–**	–	**–**	–
Winteam Sales	**5,390**	5,390	**–**	–	**–**	–
	3,486,372	3,456,353	**1,956,814**	1,956,814	**2,166,163**	2,166,163

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

The names of the entities referred to the above table are defined as:

- Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. ("Dezhong"),
- Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. ("Feng Liao Xing"),
- Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"),
- Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. ("Luya"),
- Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical")*,
- Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. ("Jingfang")*,
- Sinopharm Group Longlife (Guizhou) Pharmaceutical Co., Ltd. ("Guizhou LLF")*,
- Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante")*,
- Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang Group"),
- Huayi Pharmaceutical Co. Ltd ("Huayi"),
- Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang"),
- Guizhou Tongjitang Herbal Co., Ltd ("Tongjitang Herbal"),
- Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices"),
- Guizhou Tongjitang Pharmacy Chain Co., Ltd. ("Guizhou Tongjitang Pharmacy Chain"), and
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales").

* Tongitang Pharmaceutical, Jingfang, Guizhou LLF and Pulante are collectively referred to as Tonjitang Group.

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

During the year ended 31 December 2017, management of the Group determines that there are no impairments of any of its CGUs containing goodwill, trademarks (including brand names) or product protection rights with indefinite useful lives (31 December 2016: nil).

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

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

Jiangyin Tianjiang Group

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGU. The recoverable amounts of goodwill, trademarks and product production rights of Jiangyin Tianjiang Group amounted to RMB2,208,980,000 (31 December 2016: RMB2,208,980,000), RMB1,594,548,000 (31 December 2016: RMB1,594,548,000) and RMB2,166,163,000 (31 December 2016: RMB2,166,163,000), respectively, were determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of this CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3.5% (31 December 2016: 3%) in selling prices and costs with no growth in sales volume. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The pre-tax rates used to discount the forecast cash flows is 18.03% (31 December 2016: 18.39%). The discount rate reflects specific risks relating to the relevant CGUs.

Dezhong

For the purpose of impairment testing, goodwill has been allocated to the relevant CGU. The recoverable amount of goodwill of Dezhong amounted to RMB100,391,000 (31 December 2016: RMB100,391,000) has been determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of this CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3.5% (31 December 2016: 3%) in selling prices and costs with no growth in sales volume. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The pre-tax rates used to discount the forecast cash flows is 15.49% (31 December 2016: 17.88%). The discount rate reflect specific risks relating to the relevant CGU.

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

Tongjitang Pharmaceutical

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGU. The recoverable amounts of goodwill and trademarks of Tongjitang Pharmaceutical amounted to RMB733,037,000 (31 December 2016: RMB733,037,000) and RMB198,972,000 (31 December 2016: RMB198,972,000), respectively, have been determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of this CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3.5% (31 December 2016: 3%) in selling prices and costs with no growth in sales volume. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The pre-tax rates used to discount the forecast cash flows is 14.75% (31 December 2016:16.56%). The discount rate reflects specific risks relating to the relevant CGU.

Jingfang

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGU. The recoverable amounts of goodwill and trademarks of Jingfang amounted to RMB139,184,000 (31 December 2016: RMB139,184,000) and RMB37,779,000 (31 December 2016: RMB37,779,000), respectively, have been determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of this CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3.5% (31 December 2016: 3%) in selling prices and costs with no growth in sales volume. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The pre-tax rate used to discount the forecast cash flows is 15.10% (31 December 2016: 17.20%). The discount rate reflects specific risks relating to the relevant CGU.

Shanghai Tongjitang

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGU. The recoverable amounts of goodwill and trademarks of Shanghai tongjitang amounted to RMB111,101,000 (31 December 2016: RMB111,101,000) and RMB110,403,000 (31 December 2016: RMB110,403,000), respectively, have been determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3.5% (31 December 2016: 3%) in selling prices and costs with no growth in sales volume. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The pre-tax rate used to discount the forecast cash flows is 15.08% (31 December 2016:16.96%). The discount rate reflects specific risks relating to the relevant CGU.

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

Other CGUs

For the purpose of impairment testing, goodwill and other intangible assets have been allocated to the relevant CGU. The recoverable amounts of goodwill and trademarks of remaining CGUs have been determined based on a value in use calculation. The Group determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the fifth year are extrapolated using an estimated increase rate of 3.5% (31 December 2016: 3%) in selling prices and costs with no growth in sales volume. The pre-tax rates used to discount the forecast cash flows range from 13.69% to 18.19% (31 December 2016: 16.50% to 19.97%). The discount rates reflect specific risks relating to the relevant CGUs.

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

20. INTERESTS IN ASSOCIATES

	2017 **RMB'000**	2016 RMB'000
Cost of investments in associates, unlisted	**91,917**	89,977
Share of post-acquisition profits (losses) and other comprehensive income (expense)	**659**	(1,193)
	92,576	88,784

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

Name of associate	Country of establishment/ incorporation	Principal place of operation	Proportion of nominal value of issued capital/ registered capital held by the Group		Proportion of voting power held		Principal activities
			2017	2016	**2017**	2016	
Guizhou Zhongtai Biological Technological Company Limited and its subsidiaries ("Guizhou Zhongtai")	The PRC	The PRC	**20%**	20%	**20%**	20%	Development, manufacturing marketing and sales of blood products
Foshan Shunde Cili Biological Technology Company Limited	The PRC	The PRC	**40%**	40%	**40%**	40%	Catering
Mianyang Anju District Feishui Town Tiantai Mountain Chinese Medicine Herbs Planting Professional Cooperatives*	The PRC	The PRC	**37.6%**	–	**37.6%**	–	Chinese Medicine Herbs planting
An District Feishui Town Tianfu Fuzi Professional Cooperatives*	The PRC	The PRC	**37.5%**	–	**37.5%**	–	Fuzi planting

* The companies are obtained through the acquisition of Sichuan Tianxiong, details of which are set out in note 35.

20. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associate

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

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

Guizhou Zhongtai

	2017 **RMB'000**	2016 RMB'000
Current assets	**129,171**	43,289
Non-current assets	**83,144**	100,749
Current liabilities	**(110,949)**	(48,000)
Non-current liabilities	**(4,892)**	(4,550)

	2017 **RMB'000**	2016 RMB'000
Revenue for the year	**87,854**	55,841
Profit and total comprehensive income for the year	**5,002**	2,625

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

	2017 **RMB'000**	2016 RMB'000
Net assets of Guizhou Zhongtai attributable to owners	**96,472**	91,488
Proportion of the Group's ownership interest in Guizhou Zhongtai	**20%**	20%
	19,294	18,298
Goodwill	**70,363**	70,363
Carrying amount of the Group's interest in Guizhou Zhongtai	**89,657**	88,661

20. INTERESTS IN ASSOCIATES (CONTINUED)

Aggregate information of associates that are not individually material

	2017 RMB'000	2016 RMB'000
The Group's share of profits (losses) and total comprehensive income (expense)	**856**	(81)
Carrying amount of the Group's interest in associates	**2,919**	123

21. DEPOSITS AND PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Prepayments for property, plant and equipment	**211,718**	53,333
Deposit paid for acquisition of property, plant and equipment (note)	**94,000**	94,000
Rental prepayment	**33,176**	13,362
Prepayment for arrangement fees relating to long-term borrowings	**–**	1,251
	338,894	161,946

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

22. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**1,871,350**	1,899,835
Less: Allowance for doubtful debts	**(113,092)**	(141,325)
	1,758,258	1,758,510
Bills receivables	**984,550**	756,966
Deposits and prepayments	**144,326**	101,029
Deposit for acquisition of a subsidiary	**–**	26,317
Consideration receivable from disposal of Guizhou Zhongtai	**3,332**	3,332
Value added tax recoverable	**54,983**	22,457
Other receivables	**78,627**	47,639
	3,024,076	2,716,250

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Group allows a credit period ranging from 30 to 180 days to certain trade customers. The bills receivables have maturity period ranging from 90 to 365 days as at 31 December 2017 and 2016.

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

	2017	2016
	RMB'000	RMB'000
0-90 days	**858,472**	856,247
91-180 days	**532,221**	483,646
181-365 days	**326,145**	392,515
Over 365 days	**41,420**	26,102
	1,758,258	1,758,510

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

	2017	2016
	RMB'000	RMB'000
0-90 days	**647,085**	669,671
91-180 days	**226,250**	87,295
181-365 days	**111,215**	–
	984,550	756,966

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.

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

Impairment of trade and bills receivables (continued)

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

	2017	2016
	RMB'000	RMB'000
At 1 January	**141,325**	74,979
Reversal of loss recognised	**(19,774)**	–
Impairment loss recognised	**1,312**	78,368
Amounts written off as uncollectible	**(9,771)**	(12,022)
At 31 December	**113,092**	141,325

In determining the recoverability of trade receivables, the Group takes into consideration of the credit history including default or delay in payments, settlement records, and aging analysis of the trade receivables. Allowances for doubtful debts of RMB113,092,000 (31 December 2016: RMB141,325,000) were recognised. The Group does not hold any collateral over these balances.

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

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

At 31 December 2017, the carrying amount of bills receivables discounted to banks with full recourse, is RMB83,824,000 (31 December 2016: RMB4,479,000). The Group continues to include these discounted bills receivables and recognised the cash received as bank borrowings with the same amount until maturity. The carrying amount of the associated liability is RMB83,824,000 (31 December 2016: RMB4,479,000) (see note 23).

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

	2017	2016
	RMB'000	RMB'000
Hong Kong dollars ("HK$")	**2,142**	2,193

23. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2017 and 2016 that were transferred to banks by discounting those receivables on full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables. These financial assets are carried at their carrying amounts in the Group's consolidated financial statements and associated liabilities have been recognised and included in liabilities for these trade and bills receivables discounted with recourse.

	Bill receivables discounted to banks with full recourse	
	2017	2016
	RMB'000	RMB'000
Carrying amount of transferred assets	**83,824**	4,479
Carrying amount of associated liabilities	**(83,824)**	(4,479)
Net position	**–**	–

24. INVENTORIES

	2017	2016
	RMB'000	RMB'000
Inventories comprise:		
Raw materials	**1,189,805**	384,032
Work in progress	**978,679**	706,919
Finished goods	**1,383,345**	803,218
	3,551,829	1,894,169

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

	2017	2016
	RMB'000	RMB'000
Carrying amount of inventories sold	**3,694,301**	2,729,179
(Reversal of) write down of inventories (note 10)	**(8,088)**	16,008
	3,686,213	2,745,187

24. INVENTORIES (CONTINUED)

During the year, there was a significant increase in the sales of goods written-down in previous years. As a result, a reversal of write-down of RMB8,088,000 has been recognised and included in cost of sales in the current year.

Certain of the Group's inventories with carrying value of RMB22,527,000 (31 December 2016: nil) were pledged to secure certain bank borrowings granted to the Group.

25. HELD FOR TRADING INVESTMENTS

	2017 **RMB'000**	2016 RMB'000
Held for trading investments include:		
– Equity securities listed in Hong Kong	**691**	591

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 **RMB'000**	2016 RMB'000
Foreign currency forward contracts	**–**	23,694

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

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

Note: The Group settled at the low end or high end exchange rates if the actual exchange rate on the respective maturity date is below or above the specified low end or high end, respectively, of the range as shown above. All foreign currency forward contracts have been settled on respective maturity dates during the current year.

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

(a) The Group had no fixed deposits placed in banks as at 31 December 2017. As at 31 December 2016, the fixed deposits amounted to RMB1,050,000,000 carried fixed interest rate of 1.82% per annum with an original maturity of 6 months.

(b) Pledged bank deposits

	2017 **RMB'000**	2016 RMB'000
Guarantee deposits and other restricted deposits with maturity less than three months	**–**	2,226

Pledged bank deposits carries interest at market rates ranging from 0.30% to 0.35% p.a. for 2016.

(c) Bank balances and cash

	2017 **RMB'000**	2016 RMB'000
Restricted bank deposits	**257,304**	226,018
Bank balances and cash	**4,530,477**	2,147,338
	4,787,781	2,373,356

Bank balances and cash comprised cash held by the Group and short-term deposits and carried interest at prevailing market rates ranging from 0.30% to 0.35% p.a. (31 December 2016: 0.30% to 0.35% p.a.) with original maturity of three months or less.

Restricted bank deposits represented cash from settlement of receivables under the non-recourse factoring arrangement, which are repayable on a monthly basis.

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

	2017 **RMB'000**	2016 RMB'000
HK$	**19,517**	923,852

28. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	RMB'000
Trade payables	**1,782,943**	852,330
Deposits received	**531,442**	279,820
Advances received from customers	**194,429**	75,582
Advances of government grants (note a)	**20,962**	11,884
Salary and welfare payables	**134,345**	116,799
Other tax payables	**126,137**	142,414
Accruals of operating expenses	**526,084**	316,523
Interest payable	**66,500**	11,889
Dividend payable	**36,050**	–
Consideration payable for acquisition of Jiangyin Tianjiang Group (note b)	**18,130**	88,110
Contingent consideration payable for acquisition of Shanghai Tongjitang (note c)	**10,000**	10,000
Consideration payable for acquisition of Sichuan Tianxiong (see note 35(b))	**2,484**	–
Other payables(note d)	**407,006**	398,384
	3,856,512	2,303,735

Notes:

(a) As at 31 December 2017 and 2016, advances of government grants to the Group mainly included various conditional government grants to compensate the Group's research and development projects of new or existing pharmaceutical products. Such government grants are recognised as income in the period when the recognition criterion are met in accordance to the Group's accounting policy.

