中国泰凌医药集团
CHINA NT PHARMA GROUP

Stock Code : 01011

TOWARDS NEW PROSPECT

ANNUAL REPORT **2017**

VISION

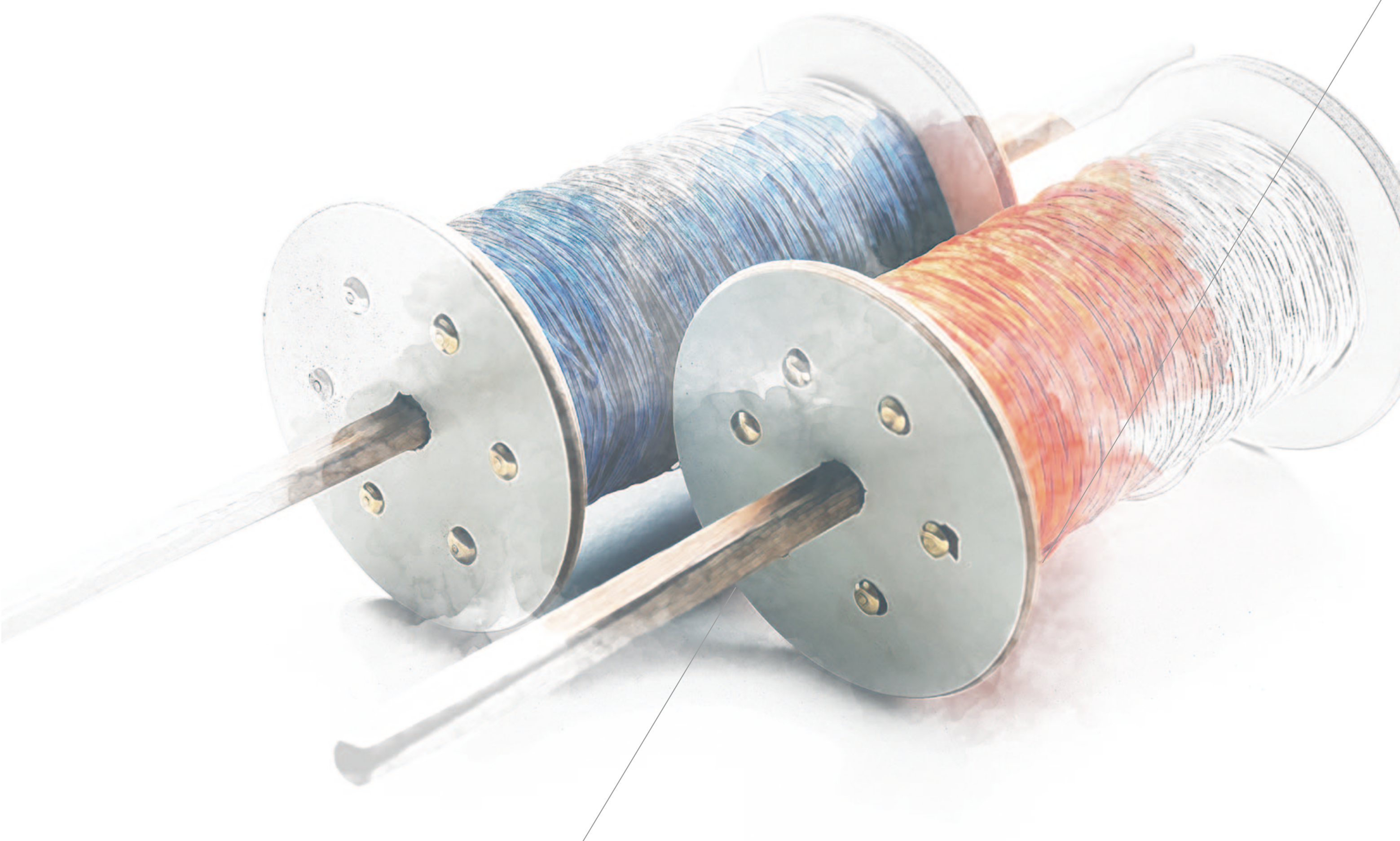
SERVING HEALTH AND LIFE

MISSION

STRIVING TO BECOME A PREMIER HEALTHCARE ENTERPRISE

PURSUIT

SCALING A NEW HEIGHT WITH CALMNESS;
KEEPING A SPIRIT OF ADVENTURE IN MIND



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MAJOR EVENTS IN 2017

MARCH

On 21 March, the Company announced its annual results for 2016, with income and net profit hitting a new high upon completion of the transformation as a result of the sales of the newly acquired product, namely Miacalcic and the expansion of its proprietary product portfolio. Our gross profit and operating profit increased by 9.3% and 36.6% year-on-year to approximately RMB494 million and RMB186 million respectively. Net profit increased by 32.5% substantially to RMB116 million. Due to the satisfactory performance, the Company determined to distribute a final dividend of HK2.5 cent per share, representing an increase of 150% as compared to a final dividend of HK1 cent per share for the same period of 2015.

JUNE

On 5 June, the 2017 Annual General Meeting of the Company was successfully held in Hong Kong, which were attended by Chairman of the Board of Directors and Chief Executive Officer Mr. Ng Tit, Executive Director Ms. Chin Yu, Independent Non-executive Directors Mr. Yue Nien Martin Tang, Mr. Patrick Sun and Dr. Lap-Chee Tsui as well as Chief Financial Officer and Company Secretary Mr. Chiu Yu Kang.

The new state-class 1.1 drug known as Xi Di Ke, a proprietary product of the Group's subsidiary Jiangsu Biopharma, is used in the treatment of breast cancer and non-small cell lung cancer, with its new indication"myelodysplastic syndrome (MDS)" under phase II clinical research which has been admitted into the"Major New Drugs Innovation" projects shortlist of the Ministry of Science and Technology and the National Health and Family Planning Commission, and received subsidy from the Ministry of Finance. Xi Di Ke was launched for sale in the market in April 2017 and first prescribed on 2 June, with revenue of RMB35.6 million by the end of June 2017 within barely two months from its launch. It provided strong support for the Group's operations and became the main highlight of the future performance of the Group.

AUGUST

On 21 August, the Company announced its interim results for 2017, with total income increasing by 44.9% to approximately RMB559 million year-on-year. Benefiting from the sales of innovative drugs Xi Di Ke and original brand drugs Miacalcic, operating profit increased to RMB118.77million from RMB62.05 million for the same period last year, while net profit rose 61.1% to RMB80.67 million.

SEPTEMBER

Songzhi Wan was produced by the Group's subsidiary NT Pharma (Changsha) Co., Ltd. for the treatment of hepatitis Type C. The meeting of "Comprehensive Intervention and Lasting Benefits"(全面干預 持久獲益) (being the kick-off meeting of the Real-World-Research on Songzhi Wan) launched officially at the 9th Annual Meeting of Asia-Pacific Alliance of Liver Disease.

At the meeting, senior experts from the area of hepatopathy jointly discussed the treatment strategy and Real-World Research of Songzhi Wan, and they all agreed that Songzhi Wan is currently the only traditional Chinese medicine approved for the treatment of hepatitis Type C, and can be used for syndrome of chronic hepatitis Type C dampness-heat blocking collaterals and for fatty liver and liver fibrosis theoretically.

The Real-World-Research of Songzhi Wan was initiated by the Group, with APALD as the organizer, uniting 100 collaborating hospitals and Professor Cheng Jun (成軍教授), the dean of Beijing Ditan Hospital, Capital Medical University, as the led researcher to conduct clinical researches, aiming to prospectively assess the inhibitory effect of Songzhi Wan on hepatitis Type C virus and the mitigate effect on fatty liver and liver fibrosis.

Leveraging on the results of our clinical researches, the Group hopes to benefit the patients with chronic hepatitis Type C in large, and to inherit and spread the essence of traditional Chinese medicine and build a No.1 brand for chronic hepatitis Type C treatment.

FINANCIAL HIGHLIGHTS

A summary of the main financial data of China NT Pharma Group Company Limited ("NT Pharma" or the"Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 is set out below:

	For the year ended 31 December		
	2017 RMB'000	2016 RMB'000 (restated)	% Change
Turnover	604,846	359,609	68.2%
Gross profit	484,235	253,833	90.8%
Profit from operations	269,578	64,575	317.5%
(Loss)/profit for the year from discontinued operation	(48,916)	91,060	-153.7%
Profit attributable to equity shareholders of the Company	165,195	116,181	42.2%
Core profit attributable to equity shareholders of the Company	175,809	131,854	33.3%
Earnings per share (RMB cents)			
Basic	10.72	7.50	42.9%
Diluted	9.12	7.46	22.3%
Core earnings per share (RMB cents)			
Basic	11.4	8.51	33.96%
Diluted	9.74	8.46	15.13%

In view of the satisfactory operating results, the board of directors (the "Directors") of the Company (the"Board") recommended the payment of a final dividend for the year ended 31 December 2017 of HK$3.5 cents per share (2016: HK2.5 cent per share), representing a total dividend distribution of approximately HK$64.9 million.