(b) During the year ended 31 December 2017, the Company paid RMB47,010,000 out of the outstanding consideration payable as at 31 December 2016 of RMB88,110,000. As agreed with the ex-shareholders following the acquisition of Jiangyin Tianjiang Group in 2015 in relation to the compensation for the potential loss of future revenue due to a litigation against three distributors of the Jiangyin Tianjiang Group incurred before the acquisition, an amount of RMB22,970,000 was deducted from the consideration payable to one of the ex-shareholders during the year and the balance of consideration payable as at 31 December 2017 was RMB18,130,000.

(c) The vendors have guaranteed that the audited net profit after tax (excluding non-recurring gains and losses) of Shanghai Tongjitang for each of the two years ended 31 December 2016 and 2017 shall be not less than RMB43,000,000 (the "Target Profits"). In the event that the audited net profit after tax (excluding non-recurring gains and losses) for any of the two years ended 31 December 2016 and 2017 is less than the Target Profits, the consideration for the acquisition will be adjusted to RMB500,000,000. Given that the profit after tax recorded by Shanghai Tongjitang for the two years ended 31 December 2016 and 2017 have exceeded the Target Profits, the directors of the Company considered that it is unlikely that adjustment will be made to the consideration.

(d) Included in other payables is RMB257,304,000 (31 December 2016: RMB226,018,000) which represents the cash from settlement of receivables under the non-recourse factoring arrangement. The Group has an obligation to remit the cash flows to the financial institution without material delay.

28. TRADE AND OTHER PAYABLES (CONTINUED)

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

	2017 **RMB'000**	2016 RMB'000
0-90 days	**1,248,177**	806,582
91-180 days	**256,254**	10,835
181-365 days	**170,254**	21,534
Over 365 days	**108,258**	13,379
	1,782,943	852,330

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

	2017 **RMB'000**	2016 RMB'000
HK$	**1,425**	11,968

29. DEFERRED GOVERNMENT GRANTS

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

	2017 **RMB'000**	2016 RMB'000
At the beginning of the year	**142,630**	124,165
Additions	**35,894**	20,821
Credited to profit or loss (note 6)	**(33,017)**	(2,356)
At the end of the year	**145,507**	142,630

As at 31 December 2017 and 2016, deferred government grants of the Group mainly includes various conditional government grants relating to purchase of property, plant and equipment. Such deferred government grants will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

30. DEFERRED TAXATION

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**(139,405)**	(139,716)
Deferred tax liabilities	**1,714,698**	1,722,917
	1,575,293	1,583,201

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

	Intangible assets RMB'000	Depreciation allowances in excess of related depreciation RMB'000	Allowance for doubtful debts RMB'000	Withholding tax on undistributable profits of PRC subsidiaries RMB'000	Unrealised inter-segment profit RMB'000	Tax loss RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	1,626,272	33,596	(36,555)	8,877	(20,138)	–	(54,674)	1,557,378
Addition through acquisition	51,732	14,277	–	–	–	–	(132)	65,877
(Credited) charged to profit or loss	(17,471)	(1,866)	(10,841)	28,677	355	(27,156)	9,798	(18,504)
Release upon dividend declared	–	–	–	(21,177)	–	–	–	(21,177)
Effect of change in tax rate	–	–	–	–	–	–	(373)	(373)
At 31 December 2016	1,660,533	46,007	(47,396)	16,377	(19,783)	(27,156)	(45,381)	1,583,201
Addition through acquisition (note 35)	25,624	–	–	–	–	–	–	25,624
(Credited) charged to profit or loss	(23,581)	(4,900)	3,372	18,000	(8,866)	21,783	(15,978)	(10,170)
Release upon dividend declared	–	–	–	(23,362)	–	–	–	(23,362)
At 31 December 2017	1,662,576	41,107	(44,024)	11,015	(28,649)	(5,373)	(61,359)	1,575,293

At the end of the reporting period, the Group had unused tax losses of RMB27,767,000 (31 December 2016: RMB119,230,000) available for offset against future profits. A deferred tax asset of RMB5,373,000 (31 December 2016: RMB27,156,000) has been recognised in respect of RMB21,492,000 (31 December 2016: RMB108,625,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB6,275,000 (31 December 2016: RMB10,605,000) due to the unpredictability of future profit streams.

30. DEFERRED TAXATION (CONTINUED)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB2,883,157,000 (31 December 2016: RMB1,876,497,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future.

31. BANK BORROWINGS

	2017	2016
	RMB'000	RMB'000
Bank borrowings comprised bank loans and other loans and analysed as follows:		
Bank loans	**587,873**	1,419,860
Other loans (note)	**83,824**	4,479
	671,697	1,424,339
Secured	**243,824**	144,479
Unsecured	**427,873**	1,279,860
	671,697	1,424,339
Carrying amount repayable:		
Within one year	**638,697**	1,001,392
More than one year, but not exceeding two years	**–**	422,947
More than five years	**33,000**	–
	671,697	1,424,339
Amounts due within one year shown under current liabilities	**638,697**	1,001,392
Add: Amounts shown under non-current liabilities	**33,000**	422,947
	671,697	1,424,339

Note: Other loans represented discounting of bill receivables amounting to RMB83,824,000 (31 December 2016: RMB4,479,000), which were repayable within one year.

31. BANK BORROWINGS (CONTINUED)

	2017	2016
	RMB'000	RMB'000
Fixed rate borrowings	**278,824**	1,001,392
Floating rate borrowings	**392,873**	422,947
	671,697	1,424,339

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

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

	2017	2016
Effective interest rate		
– Fixed rate borrowings	**1.20%-6.09%**	1.60%-4.35%
– Floating rate borrowings	**2.65%-2.99%**	2.22%-2.62%

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

	2017	2016
	RMB'000	RMB'000
Floating rate		
– expiring beyond one year	**777,058**	777,058
Fixed rate		
– expiring within one year	**240,000**	238,884
– expiring beyond one year	**550,191**	883,739
	1,567,249	1,899,681

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

	2017	2016
	RMB'000	RMB'000
HK$	**392,873**	1,049,102

32. UNSECURED NOTES

	2017 **RMB'000**	2016 RMB'000
Carrying amount repayable:		
Within two to five years	**4,481,958**	2,485,604
RMB2,500,000,000 notes carries fixed coupon rate of 3.4% per annum, interest payable annually with maturity on 15 November 2019	**2,491,961**	2,485,604
RMB2,000,000,000 notes carries fixed coupon rate of 4.98% per annum, interest payable annually with maturity on 12 June 2020	**1,989,997**	–
	4,481,958	2,485,604

In November 2016, the Company registered medium-term notes in an aggregate amount of RMB4,500,000,000 and the notes could be issued by the Company in multiple tranches within two years from 9 November 2016. On 16 November 2016, the Company completed the issuance of the first tranche of notes in an aggregate amount of RMB2,500,000,000, with a maturity of three years and coupon rate of 3.4% per annum. On 13 June 2017, the Company completed the issuance of the second tranche of notes in an aggregate amount of RMB2,000,000,000, with a maturity of three years and coupon rate of 4.98% per annum.