FIVE-YEAR FINANCIAL SUMMARY

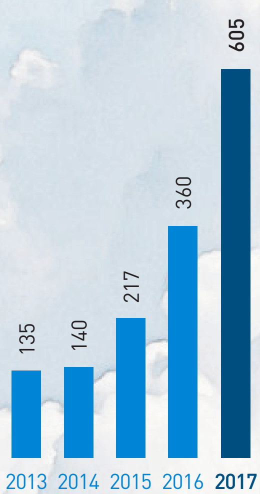
Results

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000 (restated)	RMB'000 (restated)	RMB'000 (restated)	RMB'000 (restated)
Turnover	**604,846**	359,609	217,303	157,404	126,836
Gross profit	**484,235**	253,833	131,851	76,394	61,826
Profit/(loss) from operations	**269,578**	64,575	71,001	35,202	18,638
Profit/(loss) before taxation	**226,428**	35,543	17,456	(66,331)	(154,102)
Profit/(loss) for the year from discontinued operations	**(48,916)**	91,060	70,334	67,822	(511,909)
Profit/(loss) for the year	**161,629**	115,760	87,694	2,087	(673,458)

Assets and Liabilities

	At 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**1,670,576**	1,578,145	565,635	437,554	374,591
Total current assets	**1,089,143**	984,594	832,678	1,047,878	1,067,055
Total current liabilities	**1,207,003**	1,367,579	495,590	1,129,621	922,035
Net current (liabilities)/assets	**(117,860)**	(382,985)	337,088	(81,743)	145,020
Total assets less current liabilities	**1,552,716**	1,195,160	902,723	355,811	519,611
Total non-current liabilities	**123,963**	156,138	–	142,832	310,812
Net assets	**1,428,753**	1,039,022	902,723	212,979	208,799
Total equity attributable to equity shareholders of the Company	**1,420,380**	1,027,083	890,363	212,979	208,799

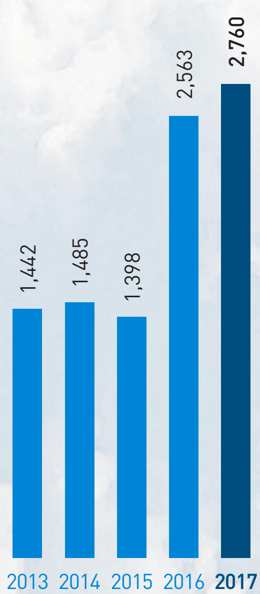
REVENUE
(RMB million)



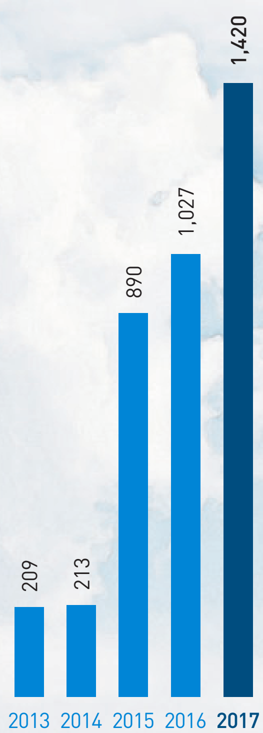
PROFIT/(LOSS) FROM OPERATIONS
(RMB million)

PROFIT/(LOSS) FOR THE YEAR
(RMB million)

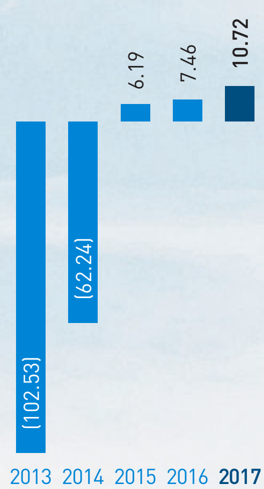
TOTAL ASSETS
(RMB million)



TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY
(RMB million)



BASIC EARNINGS/ (LOSSES) PER SHARE
(RMB cents)



In 2017, NT Pharma completely terminated its distribution business and was pledged to consolidate its core competitiveness of its proprietary products, targeting at three therapeutic areas including oncology and hematology, orthopedics, and central nervous system ("CNS"). Xi Di Ke successfully obtained the approval from China Food and Drug Administration ("CFDA") for launching to the market while Miacalcic Injection has gained excellent sales performance and completed the acquisition of Miacalcic Nasal Spray. Shusi has maintained stable growth in market share. With huge increases recorded in both revenue and net profit of its proprietary products, together with improvement in its profit structure, NT Pharma reaped good operating results. Looking ahead, NT Pharma will continue to intensify its business development and explore the potential in its proprietary products. Also, it aims to achieve another milestone by implementing initiatives based on academic marketing, promoting innovation and research and development (R&D).

Chairman &
Chief Executive Officer
Mr. Ng Tit

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual report of NT Pharma for the year ended 31 December 2017. NT Pharma is a technology-based pharmaceutical company covering R&D, manufacturing and sale of its proprietary products. NT Pharma owns international well known self-development brand, new state-class proprietary drugs and diversified product lines, with its products covering therapeutic areas such as CNS, osteology, oncology and hematology, respiratory system and hepatopathy. NT Pharma always strongly believes that the possession of core proprietary products and the enhancing R&D capabilities are critical in improving the profitability of the Group, adapting to the shifting healthcare industry dynamics and delivering long-term value to the shareholders.

In 2017, against the backdrop of pharmaceutical industry policy adjustment and market movements, the national pharmaceutical policies have been implemented frequently, such as the issue of new medicine category of the People's Republic of China ("PRC"), the implementation of "Two Invoices System", and the orderly implementation of medical system reforms such as percentage of revenue from sale of medicines, the pharmaceutical industry has been deeply affected. Facing the opportunities and challenges came along with the adjustment of the industry, the Group proactively adjusted its product portfolio and business model. Through self-development and innovation and direct acquisition of medicines and assets, the Group has committed to establishing its brand products with intellectual property and completely terminated the distribution and promotion business. Once the business strategy reform completed, the Group has recorded an encouraging sale results, with another record high of net profit. The overall revenue of the Group for the year ended 31 December 2017 increased by RMB245.2 million or 68.2% to RMB604.8 million, while the profit attributable to shareholders recorded a growth of 42% from RMB116.2 million for the year ended 31 December 2016 to RMB165.2 million for the year ended 31 December 2017. In view of satisfactory operating results for the year, the Group declared a final dividend of HK3.5 cents per share (2016: HK2.5 cents per share), representing a significant increase of 40%, totalling approximately HK$64.9 million.

The Group has identified CNS, osteology and oncology and hematology as its core specialized therapeutic areas. Being one of the corporate's core products in the therapeutic area of oncology and hematology, Xi Di Ke is a unique national class 1 new drug of which the global exclusive intellectual property rights and related patents have been obtained by the Group. Xi Di Ke has been approved by the CFDA for the treatment of non-small cell lung cancer and terminal breast cancer. A new indication of Xi Di Ke is for treating myelodysplastic syndrome ("MDS"). Xi Di Ke is the only known drug in the world to treat light-to-medium MDS. In 2015, Xi Di Ke newly indicated its treatment for MDS and it was included in "the project pool of Significant new drugs creation", under the Ministry of Science and Technology of the PRC. In April 2017, Xi Di Ke has obtained the approval of Good Manufacturing Practice ("GMP") for launching to the market. Sales to hospital has commenced and gained a favorable response from the market. According to a clinical research, MDS is subject to the risk of turning into acute leukemia while its patients need to attain treatment proactively. NT Pharma will actively explore the potential of Xi Di Ke and believes that it will contribute long term revenue growth to the Group.

Regarding osteology treatment, the Group completed the major transaction for the acquisition of Miacalcic injection in China and other regions from Novartis in July 2016 and successfully acquired Nasal Spray and assets of Miacalcic in October 2017, enriching the product portfolio of the Group. Miacalcic is a well-known international orthopaedic treatment brand used for the treatment of bone pain led by osteoporosis, Paget's disease of bone and hypercalcemia in a speedy, safe and thorough manner. After the completion of the full acquisition of Miacalcic item, NT Pharma will seek to capture promising profit contribution, leveraging on the marketing efforts regarding Miacalcic of its own sales team. Miacalcic, as the core proprietary product of NT Pharma, has huge market potential, against the backdrop of global aging trend. Leveraged on the global sales network of Miacalcic, it facilitates the Group's overseas expansion and accelerates its international development.

In the therapeutic area of CNS, the Group has taken up the promotion and distribution of the Group's proprietary brand product, Shusi, a proprietary product of Suzhou First, in 2017. The sales team of the Group has concentrated its marketing efforts in the sale channels management, aiming to enlarge the brand promotion coverage in the market and to explore sales potential, so as to drive business growth. Shusi is an atypical antipsychotic drug for the treatment of schizophrenia which has proven safety track records and therapeutic effects on first-time psychiatric patients, bipolar disorder patients, elderly patients and adolescent patients. As a drug listed on both the National Reimbursement Drug List and the National Essential Drugs List, Shusi is a state approved prescription medicine. In the future, Shusi continues to play an important role in the business growth strategy of the Group and contribute profit.