As at 31 December 2017, an aggregate amount of arrangement fee totaling RMB18,042,000 (31 December 2016:RMB14,396,000) was included in the balance of unsecured notes, and will be released to profit or loss as finance cost using the effective interest method over the period of the unsecured notes.

33. SHARE CAPITAL OF THE COMPANY

	Number of shares		**Share capital**	
	2017 **'000**	2016 '000	**2017** **RMB'000**	2016 RMB'000
Issued and fully paid				
At beginning of the year	**4,431,505**	4,483,747	**9,809,935**	9,809,935
Repurchase of shares	**–**	(52,242)	**–**	–
At end of the year	**4,431,505**	4,431,505	**9,809,935**	9,809,935

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

34. RETIREMENT BENEFITS PLANS

Hong Kong

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

PRC

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

35. ACQUISITIONS OF SUBSIDIARIES

2017

(a) Guizhou Tongjitang Pharmacy Chain

On 30 January 2017, the Group acquired 60% of the equity interest of Guizhou Tongjitang Pharmacy Chain for a consideration of RMB87,725,000 from Guizhou Tongjitang Medicine Distribution Co., Ltd. and Guizhou Tongjitang Asset Management Co., Ltd. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB30,019,000.

Consideration transferred

	RMB'000
Cash	87,725

Goodwill arose on the acquisition of Guizhou Tongjitang Pharmacy Chain because Guizhou Tongjitang Pharmacy Chain is principally engaged in the operation of chain pharmacies and traditional Chinese medicine clinics in Guizhou Province, the PRC. The acquisition of Guizhou Tongjitang Pharmacy Chain is in line with the Group's development strategy to become leader in the TCM industry and will allow the Group to expand its product mix, consolidate upstream resources and extend its coverage in the industry value chain.

35. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

2017 (continued)

(a) Guizhou Tongjitang Pharmacy Chain (continued)

Consideration transferred (continued)

Fair value of assets acquired and liabilities recognised at the date of acquisition and goodwill arising on acquisition are as follows:

	Amount recognised at the date of acquisition RMB'000
Property, plant and equipment	3,459
Other intangible assets	100,799
Inventories	7,996
Trade and other receivables	3,442
Bank balances and cash	9,700
Trade and other payables	(2,084)
Tax liabilities	(1,511)
Deferred tax liabilities	(25,624)
	96,177
Consideration transferred	87,725
Plus: Non-controlling interests	38,471
Less: Fair value of identifiable net assets acquired	(96,177)
Goodwill arising on acquisition	30,019

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	(87,725)
Less: Bank balances and cash acquired	9,700
Less: Deposit paid in 2016	26,317
	(51,708)

35. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

2017 (continued)

(a) Guizhou Tongjitang Pharmacy Chain (continued)

Net cash outflow arising on acquisition (continued)

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

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

Acquisition-related costs are not material and have been excluded from the consideration transferred and have been recognised as an expense during the year, within the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

The non-controlling interests in the acquiree at the respective acquisition date was initially measured at the non-controlling interests' proportionate share of the recognised amount of the acquiree's identifiable net assets.

Impact of acquisition on the results of the Group

During the year ended 31 December 2017, Guizhou Tongjitang Pharmacy Chain contributed RMB42,294,000 to the Group's revenue and profit of RMB7,551,000 to the Group's results.

The acquisition of Guizhou Tongjitang Pharmacy Chain was completed on 3 January 2017. The impact to the Group's revenue and profit are immaterial had the acquisition of Guizhou Tongjitang Pharmacy Chain been effected on 1 January 2017.

35. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

2017 (continued)

(b) Sichuan Tianxiong

On 30 September 2017, the Group acquired 85.7% of the equity interest of Sichuan Tianxiong through its subsidiary, Jiangyin Tianjiang for a consideration of RMB44,080,000. The consideration consists of two parts, (i) Jiangyin Tianjiang acquired 26.1% of the equity interest of Sichuan Tianxiong directly from the shareholders of Sichuan Tianxiong in cash of RMB12,420,000; (ii) The remaining 59.6% was satisfied by injection of capital to Sichuan Tianxiong in cash of RMB31,660,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was nil.

Consideration

	RMB'000
Cash paid	41,596
Contingent consideration arrangement (note)	2,484
Total	44,080

Note: The vendors have guaranteed that the audited net profit after tax (excluding non-recurring gains and losses) of Sichuang Tianxiong for each of the two years ending 31 December 2017 and 2018 shall be not less than RMB2,500,000 and RMB3,500,000 respectively (the "Target Profits"). The Target Profits were determined after taking into account the audited profit after tax of Sichuang Tianxiong for the three months ended 31 March 2017 of RMB1,550,000. In the event that the audited net profit after tax (excluding non-recurring gains and losses) for the year ended 31 December 2017 and 2018 respectively is less than RMB2,500,000 and RMB3,500,000, the consideration for the acquisition shall be deducted by RMB1,242,000 and RMB1,242,000 respectively. Given that the profit after tax recorded by Sichuan Tianxiong for the three months ended 31 March 2017 represents more than quarter of the Target Profits for 2017 and 2018, the directors of the Company considered that it is unlikely that adjustment will be made to the consideration.

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

35. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

2017 (continued)

(b) Sichuan Tianxiong (continued)

Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:

	Amount recognised at the date of acquisition RMB'000
Property, plant and equipment	16,716
Prepaid lease payments	16,838
Interest in associates	1,940
Inventories	19,010
Trade and other receivables	20,913
Bank balances and cash	31,857
Trade and other payables	(2,531)
Bank borrowings	(57,500)
	47,243
Consideration transferred	44,080
Plus: Non-controlling interests	3,163
Less: Fair value of identifiable net assets acquired	(47,243)
Goodwill arising on acquisition, determined on a provisional basis	–

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	(41,596)
Less: Bank balances and cash acquired	31,857
	(9,739)

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

35. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

2017 (continued)

(b) Sichuan Tianxiong (continued)

Net cash outflow arising on acquisition (continued)

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

Acquisition-related costs are not material and have been excluded from the consideration transferred and have been recognised as an expense during the year, within the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

The non-controlling interests in the acquiree at the respective acquisition date was initially measured at the non-controlling interests' proportionate share of the recognised amount of the acquiree's identifiable net assets.

Impact of acquisition on the results of the Group

During the year ended 31 December 2017, Sichuan Tianxiong contributed RMB10,474,000 to the Group's revenue and profit of RMB2,096,000 to the Group's results.