In the therapeutic area of respiratory system diseases, the Group's key product is Zhuo'ao, which is widely used for the treatment of chronic bronchitis at acute severe stage, asthma bronchitis and bronchial asthma. In the therapeutic area of hepatopathy, Songzhi Wan is the only Chinese traditional medicine approved by the CFDA for the treatment of hepatitis Type C, and it has unique effects on fatty liver. These products have also contributed a favourable portion of revenue to the Group.

Looking ahead, NT Pharma will continue to focus on the development of segments covering the three therapeutic areas, and explore the potentials of both organic and inorganic growth. On one hand, it will accelerate inorganic growth through vertical strategic mergers and acquisitions to achieve synergy with the existing products of the Group. Also, through conducting R&D on new indications based on the existing products, the Group will involve in direct acquisition of R&D assets, acquire the equity interests of R&D companies and seek cooperation with universities and other R&D institutions to jointly establish R&D systems. On the other hand, the Group will implement a sustainable and healthy multi-directional R&D strategy to drive innovation, through conducting R&D on new indications based on the existing products.

With continuous economic development, the acceleration of population aging, the increasing awareness of healthcare concerns of the citizens and the introduction of measures under the healthcare reform, the pharmaceutical industry in China will play a more and more important role in national economy in the future. NT Pharma will follow the trend of times, put an emphasis on enhancing the competitiveness of its core products, and seize market opportunities, improving the profitability of the Company and creating values for its shareholders and society.

Finally, on behalf of the Board, I would like to thank the Directors and the employees of the Group for their efforts and dedications, and the shareholders and business partners for their support during the year. I remain confident that NT Pharma will seize the opportunity from medical reform, and is capable of adapting to changes and seeking steady improvement and delivering promising return.

Ng Tit
Chairman and Chief Executive Officer

Hong Kong, 26 March 2018

NT Pharma is a technology-based pharmaceutical company and owns two new national class drugs and a diversified product portfolio, covering therapeutic areas such as oncology and hematology, orthopedics, CNS, hepatopathy and respiratory system. NT Pharma conducts its production through three of its subsidiaries, namely Suzhou First, Jiangsu Biopharma and Changsha Pharma. The Group also owns several sales and distribution companies with around 1,000 sales professionals and R&D specialists. The Group has an extensive promotion network in China, covering nearly 10,000 hospitals.

OVERVIEW

NT Pharma is a technology-based pharmaceutical company integrated with R&D, manufacturing, and sales of its own proprietary products which is principally engaged in the investment, research and development ("R&D"), manufacturing and sales of pharmaceutical products in the People's Republic of China ("PRC") and over 20 countries overseas, with its products covering therapeutic areas such as CNS, osteology and oncology and hematology . NT Pharma owns two new Class 1 drugs in China, one well-known international innovative brand-name drug, and a number of generic drugs, and the Group conducts its production through three of its subsidiaries, namely Suzhou First Pharmaceutical Co., Ltd. ("Suzhou First"), Jiangsu NT Biopharma Co., Ltd. ("Jiangsu Biopharma") and NT Pharma (Changsha) Co., Ltd. ("Changsha Pharma"). The Group also owns several sales and distribution companies with around 1,000 sales professionals and R&D specialists. The Group has an extensive promotion network in China, covering nearly 10,000 hospitals. The Group will insist in its strategy of R&D through three aspects, including equity investment or acquiring R&D results, seeking cooperation with R&D institutes and technology colleges, and self R&D, to enhance its R&D capability.

In 2017, the Group substantially dedicated its focus on improving its operating profit margins, enriching its proprietary product portfolio and strengthening its own R&D capabilities. The overall revenue of the Group from continuing operations for the year ended 31 December 2017 increased by RMB245.2 million to RMB604.8 million, as compared with RMB359.6 million for the previous year. Operating profit from continuing operations for the year ended 31 December 2017 improved significantly to RMB269.6 million, as compared with an operating profit of RMB64.6 million for the previous year. The improvement in operating results during the year ended 31 December 2017 was mainly due to increase of contribution from higher-margin self-owned products, such as Miacalcic, Xi Di Ke and Shusi, lower selling and distribution expenses. As a result of the improved operating results, the Group reported a net profit of RMB165.2 million for the year ended 31 December 2017, as compared with a net profit of RMB116.2 million for the previous year, representing a significant increase of 42.2% year on year.

In December 2017, the Group terminated the third-party pharmaceutical promotional and sales business in the PRC, as further detailed in the Company's announcement dated 15 December 2017. The revenue of this discontinued operation for the year ended 31 December 2017 significantly dropped by RMB278 million to RMB277 million and its results deteriorated from a profit of RMB91 million in the previous financial year to a loss of RMB48.9 million for the current year.

BUSINESS REVIEW

Production Bases

The Group conducts its production through three of its subsidiaries, Suzhou First, Jiangsu Biopharma and Changsha Pharma.

Production Base of Chemical Drugs

Suzhou First is the Group's production base of chemical drugs, which is dubbed a "High-tech Enterprise" in Jiangsu Province. Suzhou First has renewed its certification of Good Manufacturing Practice ("GMP") with a total of 121 Drug Registration Certificates issued by CFDA. The Company is located in the Sino-Singaporean Suzhou Industrial Park, covering an area of 150 acres. Among the 20 types of products currently being produced and sold by Suzhou First, "Shusi" (quetiapine fumarate tablets), as its core product and a high-tech product under a famous brand recognized by Jiangsu Province, is a main resort for the therapy of CNS. Zhuo'ao (ambroxol hydrochloride for injection), another product of Suzhou First, is the main resort for respiratory system therapy.

Production Base of Bio-chemical Drugs

Jiangsu Biopharma is a high-tech pharmaceutical enterprise, with its plant located in the Chinese Medicine City in Taizhou, China, which covers an area of 100 acres and is the Group's production base for bio-chemical drugs, mainly for the production of anticancer drugs with the production lines granted the renewed GMP certification in early March 2017. Jiangsu Biopharma owns a new Class I anticancer drug "Xi Di Ke" (uroacitides injection), which has been approved to be used in treatment of non-small cell lung cancer and terminal breast cancer, with its new indication "myelodysplastic syndrome ("MDS")" under phase II clinical research. Xi Di Ke has been admitted into the "Major New Drugs Innovation" projects shortlist of the Ministry of Science and Technology.

Production Base of Traditional Chinese Medicine

Changsha Pharma is the Group's production base for traditional Chinese medicine, which is located in the National Bio-industry Base in Changsha, China, covering an area of 50 acres. Granted the renewed GMP certification. Its production lines commenced operation in June 2016. Changsha Pharma owns a new state-class drug known as Songzhi Wan, which is the only traditional Chinese medicine capable of curing hepatitis Type C globally. The development of Songzhi Wan was subsidized by China's "863" Programme.

Core Products

NT Pharma has 121 product registration certificates as approved by CFDA, among which, over 20 products are being sold and produced.

Miacalcic

Miacalcic (generic name: salmon calcitonin), a well-known international orthopedic brand, is mainly used for treatment of bone pain led by osteolysis and lower bone mass, osteoporosis, Paget's disease, hypercalcemia and reflex sympathetic dystrophy syndrome. The Group completed the major transaction on acquisition of Miacalcic Injection in respect of China and other regions from Novartis at a total purchase price of US$145 million in July 2016. In addition, the Group has completed a major transaction of acquiring Miacalcic Nasal Spray at a consideration of US$34 million in October 2017. The sales of Miacalcic in the markets of China and other countries and regions is stable and the sale network covers the whole world. The Group has strategically established its presence in the area of orthopedic treatment to further enrich the Company's product mix in orthopedic area.

Xi Di Ke

Xi Di Ke (generic name: uroacitides injection), a national class 1 new drug, is a proprietary product of Jiangsu Biopharma and is approved by the CFDA for the treatment of non-small cell lung cancer and terminal breast cancer. Xi Di Ke was awarded the new Good Manufacturing Practices ("GMP") certification by the CFDA in March 2017 and was officially commercialized in hospitals starting from April. The first prescription of Xi Di Ke was given in June of the same year. In light of the recognition by more and more prescriptions, Xi Di Ke is expected to generate strong support for the Group's operation and become a growth driver of the Company's future results. Currently, Xi Di Ke has obtained approval and is under the medical insurance coverage in Hubei and Jiangsu Provinces and it intends to make application in Anhui Province, Hunan Province, Guangdong Province and Chongqing for the medical insurance coverage.

Shusi

Shusi (generic name: quetiapine fumarate) is a proprietary product of Suzhou First. In December 2013, it was also approved by the CFDA for the treatment of bipolar affective disorder. Shusi is an atypical antipsychotic drug which has proven safety track records and therapeutic effects on first-time psychiatric patients, elderly patients and adolescent patients. As a drug listed on both the National Reimbursement Drug List and the National Essential Drugs List, Shusi is a state-approved prescription medicine, and it is expected the product will have tremendous growth potential and continue to play an important role in the future growth strategy of the Group. The consistency appraisal of conventional tablets and extended release tablets of Shusi is under process which we expect to be completed within the year.