Had the acquisition of Sichuan Tianxiong been effected at 1 January 2017, the total amount of revenue of the Group for the year ended 31 December 2017 would have been RMB8,382,833,000 and the amount of the profit of the Group for the year would have been RMB1,314,736,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

35. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

2016

(c) Huayi

In May 2016, the Group acquired 100% of the equity interest of Huayi for consideration of RMB34,000,000 from China National Traditional Chinese Medicine Corporation ("CNTCM"). In the opinion of directors of the Company, CNTCM is the Company's intermediate holding company. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB9,774,000. The Group recognised in its consolidated financial statements for the year ended 31 December 2016 provisional amounts of the fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current year (i.e. end of the measurement year), the directors of the Company have completed the determination of the fair value of the identifiable assets acquired and liabilities assumed and goodwill and concluded that no adjustments to such provisional amounts are required.

(d) Shanghai Tongjitang

In November 2016, the Group acquired 100% of the equity interest of Shanghai Tongjitang for consideration of RMB510,000,000. Wang Xiaochun, being the executive director of the Company, held 50% of the equity interests Shanghai Tongjitang before the acquisition. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB111,101,000. The Group recognised in its consolidated financial statements for the year ended 31 December 2016 provisional amounts of the fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current year (i.e. end of the measurement year), the directors of the Company have completed the determination of the fair value of the identifiable assets acquired and liabilities assumed and goodwill and concluded that no adjustments to such provisional amounts are required.

(e) Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal")

In November 2016, the Group acquired 100% of the equity interest of Tonjitang Herbal for consideration of RMB60,934,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB29,433,000. The Group recognised in its consolidated financial statements for the year ended 31 December 2016 provisional amounts of the fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current year (i.e. end of the measurement year), the directors of the Company have completed the determination of the fair value of the identifiable assets acquired and liabilities assumed and goodwill and concluded that no adjustments to such provisional amounts are required.

36. OPERATING LEASES

The Group as lessee

	2017 RMB'000	2016 RMB'000
Minimum lease payment paid under operating leases during the year	**18,394**	6,399

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**10,117**	25,117
In the second to fifth year inclusive	**2,524**	1,780
After fifth year	**344**	883
	12,985	27,780

Operating lease payments represent rentals payable by the Group for its office and production premises held under operating leases. The lease was negotiated for an average term of 1 to 7 years (2016: 2 to 15 years) with fixed rentals.

The Group as lessor

Property rental income earned during the year was RMB1,162,000 (2016: RMB880,000). All of the properties held have committed tenants fixed rental for the next 1 to 17 years (2016: 1 to 18 years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017 RMB'000	2016 RMB'000
Within one year	**1,825**	390
In the second to fifth year inclusive	**5,542**	624
After fifth year	**9,579**	1,860
	16,946	2,874

37. CAPITAL COMMITMENTS

	2017 RMB'000	2016 RMB'000
Contracted but not provided for in the consolidated financial statements		
– Investments in PRC entities (note a)	**640,000**	640,000
– Acquisition of subsidiaries (note b)	**499,300**	61,403
– Subscribe new shares in subsidiaries (note c)	**33,400**	–
– Acquisition of property, plant and equipment	**287,026**	265,589
	1,459,726	966,992

Notes:

(a) Pursuant to the cooperation agreements entered into by the Group, Foshan Health Development Co., Ltd. and Foshan Hospital of TCM on 13 January 2016, and a subsequent agreement entered by the Group and Baoli Huanan Industrial Co., Ltd. on 29 December 2016, the parties agreed to form two companies which are principally engaged in the provision of general hospital services, investments in medical industry and provision of hospital management consultancy services. The registered capital of these companies has not yet been paid up to the date of issue of these consolidated financial statements.

(b) Pursuant to the Sales and Purchase Agreement entered into by the Group and the vendor, the Group would acquire the 100% registered capital of 北京華邈藥業有限公司 ("Beijing Huamiao Pharmaceutical Co., Limited"), 黑龍江國藥藥材有限公司 ("Heilongjiang Sinopharm Medicinal Materials Co., Limited"), 北京華泰中藥新技術開發有限責任公司 ("Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company") and 四川江油中壩附子科技發展有限公司 ("Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited") at a total consideration of RMB499,300,000. The vendor is CNTCM who is the Company's intermediate holding company. As at 31 December 2017, the relevant regulatory approval procedures was still in progress.

(c) Pursuant to the investment agreements entered into by the Group, the Group agreed to inject capital in the subsidiaries Longxi Feng Liao Xing Pharmaceutical Herbal Company Limited ("Longxi Feng Liao Xing") and Jiangxi Yifang Tianjiang Pharmaceutical Company Limited ("Jiangxi Yifang Tianjiang") for RMB10,000,000 and RMB23,400,000 respectively. The capital in these companies has not yet been paid up as at 31 December 2017.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of net debt, which includes bank borrowings and unsecured notes disclosed in notes 31 and 32 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents. Adjusted capital comprises all components of equity.

The adjusted debt-to-equity ratios at 31 December 2017 and 2016 are as follows:

	2017 **RMB'000**	2016 RMB'000
Current liability:		
Bank borrowings	**638,697**	1,001,392
Non-current liabilities:		
Bank borrowings	**33,000**	422,947
Unsecured notes	**4,481,958**	2,485,604
	4,514,958	2,908,551
Total debt	**5,153,655**	3,909,943
Less: Cash and cash equivalents	**(4,530,477)**	(2,147,338)
Adjusted net debt	**623,178**	1,762,605
Total equity	**13,815,257**	12,755,862
Adjusted net debt-to-equity ratio	**5%**	14%

The Group is not subject to externally imposed capital requirements except for financial covenants relating to certain of the banking facilities of the Company. The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

39. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017	2016
	RMB'000	RMB'000
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading investments	**691**	591
Derivative financial instruments	**–**	23,694
Loans and receivables (including cash and cash equivalents)	**7,612,548**	5,995,961
Financial liabilities		
Amortised cost	**8,008,210**	5,667,275

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, held for trading investments, derivative financial instruments, pledged bank deposits, fixed deposits, bank balances and cash, trade and other payables, unsecured notes and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies, i.e. currency other than RMB, which are mainly other receivables, bank balances and cash, other payables, and bank borrowings of the Group, at the end of the reporting period are as follows:

	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
HK$	**24,833**	**(394,069)**	926,045	(1,091,833)

The Group manage the foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently does not have a foreign exchange hedging policy. Management will consider hedging foreign currency exposure should the need arise.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

Sensitivity analysis

The sensitivity analysis includes only outstanding HK$ denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (31 December 2016: 5%) change in foreign currency rates. If the RMB strengthens/weakens 5% (31 December 2016: 5%) against the HK$, the post-tax profit of the Group would increase/decrease by RMB18,536,000 (31 December 2016: RMB8,289,000).