Libod

Libod (generic name: doxorubicin hydrochloride liposome injection) is a product for Level-I application for oncology Chemotherapy produced by Shanghai Fudan-Zhangjiang Bio Pharmaceutical ("FDZH") with NT Pharma as the exclusive distributor. Since 2014, the Company has been committed to transformation into a comprehensive pharmaceutical company integrating research and development, production and sales of proprietary products and gradual termination of the business of third-party pharmaceutical distribution and promotion. For the sake of strategic change after transformation, the Company will no long engage in the distribution and promotion of Libod after 31 December 2017.

Zhuo'ao

The generic name of Zhuo'ao is ambroxol hydrochloride for injection, which is a proprietary product of Suzhou First primarily used for acute exacerbations of chronic bronchitis, asthmatic bronchitis and bronchial asthma.

Songzhi Wan

Songzhi Wan is the only traditional Chinese medicine capable of curing hepatitis Type C as approved by CFDA, the development of which was included in the Major Scientific and Technical Breakthrough Program under the "10th Five-Year Plan" and the National High Technology Research and Development Program (863 Program) and was subsidized. During the Stage I-II-III clinical research on Songzhi Wan, its drug efficacy and safety have been carefully verified with modern medicine, for which it was finally approved to enter the market with a certificate of new drug. It was officially commercialized at hospitals in June 2016. In September 2017, NT Pharma launched the "Real World Study on Songzhi Wan" for joint discussion with specialists in Hepatology on the treatment strategy and case study in the world to create the first brand of traditional Chinese medicine for treatment of chronic hepatitis Type C. Meanwhile, through co-operation and R&D with the University of Hong Kong, the Company is going to develop a new formula to improve its drug efficacy.

OPERATING RESULTS

Sales

The Group's business is currently composed of two operating segments, i.e. proprietary products production and sales and promotion and Miacalcic.

The proprietary products include Shusi, Xi Di Ke, Zhuo'ao, Songzhi Wan and other drugs. For the year ended 31 December 2017, total revenue from production and sales of proprietary products increased by RMB58.7 million or 18.7% to RMB372.5 million, as compared with RMB313.8 million for the previous year. Revenue of Shusi increased by RMB10.8 million or 5.2% to RMB216.7 million, as compared with RMB205.9 million for the previous year. The increased revenue of Shusi was attributable to the increased demand and improved inventory management of distribution channels. For the year ended 31 December 2017, revenue from Xi Di Ke amounted to RMB81.8 million. Revenue of Zhuo'ao decreased by RMB4.5 million or 12.1% to RMB32.6 million, as compared with RMB37.1 million for the previous year. The decrease in revenue of Zhuo'ao was mainly due to the restructuring of its sole distributor Sihuan Pharmaceutical during the year, which affected the sales results of the product. Revenue of Songzhi Wan was RMB12.3 million for the year ended 31 December 2017, as compared with RMB35.9 million for the previous year.

For the year ended 31 December 2017, revenue from Miacalcic segment amounted to RMB232.4 million, as compared with RMB45.8 million for the previous year. The revenue from brand licensing fee income of Miacalcic Injection increased by RMB81.9 million or 178.8% to RMB127.8 million from RMB45.8 million for the previous year. Revenue from Miacalcic Injection and Miacalcic Nasal Spray amounted to RMB97.2 million and RMB7.5 million respectively.

For the year ended 31 December 2017, the Group has completely terminated the third-party pharmaceutical promotion and sales segment. The revenue from Libod, an oncology drug manufactured by FDZH, decreased by RMB278.4 million or 50.1% to RMB277.1 million, as compared with RMB555.5 million for the previous year.

Research and Development

The Group has established a R&D and clinical medical center in Beijing, which maintains long-term strategic cooperation with domestic and overseas research institutions and companies. The Group conducts R&D of new products in many areas, such as cancer and blood diseases, central nervous system diseases, liver diseases and infectious diseases, while proactively expanding the scope of indications of the existing drugs, and is expected to offer more new products to the patients in the future.

PROSPECTS AND OUTLOOK OF THE GROUP

The Chinese government continues to commit resources to and invest in the healthcare sector as part of its long-term healthcare reform plan. Although more stringent regulations may create short-term operating pressures, NT Pharma believes that a better regulated market will ultimately bring opportunities to healthcare companies in China and enable the healthcare industry in China to maintain its growth in the long term. The Group believes that the growth of the healthcare industry in China is supported by a combination of favorable factors, including the size of an increasing ageing population, the Chinese government's commitment to improve access to healthcare services and better affordability from rising disposable income. With the Chinese government's continual reforms on the healthcare sector, NT Pharma has redefined its long-term growth strategies in accordance with the changing landscape of the industry. Going forward, NT Pharma will continue to refine and reinforce its strategies, strengthen its innovation capability. The Group will actively conduct R&D of innovative drugs for driving the Group's profit growth and fully develop the market potential of brand drugs and generic drugs, achieving the economies of scale for the Group through boosting sales performance of various drugs. The Group will continue to proactively identify opportunities to acquire quality products to enrich its product portfolio, focusing on three main aspects including psychiatry, orthopedics, hematology and oncology. Also, the Group will speed up its external development through vertical strategic acquisition, so as to reach synergistic effect through integration with its existing products and gather the momentum for sustainable development of the Group.

NT Pharma has been in the field of medicine for over 20 years and strived to build our Company to be an excellent medical enterprise based on technology. In the future, the entire staff of NT Pharma will endeavor to deliver outstanding performance with progressive growth and constant innovation by seizing opportunities presented by various policies under the healthcare reform, taking advantage of diversified product portfolio, extensive industry experience and leveraging our strong marketing network. Looking forward, we are confident about our capability for creating more value for our customers, shareholders and patients, laying a solid foundation for the sustainable development for the Company.

HUMAN RESOURCES

As at 31 December 2017, the Group had 803 fulltime employees (2016: 582 employees). For the year ended 31 December 2017, the Group's total cost on remuneration, welfare and social security amounted to RMB112.9 million (2016: RMB64.6 million).

The Group is in good relationship with its employees and some policies have been carried out to make sure the employees can acquire competitive remuneration, good welfare and continuous professional training.

The remuneration structure of the Group is based on employee performance, local consumption level and prevailing conditions in the human resources market. Directors' remuneration is determined with reference to each Director's experience, responsibilities and prevailing market standards.

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund retirement benefits scheme in Hong Kong and various retirement benefits schemes including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees of the Group pursuant to the PRC rules and regulations and the prevailing regulatory requirements of the PRC. The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme ("New Share Option Scheme") adopted by the Company on 22 September 2014, and a share award scheme ("New Share Award Scheme") adopted on 4 September 2015, where options to subscribe for shares and share awards may be granted to the Directors and employees of the Group.

The Group made considerable efforts in continuing education and training programs for its staff, to continuously enhance their knowledge, skills and team spirit. The Group regularly provided internal and external training courses for relevant staff according to their needs.

FINANCIAL REVIEW – CONTINUING OPERATIONS

Revenue

	For the year ended 31 December							
	2017 Sales volume '000	2017 Unit price RMB	2017 Sales amount RMB'000	2017 Proportion (%)	2016 Sales volume '000	2016 Unit price RMB	2016 Sales amount RMB'000	2016 Proportion (%)
Proprietary products production and sales								
Shusi	7,215	30.0	216,689	35.8%	7,257	28.4	205,872	57.3%
Xi Di Ke	169	485.3	81,824	13.5%	–	–	–	–
Zhuo'ao	20,621	1.6	32,603	5.4%	30,507	1.2	37,124	10.3%
Songzhi Wan	98	126.5	12,335	2.0%	108	333.0	35,895	10.0%
Others	19,975	1.5	29,004	4.8%	19,045	1.8	34,891	9.7%
Subtotal			372,455	61.5%			313,782	87.3%
Miacalcic								
Miacalcic Injection	546	178.1	97,220	16.1%	–	–	–	–
Brand licensing fee income of Miacalcic Injection	1,193	107.0	127,709	21.2%	–	N/A	45,827	12.7%
Brand licensing fee income of Miacalcic Nasal Spray	44	169.6	7,462	1.2%	–	–	–	–
Subtotal			232,391	38.5%			45,827	12.7%
Total			604,846	100.0%			359,609	100.0%

Revenue from proprietary products production and sales increased by RMB58.7 million to RMB372.5 million, accounting for 61.5% of the total revenue in 2017, as compared with RMB313.8 million or 87.3% of the Group's revenue in 2016. The increase in revenue from proprietary products production and sales was due to two reasons. Firstly, Xi Di Ke was launched for sale in the market in April 2017, bringing revenue contribution to the Company of RMB81.8 million for the year ended 31 December 2017. Secondly, Shusi recorded an increase in sales. The increase in revenue of Shusi was primarily due to increased market demand as well as improved management of inventory in the distribution channels which resulted in an increase of RMB1.6 in the average commercial selling price per unit to RMB30.0 for the year ended 31 December 2017 from RMB28.4 for the corresponding period in 2016.

The Company completed the acquisition of Miacalcic Nasal Spray in October 2017, after the completion of the acquisition and settlement in respect of Miacalcic Injection in July 2016, bringing brand licensing fee income contribution to the Company of RMB232.4 million for the year ended 31 December 2017 as compared to RMB45.8 million for 2016.

Cost of Sales

For the year ended 31 December 2017, cost of sales increased by RMB14.8 million to RMB120.6 million, as compared with RMB105.8 million for the year ended 31 December 2016. The increase in cost of sales during the year was mainly due to the increase in sales of Miacalcic and Shusi.

Gross Profit

Products	For the year ended 31 December 2017 Gross Profit RMB'000	2017 Gross Profit Margin (%)	2016 Gross Profit RMB'000	2016 Gross Profit Margin (%)
Proprietary products production and sales				
Shusi	183,863	84.9%	161,868	78.6%
Xi Di Ke	70,029	85.6%	–	–
Zhuo'ao	20,785	63.8%	19,292	52.0%
Songzhi Wan	8,915	72.3%	31,654	88.2%
Others	(3,876)	(13.4%)	(4,808)	(13.8)%
Subtotal	279,716	75.1%	208,006	66.3%
Miacalcic				
Miacalcic Injection	69,348	71.3%	–	–
Brand licensing fee income of Miacalcic Injection	127,709	100.0%	45,827	100.0%
Brand licensing fee income of Miacalcic Nasal Spray	7,462	100.0%	–	–
Subtotal	204,519	88.0%	45,827	100.0%
Total	484,235	80.1%	253,833	70.6%

Gross profit increased by RMB230.4 million to RMB484.2 million in 2017, as compared with RMB253.8 million in 2016. Gross profit margin increased by 9.5 percentage point to 80.1% for the year ended 31 December 2017, as compared with 70.6% for the corresponding period in 2016. The increase in gross profit margin was mainly due to higher average selling price and sales contribution of products with higher gross profit margin, including Xi Di Ke, Shusi, and revenue contribution from Miacalcic.

Reportable Segment Operating Profit

The operating expenses of the Group increased by RMB44.0 million or 30.0% to RMB192.5 million for the year ended 31 December 2017, as compared with RMB148.6 million for the corresponding period in 2016. The Group reported an operating profit of RMB291.7 million for the year ended 31 December 2017, as compared with RMB105.3 million for the corresponding period in 2016. The following table sets forth a breakdown of the Group's operating profit by reportable segment for the year ended 31 December 2017:

	For the year ended 31 December			
	2017 Operating Profit RMB'000	2017 Operating profit margin (%)	2016 Operating Profit RMB'000	2016 Operating profit margin (%)
Proprietary products production and sales	134,615	36.2%	59,917	19.1%
Miacalcic	166,084	71.5%	45,365	99.0%
Total	300,699	49.7%	105,282	29.3%

Finance Costs

The Group's finance costs consist of interest on bank borrowings and bank charges. Finance costs increased by RMB14.2 million or 49.0% to RMB43.2 million for the year ended 31 December 2017, as compared to RMB29.0 million for the year ended 31 December 2016. The increase in finance costs was mainly due to the relatively tense in liquidity market of the PRC, the increase in funding cost and the corresponding finance cost from new loans for the acquisition of Miacalcic Nasal Spray during the year.

Taxation

Income tax expense was RMB15.9 million for the year ended 31 December 2017 as compared to an income tax expense of RMB10.8 million for the year ended 31 December 2016. The increase in income tax expense was mainly due to increase in profit before taxation.

Profit/Core Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company for the year ended 31 December 2017 was RMB165.2 million as compared to a net profit of RMB116.2 million for the year ended 31 December 2016. Core profit attributable to equity holders of the Company for the year ended 31 December 2017 was RMB169.1 million as compared to a core profit of RMB131.9 million for the year ended 31 December 2016, which was mainly attributable to the improvement on our gross profit margin and reduction in operating expenses.

Earnings per Share

The calculation of basic earnings and basic core earnings per share is based on the profit and core profit attributable to the equity holders of the Company divided by the weighted average number of ordinary shares of the Company in issue during the year ended 31 December 2017.

The calculation of diluted earnings and diluted core earnings per share is based on the profit and core profit attributable to the equity holders of the Company divided by the weighted average number of ordinary shares of the Company in issue during the year ended 31 December 2017 (subject to the adjustment on all the potential dilution effect of the ordinary shares).

	For the year ended 31 December	
	2017	2016
Profit attributable to equity shareholders of the Company (RMB'000)	**165,195**	116,181
Plus: equity-settled shares awarded and share option expenses (RMB'000)	**7,638**	2,625
Plus: share of loss of an associate (RMB'000)	**1,077**	31
Plus: net exchange loss (RMB'000)	**1,932**	617
Plus: net loss on disposal of property, plant and equipment, intangible assets and interests in subsidiaries (RMB'000)	**(33)**	12,400
Core profit attributable to equity shareholders of the Company (RMB'000)	**175,809**	131,854
Less: Fair value gain on financial liabilities of convertible preference shares (RMB'000)	**(9,050)**	–
Diluted core profit attributable to equity shareholders of the Company (RMB'000)	**166,759**	131,854
Weighted average number of ordinary shares in issue (basic) ('000)	**1,541,544**	1,548,376
Weighted average number of ordinary shares in issue after the effect of shares issued upon exercise of share options and conversion of convertible preference share (diluted) ('000)	**1,711,656**	1,556,864
Basic earnings per share (RMB cent per share)	**10.72**	7.50
Diluted earnings per share (RMB cent per share)	**9.12**	7.46
Basic core earnings per share (RMB cent per share)	**11.40**	8.51
Diluted core earnings per share (RMB cent per share)	**9.74**	8.46

The core profit attributable to equity shareholders of the Company is the profit attributable to equity shareholders of the Company excluding equity settled share option expenses, share of loss of an associate, net exchange loss and net loss on disposal of property, plant and equipment and intangible assets and interests in subsidiaries.

Capital Expenditure

Total capital expenditure decreased by RMB806.1 million or 77.3% to RMB236.6 million for the year ended 31 December 2017, as compared to RMB1,042.7 million for the year ended 31 December 2016. The capital expenditure was mainly used for acquiring the exclusive intellectual property rights and distribution rights relating to Miacalcic Injectable drug products.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The primary objective of the Group's capital management is to maintain the ability to continue as a going concern so that the Group can continue to provide returns for shareholders of the Company and benefits for other stakeholders by proper product pricing and securing access to financing at a reasonable cost. The Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group closely monitors its debt/assets ratio, which is defined as total borrowings divided by total assets.

Foreign Currency Exposure

The Group is exposed to currency risks primarily through sales made by the Group's Hong Kong and PRC subsidiaries, certain bank deposits and bank loans which are denominated in Hong Kong dollars. The Group recorded a net exchange loss of RMB1.9 million for the year ended 31 December 2017, while the net exchange loss of the Group for the year ended 31 December 2016 was RMB0.6 million. Presently, the Group does not employ any financial instruments for hedging against the foreign exchange exposure.

Interest Rate Exposure

The Group's interest rate risk arises primarily from bank loans, unsecured debenture and bank balances. Borrowings at variable rates expose the Group to cash flow interest rate risk. Presently, the Group does not employ any financial instruments to hedge against the interest rate exposure.

Group Debt and Liquidity

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Total debt	(787,113)	(892,449)
Pledged bank deposits, cash and cash equivalents	212,038	222,624
Net debt	(575,075)	(669,825)

The maturity profile of the Group's borrowings is set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Repayable:		
Within 1 year or on demand	656,055	892,449

The Group's bank borrowings of approximately RMB656.1 million as at 31 December 2017 (2016: RMB703.5 million) were bank borrowing of RMB433.0 million (2016: RMB272.0 million) made from banks in the PRC at fixed interest rates ranging from 4.3% to 6.5% per annum. As at 31 December 2017, the Group's bank borrowing of approximately RMB223.1 million (2016: RMB420.5 million) made from banks in Hong Kong.

In addition, as at 31 December 2017, the Group had no other loans (2016: RMB189.0 million).

Debt-to-Assets Ratio

The Group closely monitors its debt-to-assets ratio to optimize its capital structure so as to ensure solvency and the Group's ability to continue as a going concern.

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Total debt	787,113	892,449
Total assets	2,759,719	2,562,739
Debt-to-assets ratio	28.5%	34.8%

Charges on the Group's Assets

As at 31 December 2017, bank deposits of the Group of RMB65.2 million (31 December 2016: RMB133.0 million) were pledged to the banks to secure certain bank loans and bills payable amounting to a total of RMB115.9 million (31 December 2016: RMB151.0 million). As at 31 December 2017, certain banking facilities of the Group were also secured by the Group's fixed assets which amounted to RMB84.9 million (31 December 2016: RMB244.9 million).

Capital Commitments

The following table sets forth our capital commitments provided for but not settled as at 31 December 2017:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Contracted but not provided for		
– property, plant and equipment	484	474
– investment in an associate	20,000	28,000
– intangible assets: computer software	1,325	2,300
– intangible assets: Miacalcic Spray	–	450,905
	21,809	481,679

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	14,349	14,001
After 1 year but within 5 years	16,852	29,963
Over 5 years	–	313
	31,021	44,277

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

Significant Investments Held

Except for investments in subsidiaries, the Group did not hold any significant investment in equity interest in any other company for the year ended 31 December 2017.