The Group is also exposed to foreign currency risk in relation to the outstanding foreign currency forward contracts at the end of the last reporting period. The sensitivity to foreign currency risk arising from the foreign currency forward contracts has been determined based on the reasonably possible change in the forward exchange rate between RMB and HKD. For a 5% strengthening in RMB against HKD, the post tax profit for the last year will be increased RMB178,000. If RMB has been weakened against HKD in an opposite magnitude and all other variables held constant, the potential effect on the results would be equal and opposite. The Group has no outstanding foreign currency forward contracts at 31 December 2017.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings and unsecured notes. The Group is exposed to cash flow interest rate risk in relation to the floating rate borrowings. The Group does not have any interest rate hedging policy. However, the management monitors the related interest rate risk exposure closely and will consider hedging the interest rate risk exposure should the need arise.

The Group's pledged bank deposits and bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on pledged bank deposits and bank balances. The management considers the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are mainly within short maturity period.

The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's borrowings denominated in HK$.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Interest rate profile

The following table details the interest rate profile of the Group's total bank borrowings and unsecured notes at the end of the reporting period.

	2017		2016	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank borrowings	**3.55%**	**278,824**	2.22%	1,001,392
Unsecured notes	**4.42%**	**4,481,958**	3.62%	2,485,604
		4,760,782		3,486,996
Floating rate borrowings:				
Bank borrowings	**2.17%**	**392,873**	2.27%	422,947
Total bank borrowings and unsecured note		**5,153,655**		3,909,943
Net fixed rate borrowings as a percentage of total bank borrowings and unsecured notes		**92.8%**		89.2%

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and floating rate borrowings. The analysis is prepared assuming that those balances outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis point increase or decrease which represents the management's assessment of the reasonably possible charge in interest rates is used.

If the interest rate on floating rate borrowings had been 10 basis points higher/lower and all other variables were held constant, the post-tax profit of the Group would decrease/increase by RMB393,000 (31 December 2016: decrease/increase by RMB423,000) for the year ended 31 December 2017.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure as the year end exposure does not reflect the exposure during the year.

Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has policies in place for determination of credit limits, credit approval for customers and other monitoring procedures for recovering overdue debts. In addition, the management considers the credit history of the trade receivables including default or delay in payments, settlement records and aging analysis of trade receivables in determining the allowance for doubtful debts and ensures that adequate allowance for doubtful debts are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period and the earliest date the Group can be required to pay:

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017						
Trade and other payables	**–**	**2,854,555**	**–**	**–**	**2,854,555**	**2,854,555**
Floating rate bank borrowings	**2.17%**	**398,964**	**–**	**–**	**398,964**	**392,873**
Fixed rate bank borrowings	**3.55%**	**249,549**	**1,476**	**36,263**	**287,288**	**278,824**
RMB2,500,000,000 notes carries fixed coupon rate of 3.4% per annum	**3.62%**	**85,000**	**2,574,375**	**–**	**2,659,375**	**2,491,961**
RMB2,000,000,000 notes carries fixed coupon rate of 4.98% per annum	**5.21%**	**99,600**	**2,169,043**	**–**	**2,268,643**	**1,989,997**
		3,687,668	**4,744,894**	**36,263**	**8,468,825**	**8,008,210**
31 December 2016						
Trade and other payables	–	1,757,332	–	–	1,757,332	1,757,332
Floating rate bank borrowings	2.27%	8,078	429,409	–	437,487	422,947
Fixed rate bank borrowings	2.22%	1,007,650	–	–	1,007,650	1,001,392
RMB2,500,000,000 notes carries fixed coupon rateof 3.4% per annum	3.62%	85,000	2,659,375	–	2,744,375	2,485,604
		2,858,060	3,088,784	–	5,946,844	5,667,275

40. FAIR VALUES MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets		Fair value as at 31.12.2017 HK$'000	Fair value as at 31.12.2016 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at FVTPL					
1.	Listed equity securities	**691**	591	Level 1	Quoted bid prices in active markets.
2.	Foreign currency forward contracts	**–**	23,694	Level 2	Discounted cash flow: Future cash flows are estimated based on difference between predetermined forward exchange rates and spot exchange rates at the end of the reporting period

There were no transfers between Level 1and 2 during both years.

Fair value measurements and valuation processes

Except as disclosed below, 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 at the end of the reporting period.

	31 December 2017 Carrying amount RMB'000	**Fair value hierarchy at 31 December 2017 Level 2 RMB'000**	**Fair value RMB'000**
Unsecured notes	**4,481,958**	**4,392,531**	**4,392,531**

	31 December 2016 Carrying amount RMB'000	Fair value hierarchy at 31 December 2016 Level 2 RMB'000	Fair value RMB'000
Unsecured notes	2,485,604	2,447,268	2,447,268

The fair values of the financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank Borrowings RMB'000	Unsecured notes RMB'000	Interest payable RMB'000	Dividend payable RMB'000	Dividend payable to NCI RMB'000	Total RMB'000
At 1 January 2017	1,424,339	2,485,604	11,889	–	–	3,921,832
Financing cash flows	(763,591)	1,987,830	(156,682)	(316,083)	(21,757)	729,717
Acquired on acquisition of a subsidiary (note 35(b))	57,500	–	–	–	–	57,500
Net foreign exchange gain	(46,551)	–	(1,251)	–	–	(47,802)
Dividend distribution to NCI	–	–	–	–	51,907	51,907
Other changes	–	8,524	212,544	321,983	–	543,051
At 31 December 2017	671,697	4,481,958	66,500	5,900	30,150	5,256,205

Notes:

(i) Other changes represents interest expenses on bank borrowings and unsecured notes recognised, and dividends distributed to non-controlling interests or the owners of the Group.

(ii) Interest outflow comprises interest paid of RMB71,682,000 for bank borrowings and RMB85,000,000 for unsecured notes.

42. RELATED PARTY TRANSACTIONS

Key management remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company and certain of the highest paid employees as disclosed in notes 11 and 12, is as follows:

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	**9,662**	7,983
Post-employments benefits	**406**	269
	10,068	8,252

The above key management remuneration is included in "other staff costs" are set out in note 10.

42. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions

Name of related party	Relationship
Mr. Wu Xian	Executive director of the Company
Mr. Wang Xiaochun	Executive director of the Company
Mr. Yang Bin	Executive director of the Company (resigned on 31 March 2017)
Mr. Zhao Dongji	Executive director of the Company
Ms. Huang He	Executive director of the Company
CNPGC	Ultimate controlling party
CNPGC's subsidiaries other than the Group	Fellow subsidiaries of the Group

During the year, the Group entered into the following related party transactions:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
(i) Sales of finished goods to CNPGC's subsidiaries other than the Group	**335,431**	257,078

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group	**20,408**	7,515

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
(iii) Acquisition of Huayi from CNTCM, CNPGC's subsidiaries other than the Group	**–**	34,000

The above related party transactions (i), (ii) and (iii) constitute connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Connected transactions" of the section headed "Report of the Directors" of the annual report.

42. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions (continued)

Particulars of significant balances between the Group and the related parties are as follows:

	2017 **RMB'000**	2016 RMB'000
(iv) Trade and other receivable balances due from CNPGC's subsidiaries other than the Group as included in trade and other receivable balances set out in note 22	**150,649**	172,818

	2017 **RMB'000**	2016 RMB'000
(v) Trade and other payable balances due to CNPGC's subsidiaries other than the Group as included in trade and other payable balances set out in note 28	**20,642**	5,663

Transactions/balances with other state-controlled entities

The Group itself is part of a large group of companies under CNPGC, which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("stated-controlled entities") in the ordinary course of business. The directors of the Company consider those entities other than the CNPGC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

The Group has bank balances deposited in and entered into various transactions, including sales, purchases, borrowings and other operating expenses, with other state-controlled entities during the current year in which the directors of the Company are of the opinion that it is impracticable to ascertain the identity of the controlling parties of these counterparties and accordingly whether the counterparties are state-controlled entities.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

(a) General information of subsidiaries

Name of subsidiary	Place and date of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2017	2016	**2017**	2016	
Directly held the Company						
Jiangyin Tiangjiang#	The PRC 18 September 1998	**RMB394,555,556**	RMB94,555,556	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine granules
Indirectly held the Company						
Dezhong#	The PRC 1 November 1998	**USD6,460,000**	USD6,460,000	**96.94%**	96.94%	Manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing#	The PRC 16 March 2000	**USD7,526,100**	USD7,526,100	**98%**	98%	Manufacture and sale of Chinese pharmaceutical products
Guangdong Medi-World*	The PRC 13 November 1992	**USD27,340,000**	USD27,340,000	**100%**	100%	Manufacture and sale of pharmaceutical products and investment holding
Luya#	The PRC 6 November 2000	**RMB24,529,300**	RMB24,529,300	**100%**	100%	Manufacture and sale of pharmaceutical products
Feng Liao Xing Material & Slices^	The PRC 6 March 1982	**RMB300,000,000**	RMB5,500,000	**100%**	100%	Trading of pharmaceutical products
Winteam Sales*	The PRC 1 August 2002	**RMB260,000,000**	RMB10,000,000	**100%**	100%	Trading of pharmaceutical products
Sinopharm Group Feng Liao Xing Traditional Chinese Medicine Health Industry Company Limited^	The PRC 22 January 2015	**RMB26,000,000**	RMB11,580,000	**100%**	100%	Plantation, investment and management of the traditional Chinese medicine health industry
Guizhou Tongjitang Pharmacy Chain^@	The PRC 23 May 2002	**RMB50,000,000**	N/A	**60%**	N/A	Operation of chain pharmacies
Huayi^	The PRC 26 July 2002	**RMB139,000,000**	RMB126,000,000	**100%**	100%	Development, manufacture, and sales of TCM products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place and date of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2017	2016	**2017**	2016	
Indirectly held the Company (continued)						
Shanghai Tongjitang^	The PRC 23 August 2002	**RMB80,000,000**	RMB80,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Tongjitang Herbal^	The PRC 27 May 2002	**RMB6,000,000**	RMB6,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Jiangxi Yifang Tianjiang^	The PRC 20 June 2017	**RMB21,000,000**	N/A	**60%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Heilongjiang Sinopharm Group Tianjiang Pharmaceutical Company Limited^	The PRC 28 July 2017	**RMB3,600,000**	N/A	**60%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Longxi Feng Liao Xing^	The PRC 25 May 2017	**RMB20,000,000**	N/A	**100%**	N/A	Development of TCM decoction product
Tongjitang Pharmaceutical*	The PRC 29 June 2005	**RMB249,759,458**	RMB249,759,458	**100%**	100%	Development, manufacture, marketing and sales of medicine products
Jingfang^	The PRC 7 March 2000	**RMB39,000,000**	RMB39,000,000	**100%**	100%	Development, manufacture, marketing and sales of medicine products
Guizhou LLF*%	The PRC 23 October 2001	**–**	RMB50,000,000	**–**	100%	Development, manufacture, marketing and sales of medicine products
Pulante^	The PRC 1 June 2000	**RMB27,520,000**	RMB27,520,000	**100%**	100%	Development, manufacture, and sales of medicine products
GD Yifang^	The PRC 10 February 1993	**RMB364,491,680**	RMB64,491,680	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine granules
Longxi Yifang^	The PRC 19 September 2006	**RMB30,000,000**	RMB30,000,000	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine granules

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place and date of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2017	2016	**2017**	2016	
Indirectly held the Company (continued)						
Tianxiang^	The PRC 20 December 2010	**RMB110,000,000**	RMB30,000,000	**87.3%**	87.3%	Manufacture and sale of traditional Chinese medicine granules
Jiangyin Tianjiang Chinese Medical Clinics Ltd. ("TCM Clinics")^	The PRC 3 November 2011	**RMB2,000,000**	RMB2,000,000	**87.3%**	87.3%	Provision of traditional Chinese medical consultation services
Chongqing Tianjiang Pharmaceutical Company Limited^	The PRC 2 November 2017	**RMB50,000,000**	N/A	**52.4%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Yunnan Tianjiang Yifang Pharmaceutical Company Limited^	The PRC 1 November 2017	**RMB40,000,000**	N/A	**52.4%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Sichuan Tianxiong^@	The PRC 20 December 2004	**RMB44,120,000**	N/A	**74.8%**	N/A	Development, manufacture, and sales of TCM products
Shandong Yifang Pharmaceutical Company Limited^	The PRC 15 December 2014	**RMB50,000,000**	RMB50,000,000	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine
Zhejiang Yifang Pharmaceutical Company Limited^	The PRC 25 January 2016	**RMB40,000,000**	RMB40,000,000	**87.3%**	87.3%	Development, manufacture and sales of traditional Chinese medicine
Shanxi Yifang Pingkang Pharmaceutical Company Limited^	The PRC 17 August 2017	**RMB30,000,000**	N/A	**44.5%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Changde Yifang Tianjiang Pharmaceutical Company Limited^	The PRC 1 November 2017	**RMB60,000,000**	N/A	**61.1%**	N/A	Development, manufacture and sales of traditional Chinese medicine
Sichuan Tianhao Pharmaceutical Company Limited ("Sichuan Tianhao")^	The PRC 22 January 2015	**RMB10,000,000**	RMB10,000,000	**74.8%**	44.5%	Development and sales of TCM products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

* These companies were established in the PRC in the form of wholly Foreign-owned Enterprises.