Material Acquisitions

In October 2017, NT Pharma International Company Limited, a company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company ("NT Pharma HK") as the purchaser entered into (i) an asset purchase agreement (the "Asset Purchase Agreement") with Novartis AG and Novartis Pharma AG, companies organised under the laws of Switzerland (collective called "Novartis") pursuant to which Novartis agreed to transfer to NT Pharma HK certain pharmaceutical product in the form of a spray that is approved, marketed, distributed and/or sold by Novartis and its affiliates (the "Miacalcic Spray Transferred Assets"); and (ii) the License Agreement with Novartis, pursuant to which Novartis agrees to grant licenses for the respective assets (the "Licensed Asset") in China and other countries and territories. The purchase price for the Miacalcic Spray Transferred Assets and provision of licenses for the Licensed Assets would be US$34 million (equivalent to approximately RMB225.5 million).

Future Plans for Material Investments and Capital Assets

The Group did not have other plans for material investments and capital assets for the year ended 31 December 2017.

Contingent Liabilities

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

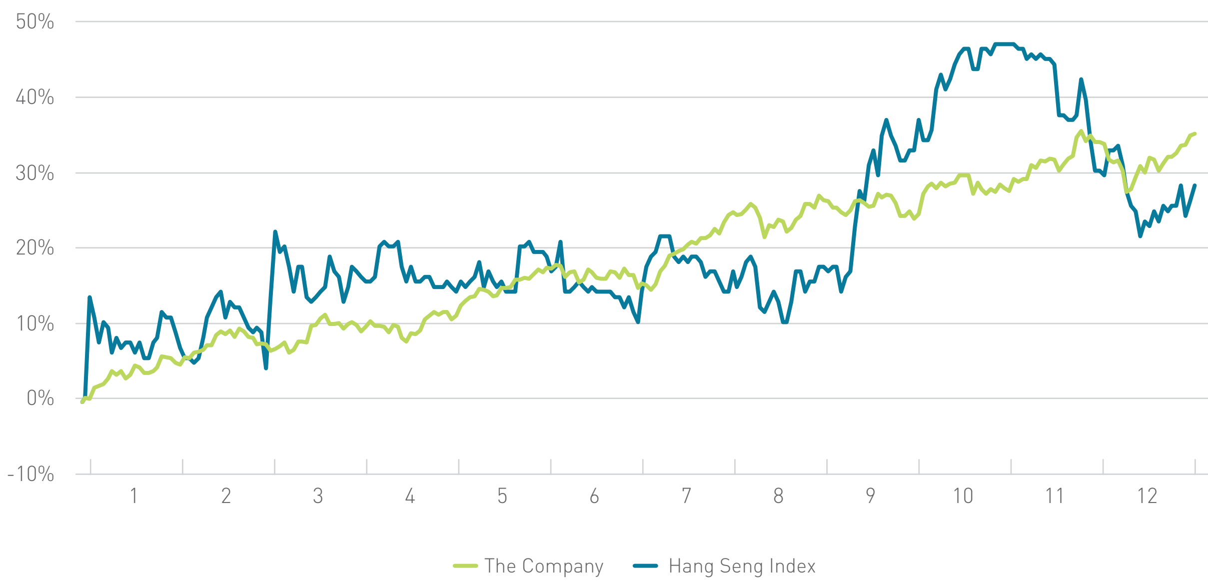
INVESTOR RELATIONS

Since its listing, the Company has gradually formed a scientific and systematic management mechanism for investor relations after plenty of exploration and practice, which serves as a bridge for effective communication between the Company and the capital market. Adhering to the disclosure principles of openness, fairness, transparency and multichannel, the Company discloses its financial and operation information to the capital market timely. It also listens attentively to various suggestions and proposals with regards to the Company's management and operation in a proactive, sincere and humble manner so as to improve the Company's management quality, enhance shareholders' value and maximize their interests.

SHARE PRICE PERFORMANCE

2017	Highest	Lowest	Closing
Price per share of the Company (HK$)	2.19	1.49	1.91

Share Price Performance in 2017 (From 3 January 2017 to 29 December 2017)



As of 29 December 2017, the total number of shares of the Company was 1,558,576,966 with market price of HK$1.91 each. Based on the closing price as of 29 December 2017, the Company's market capitalisation was approximately HK$2,976.88 million.

SHAREHOLDER RETURNS

The Company attaches great importance to the shareholders' views on its dividend policy. The Company determines its dividend policy with reference to the Company's financial status, long-term development needs and potential investment opportunities. The dividend payout ratio for 2017 is about 33.4%.

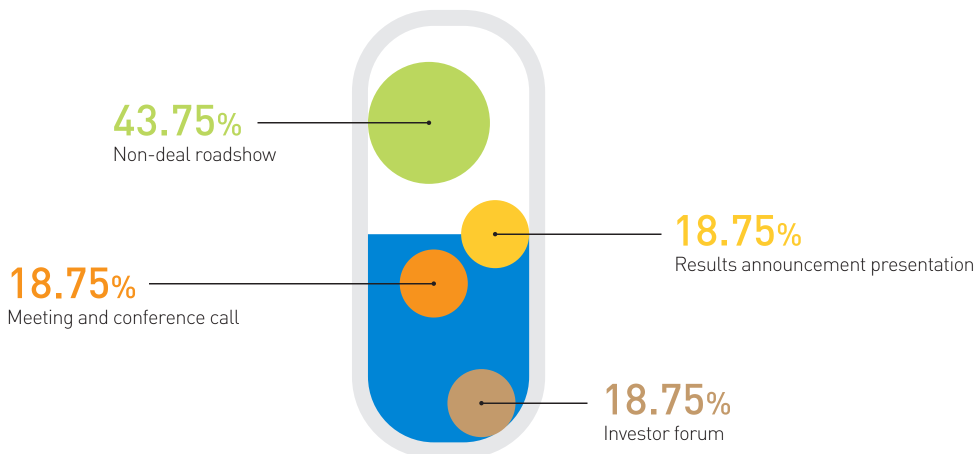
ENHANCING INVESTOR RELATIONS MANAGEMENT SYSTEM

The Company has been committed to establishing a scientific and systematic management system of investor relations. In 2017, the Company delineated and improved its investor relations core practices and further upgraded and completed its investor database, thus standardizing and systematizing the major work on investor relations, including investor meeting scheduling, investor information's collection and classification as well as investor shareholding analysis.

FACILITATING DIVERSIFIED AND MULTI-CHANNELLED INVESTOR ACTIVITIES

The Company communicated its development philosophy and strategies and its latest operation results in the capital market in a timely manner through various investor communication channels, including analyst briefings, non-deal roadshows, one-on-one meetings, investor forums organized by investment banks, telephone conferences, emails, and investors' on-site visits as well as the Company's website. Meanwhile, according to the needs and styles of different analysts and investors, the Company flexibly arranged senior managements with different responsibilities to participate various investor relations activities. Since the listing, the Company's senior managements including Chairman, Chief Executive Officer, and Chief Financial Officer have participated in plenty of investor activities to fully communicate with the capital market, which truly realized multi-channelled communications. In 2017, the Company held interactive communications with over 450 investors or analysts, including analyst presentations and press conferences on its annual and interim results, six non-deal roadshows and three investor forums held by the investment banks, in addition to hundreds of face-to-face meetings and telephone conferences during the normal course of business.

ATTENDANCE ANALYSIS OF INVESTOR RELATIONS ACTIVITIES IN 2017



List of Investor Relations Activities of the Company Conducted in 2017

No.	Date	Locations	Activities
1.	21 March	Hong Kong	2016 Annual Results Investor/Analyst Briefing
2.	23 March	Hong Kong	Nomura Securities Non-deal Roadshow
3.	27 March	Hong Kong	First Shanghai Securities Non-deal Roadshow
4.	27 March	Hong Kong	Guotai Junan Non-deal Roadshow
5.	17-19 May	Xiamen	2017 Shenwan Hongyuan Public Meeting For Listed Companies
6.	5 June	Hong Kong	Annual General Meeting
7.	5 June	Hong Kong	Extraordinary General Meeting
8.	5 July	Hong Kong	Shenwan Hongyuan Pharmaceutical Sector Research Conference
9.	21 August	Hong Kong	2017 Interim Results Investor/Analyst Briefing
10.	25 August	Hong Kong	Pinnacle Investment Management Non-deal Roadshow
11.	25 August	Hong Kong	Broadshine Asset Management Non-deal Roadshow
12.	25 August	Hong Kong	ChinaAMC Non-deal Roadshow
13.	25 August	Hong Kong	Boyu Capital Non-deal Roadshow
14.	18-19 September	Taizhou	NT Biopharmaceuticals Jiangsu Co., Ltd. Field Research
15.	29 September	Hong Kong	Shenwan Hongyuan Overseas Listed Companies Online Meeting
16.	1-2 November	Hong Kong	Jefferies Greater China Annual Conference

ADHERING TO TIMELY, JUST, FAIR AND ACCURATE INFORMATION DISCLOSURE

The Company has strictly complied with the information disclosure requirements for listed companies and made information disclosure in a timely, just, fair and accurate manner so as to enhance the transparency of the Company, established smooth communication channels, and enhanced communications with the capital market. In 2017, the Company published 47 corporate communications, i.e. announcements and circulars, which objectively and comprehensively disclosed the information regarding the Company's results, operating performance, financial information, the change of important executive positions and composition of the Board, poll results of shareholder meetings and some other voluntary disclosures. The Company's website (www.ntpharma.com) is both an important channel for corporate information disclosure and a key platform from which our investors obtain information about the Company.

HEARING INVESTORS COMPREHENSIVELY AND REALIZING INTERACTIVE COMMUNICATIONS

As the Company enhances investor communications and information disclosure, the Company also attaches great importance to its investors' recommendations and opinions. With a proactive, sincere and modest attitude, the Company collected and filed the opinions and recommendations on the Company's operation and management through different channels of investor communications. These initiatives also included the provision of the investor relations electronic mailbox on its website and the telephone line for investors to express their views. The Company actively inquired investors of their recommendations on the Company's operation and management during investor activities and forwarded these opinions and recommendations to the management and supervisors at all levels on a regular and timely basis, hence enabling a two-way interaction with the investors and helping the Company to formulate its development strategies and improve its operation and management.

OTHER NECESSARY INFORMATION FOR SHAREHOLDERS

Shareholder Services

Any matters relating to shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

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

INVESTOR RELATIONS

For enquiries from institutional investors and securities analysts, please contact:

Corporate Finance and Investor Relations Department
China NT Pharma Group Company Limited
Unit 2305-06, 23/F, China Resources Building
26 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2808 1606
Fax: (852) 2508 9459
Email: ir@ntpharma.com

PEOPLE-ORIENTED

NT Pharma always views its outstanding employees as the most precious asset and sets sustainable talent development as a fundamental pillar of the enterprise. Guided by human resources strategy, the Group continually refines its human resources system and provides the employees with pleasant working environment, comprehensive training and development opportunity, safeguards the employees' health and safety and strengthens efficient operation by team building, to unleash the core competitiveness of the Group.

Talent Management

Equality and Diversity

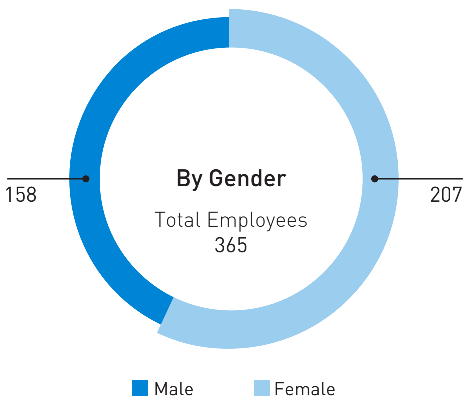
The Group strictly executes the Labor Law of the PRC, the Labor Contract Law of the PRC and other local labor laws and regulations. At the same time, the Group constantly refines its recruitment policy to regulate recruitment activities, including having employees sign the labor contracts according to requirements, and completely eradicating child labor. Work Dismissals are carried out in compliance with related laws and regulations, so as to safeguard the mutual rights and responsibilities between the employees and the Group. The Group upholds its principle of capability first in recruitment, advocates diversified employees and offers them equal job opportunities in the absence of discrimination of ethnicity, race, gender and religious belief. During the period from 1 January 2017 to 31 December 2017 (this "Reporting Period"), there was no confirmed violation of human rights and labor measures which posed a significant impact on the Group.

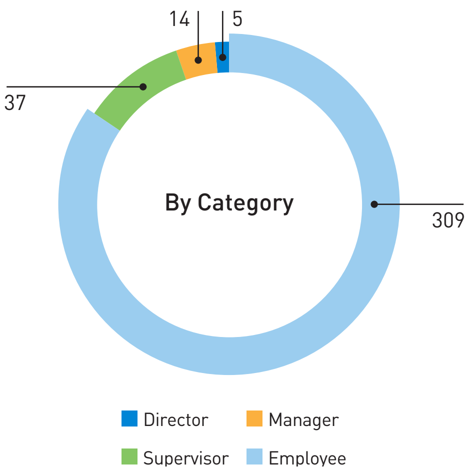
Employees' Welfare

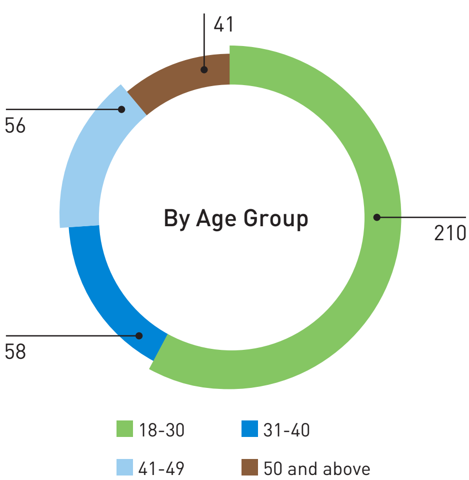
The Group has established a comprehensive remuneration system, the composition of the remuneration includes basic salary, performance salary, company benefit award, performance bonus, project bonus and so on. The intention of the remuneration system is to attract, retain and motivate outstanding employees in preparation for the long-term development of the Group. In addition, the Group's human resources department evaluates employees' performance annually through assessment of key performance indicators (KPI) and adjusts employees' job specifications and facilitates their promotion accordingly. In the meantime, the Group sets up Employees' Manual in accordance with relevant laws and regulations. In particular, the Group regulates employees' working hours and leaves arrangement: leave and attendance system has based employees' working hours on job specifications and has implemented a regular and irregular working hours system eradicates forced labor. Employees are entitled to paid annual leave, marriage leave, maternity leave, paternity leave, nursing leave, bereavement leave, sick leave, casual leave, etc. on top of statutory holidays. Employees are also entitled to an enriched welfare system to enhance the standard of living and the sense of belonging, including baby bonus, festive bonus, high temperature subsidies, etc.

As at 31 December 2017, the total number of employees of the Group was 365 and its distribution is as follows:

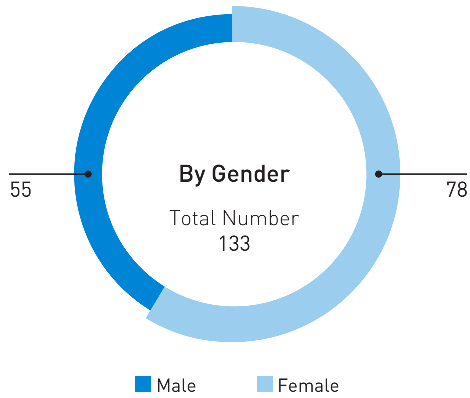
Employment







Employee Turnover



Training and Development

The Group attaches immense importance to employees' training. Through series of training and learning activities it nurtures talents who are of high quality and capability in order to meet the labor demand in a fast-growing business development and maintain its competitiveness. The Group is devoted to providing employees with multi-faceted training activities integrating both internal and external training, while advancing employees' techniques and promoting their career development.

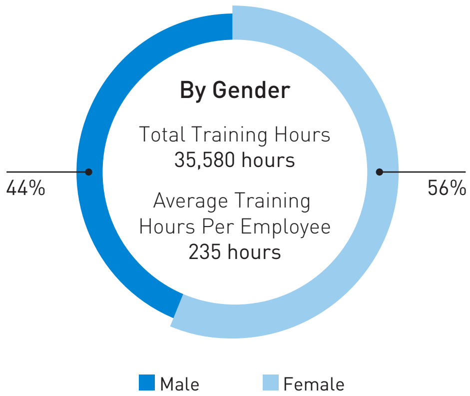
Nurturing Talents

NT Pharma is committed to pharmaceutical innovation and production whilst it pays attention to the growth and development of each employee. In addition, the Group has tailored career development plans for the employees according to their working backgrounds and individual preferences, and designed a H-type development channel combining management and technical route for its employees with an open and sustainable development path.

Product quality is given the highest priority. The Group recognizes product quality assurance is one of the most important duties. Therefore, the Group has raised its standards on building a talent reserve. The Group requires employees, who are engaged in production, processing, packaging, storage and other relevant jobs, to receive a GMP and pharmaceutical-related internal and external training and assessment relating to laws and regulations of pharmaceutical production in order to raise the awareness of the employees about the product's safety, quality and health, promote product safety and ensure product quality.

As at 31 December 2017, details concerning training and development are as follows:

Training and Development



Training Contents

The Group actively discovers internal potentials and trains employees' potential with the right tools to elevate its core competitiveness. The Group adopts diversified training tools and the human resources department offers a series of systematic training activities according to the needs of different departments and job positions. In order to facilitate the adaptation of working environment, new joiners are offered orientation and extended training. To meet special requirements for some professional job positions, training courses and projects focusing on key job positions are formulated, such as special equipment operational training. Managerial training courses are conducted to polish the management and leadership skills for the middle- and upper-managers. Human resources department also sets up a personal training profile for each employee to record the individual training they participated, and the profile serves as the basis for future promotion, dismissal, remuneration adjustment and others.