These companies were established in the PRC in the form of sino-foreign Equity Joint Ventures.

^ These companies were established in the PRC in the form of domestic enterprises.

% Guizhou LLF have been absorbed and merged by Tongjitang Pharmaceutical in December 2017.

@ Guizhou Tongjitang Pharmacy Chain and Sichuan Tianxiong were acquired by the Group during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017**	2016	**2017**	2016
				RMB'000	RMB'000	**RMB'000**	RMB'000
Jiangyin Tianjiang Group (note)	The PRC	**12.7%**	12.7%	**133,301**	111,829	**1,235,622**	1,093,257
Individually immaterial subsidiaries with non-controlling interests				**7,698**	7,784	**142,857**	74,278
				140,999	119,613	**1,378,479**	1,167,535

Note: the amounts have been adjusted for inter group elimination which primarily represent the goodwill and other intangible assets arising from the acquisition of the Jiangying Tianjiang Group.

Summarised consolidated financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below.

The following table lists out the information relating to Jiangyin Tianjiang Group, the only sub-group of the Group which has material non-controlling interest as at 31 December 2017.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Jiangyin Tianjiang Group

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Current assets	**9,096,292**	6,079,234
Non-current assets	**7,219,778**	6,978,719
Current liabilities	**(5,465,398)**	(2,935,344)
Non-current liabilities	**(1,559,690)**	(1,539,373)
Net equity (note)	**9,290,982**	8,583,236
Equity attributable to owners of Jiangyin Tianjiang Group	**9,227,216**	8,579,586
Non-controlling interests of Jiangyin Tianjiang Group	**63,766**	3,650

Note: The net equity includes fair value adjustments on properties, intangible assets and related deferred taxation arising from business combination amounting to RMB4,266,202,000 (31 December 2016: RMB4,377,423,000).

	2017	2016
	RMB'000	RMB'000
Revenue	**5,488,685**	4,358,789
Expenses	**(4,440,801)**	(3,472,423)
Profit and total comprehensive income for the year (note)	**1,047,884**	886,366
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group	**1,047,632**	887,213
Total comprehensive income attributable to the non-controlling interests of Jiangyin Tianjiang Group	**252**	(847)
Total comprehensive income for the year	**1,047,884**	886,366
Dividends declared to non-controlling interests	**50,800**	–
Net cash inflow from operating activities	**1,397,449**	97,412
Net cash inflow (outflow) from investing activities	**552,288**	(625,391)
Net cash inflow from financing activities	**1,101,196**	–
Net cash inflow (outflow)	**3,050,933**	(527,979)

Note: The profit for the year includes adjustments for depreciation on properties and amortization on intangible assets recognized upon the business combination amounting to RMB111,221,000 (31 December 2016: RMB86,142,000).

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 **RMB'000**	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**12,604,506**	12,591,126
Loans to subsidiaries	**4,472,820**	2,484,994
Property, plant and equipment	**6**	–
Other receivables	**–**	1,221
	17,077,332	15,077,341
CURRENT ASSETS		
Other receivables	**2,818**	10,528
Amounts due from subsidiaries	**894,737**	485,100
Bank balances and cash	**19,570**	909,707
	917,125	1,405,335
CURRENT LIABILITIES		
Trade and other payables	**123,409**	102,873
Amounts due to subsidiaries	**2,190,502**	2,125,687
Bank borrowings	**392,873**	642,072
	2,706,784	2,870,632
NET CURRENT LIABILITIES	**(1,789,659)**	(1,465,297)
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,287,673**	13,612,044
NON-CURRENT LIABILITIES		
Bank borrowings	**–**	407,030
Unsecured notes	**4,481,958**	2,485,604
	4,481,958	2,892,634
NET ASSETS	**10,805,715**	10,719,410
CAPITAL AND RESERVES		
Share capital	**9,809,935**	9,809,935
Reserves (note)	**995,780**	909,475
TOTAL EQUITY	**10,805,715**	10,719,410

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

WANG Xiaochun
EXECUTIVE DIRECTOR

ZHAO Dongji
EXECUTIVE DIRECTOR

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note:

Movements in the Company's reserves

	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	349,589	80,961	430,550
Profit for the year	–	422,682	422,682
Other comprehensive income			
– Exchange differences arising from translation of functional currency to presentation currency	463,610	–	463,610
Sub-total of other comprehensive income	463,610	–	463,610
Total comprehensive income for the year	463,610	422,682	886,292
Dividends paid (note 13)	–	(245,148)	(245,148)
Share repurchased during the year	–	(162,219)	(162,219)
At 31 December 2016	813,199	96,276	909,475
Profit and total comprehensive income for the year	–	408,288	408,288
Dividends paid (note 13)	–	(321,983)	(321,983)
At 31 December 2017	813,199	182,581	995,780

45. MAJOR NON-CASH TRANSACTION

During the current year, bills received by the Group from its customers with an aggregate amount of RMB152,443,000 (2016: RMB140,000,000) were endorsed for the settlement of payables for acquisition of property, plant and equipment.

46. CONTINGENT LIABILITIES

During the year, the Group (i) endorsed certain bills receivables for the settlement of trade and other payables; and (ii) discounted certain bills receivables to banks for raising of cash. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivables, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivables is low because all endorsed and discounted bills receivables are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised on the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of the reporting period are as follows:

	2017	2016
	RMB'000	RMB'000
Settlement of trade and other payables	**135,037**	72,511
Discounted bills for raising of cash	**83,824**	4,479
Outstanding endorsed and discounted bills receivables with recourse	**218,861**	76,990

The outstanding endorsed and discounted bills receivables are aged within 180 days at the end of the reporting period. The directors of the Company consider that the carrying amounts of the endorsed and discounted bills receivables approximate their fair values.

47. EVENT AFTER THE REPORTING PERIOD

Subsequent to 31 December 2017, the Group entered into investment agreements with the respective shareholders of 江蘇江康藥業有限公司 (Jiangsu Jiangkang Pharmaceutical Co., Ltd.) ("Jiangkang Pharmaceutical") and 黑龍江雙蘭星製藥有限公司 (Heilongjiang Shuanglanxing Pharmaceutical Co., Ltd.) ("Shuanglanxing") on 5 and 6 March 2018, pursuant to which the Group agreed to inject capital of RMB46,940,000 and RMB35,100,000 into Jiangkang Pharmaceutical and Shuanglanxing respectively by way of capital increase (the "Capital Increase"). After completion of the Capital Increase, the Group will hold 51% equity interest in each of Jiangkang Pharmaceutical and Shuanglanxing.

On 19 March 2018, the Company and Ping An Life Insurance Company of China, Ltd. ("the Subscriber") entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 604,296,222 shares at the total subscription price of HK$2,677,032,265. As at the date of issuance of these consolidated financial statements, the transaction was not completed.