2017 Training Development Details

Training Content	Suzhou First	Jiangsu Biopharma	Changsha Pharma
GMP Training			
Participant	All Employees	All Employees	5 Employees from Production Department and Product Quality Department
GMP Writing Skill Training			
Participant	All Employees	All Employees	
Safety Training			
Participant	All Employees		2 Employees from Safety Committee
Pharmaceutical Management and Implementation Laws and Regulations; Hygiene, Microbiology related Training			
Participant		All Employees	
Special Equipment Operational Training			
Participant			3 Operating Employees from Production Department and Product Quality Department
Provincial-level Training of Pharmaceutical Registration Regulations			
Participant			Product Quality Manager

Occupational Health and Safety

NT Pharma is dedicated to implementing a health and safety production approach of "Prevention First, Drill Integrated" and strives to foster a safe and healthy working environment for its employees. The Group strictly follows *the Law of the PRC on the Prevention and Control of Occupational Diseases, Provisions on the Supervision and Administration of Occupational Health at Work Sites* and other regional laws and regulations, continuously refines the safety supervision management, strengthens safety training of the professional team, and is committed to providing employees with a safe workplace.

The Group fulfils the requirements of GMP, establishes comprehensive safe production management system and formulates safety responsibility system to reinforce safety management of the enterprise and raises the safety awareness of the employees. Concerning effective prevention, control and elimination of occupational hazards, Suzhou First formulated a series of internal regulations including the Safety Operation Procedure for Occupational Hazard Position, Occupational Hazard Warning and Notification System, Occupational Disease Prevention and Control Responsibility System, Occupational Hazard Emergency Rescue Measures, Supervision and Administration of Occupational Health Care, etc. in order to uphold a principle of "Safety Management Depends on Health". Production plants discharge their responsibilities of safety production to corresponding departments, establish a long-term safety production system and fully implement a safety responsibility system, to minimise and alleviate safety incidents.

The Group is attended to fire safety and contingency management, based on the requirements set out in the *Work Safety Law of the PRC*. The Group constantly enhances the Fire Safety Regulations, positively develops contingency plans and organizes fire drills. Employees learn the use of fire-fighting equipment and develop emergency preparedness in order to protect themselves as well as the Group's property in case of emergency. The Group have established a comprehensive safety contingency system, including regular contingency training in order to strengthen safety emergency management. During this Reporting Period, Suzhou First reported 270 lost work days. The Group continues to improve occupational health and safety while it endeavors to minimize the occurrence of occupational accidents. During this Reporting Period, all production plants have not experienced any significant safety accidents.

Fire Drills of Jiangsu Biopharma in 2017

Caring for Employees


NT Pharma Chinese New Year Gala in 2017

NT Pharma is devoted to creating a healthy and comfortable working and living environment. The Group organizes various kinds of activities for its employees to maintain a work-life balance and pursue a joyful and challenging work-life. The Group's union is closely attached to the Group and every employee and is responsible for enriching the employees' leisure life, nurturing corporate culture, advocating healthy lifestyle and others through organization of various kinds of activities. The Group endeavors to craft a unique corporate culture by raising team building spirit, seizing advantages of different departments and employees, and elevating the Group to a higher level.

During this Reporting Period, Suzhou First organized a Sports Day and Chinese New Year Gala. Changsha Pharma offered a half day off for female workers on Women's Day to allow its female employees to enjoy the festival and to raise the sense of achievements for its employees and create a joyful, open, healthy, friendly, harmonious work-life atmosphere.

GREEN DEVELOPMENT

Pollution Prevention and Mitigation

NT Pharma is committed to mitigating negative environmental impacts of its operation through adopting clean production, and thus build an ecological friendly community. The Group is attentive to the emission and treatment of wastewater, air pollutants and wastes (including non-hazardous waste and hazardous waste) created from its operation. Various kinds of pollutants emissions follow the national and regional standards through online monitoring system, self-testing system and management approaches. Over the past years, the Company's subsidiary, Suzhou First has established and implemented ISO14001 environmental management system to strengthen its environmental management. The new factory Jiangsu Biopharma was also granted a certificate of Good Manufacturing Practices for Pharmaceutical Products on 2 March 2017 by the CFDA. As at 31 December 2017, the Group was licensed for the Pollution Discharge Permit underlying that compliant emissions had been achieved.

Air Emission Control

Suzhou First and Jiangsu Biopharma have installed gas-fired boilers using natural gas as a primary fuel. Natural gas is a type of clean energy, in which its discharged gas during combustion contains less pollutants (such as nitrogen oxides). Suzhou First and Jiangsu Biopharma are in strict compliance with PRC Emission Standard of Air Pollutants for Boilers and ensure that various types of gas emissions are meeting the relevant standards. Changsha Pharma also abides by the emission standards laid down by GMP. For instance, air purifier supplemented with a wind circulation system is installed to ensure that the discharged gases are treated and purified. Suzhou First also has installed a ventilation and deodorization system and has kept a sanitary distance to avoid the spread of odour around the periphery of the production plant.

In the process of pharmaceutical production, in order to minimize dust spread in the vicinity, the dust generated from raw material crushing, screening and tablet compressing is treated with a bag-type dust collector and to be released in compliance with Class 2 standard of the PRC Integrated Emission Standard of Air Pollutants. The Group is devoted to fulfill environmental protection requirements and maintain a satisfactory level of environmental protection through rigid control and prevention measures.

Wastewater Treatment

Wastewater and related pollutants are generated during the production process by the Group. All subsidiary production plants are instructed to categorize and treat its wastewater in accordance with the Class 3 standard of the National Standard of the PRC – Integrated Wastewater Discharge Standard (while ammonia nitrogen reaches the relevant requirements specified in the Administrative Measures for the Licensing of Discharge of Urban sewage into the Drainage Network), before joining the domestic sewage to the municipal pipe networks.

Changsha Pharma has its own wastewater treatment facility within the production plant, targeting on its domestic sewage, medicine cleaning wastewater, equipment cleaning wastewater and wastewater produced in the ethanol recovery process, etc. In the meantime, Suzhou First collects, separates and categorizes its industrial wastewater (penicillin in the industrial wastewater is preparatory treated; wastewater from animal room is separately collected; disinfection facility is individually installed), before discharging or joining the municipal pipe networks.

Waste Disposal

The Group generates non-hazardous wastes and hazardous wastes during its production process. Non-hazardous wastes are primarily medicine herbal residue, packaging materials, small amount of office and domestic waste. The Group considers, in the first place, comprehensive utilization and recycling of the non-hazardous wastes over treating and disposal of the wastes; the remaining wastes are handed over to a qualified organization. For instance, major wastes generated from Changsha Pharma are biological sludge and medicine herbal residue, which are free from toxin and high with calorific value, as well as excellent materials to form organic compound fertilizer.

As far as hazardous wastes (sludge from wastewater plant, waste drugs, waste organic solvents, etc.) are concerned, all production plants are in stringent compliance with the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes, Directory of National Hazardous Wastes, etc., and other laws and regulations in classification, storage and management of the wastes. Wastes are also handed to qualified organizations for disposal at a regular interval.

Resources and Energy Saving

The Group endeavors to achieve sustainable development, upholds its green production philosophy of "Clean Production, Energy Saving", and adheres to the Environmental Protection Law of the PRC, the Energy Conservation Law of the PRC and other laws and regulations. The Group is committed to energy saving and emission minimization, and reducing consumption while boosting efficiency throughout the whole production process, to attain the co-development between production, operation and environmental protection.

The Group insists on efficient operation, minimizes its consumption of resources (electricity, water, raw materials, packaging materials, etc.) whenever it is possible in support of the application and promotion of clean energy, supplemented with elevating resources utilization rate, in order to achieve harmonious development between the Group and the nature. The Group acts in strict accordance with GMP standards regarding production and operating management. It utilises energy-saving equipment and enhances efficiency of production technologies and raise productivity through continual upgrade of the production equipment. In the course of wastewater generated from cleaning process, wastewater are disinfected and tested then reused by the factory attaining circular economy. At the same time, the Group prevents the chemicals from leaking, spilling, seeping and dripping during the storage and production process in avoidance of resources wastage.

The Group's water is mostly consumed during the production process. To enhance water-saving, Suzhou First installed water cooling tower to boost the circulation, cooling and reuse of the water. Other subsidiaries are also proactively engaged in bearing environmental responsibility with adoption of various means to energy-saving and emissions minimization. Packaging materials are a medium to ensure products are safely delivered to the hands of customers. Therefore, in the selection of packaging materials, in addition to the consideration of economic, product safety, quality and other factors, the Group actively takes into account the reuse and recovery capacity of the packaging materials.

With the adoption of the above environmentally friendly measures, during this Reporting Period, the water and electricity consumption from the subsidiaries of the Company[1] had a significant reduction, in water and electricity consumption by 35% and 3.9%[2] respectively.

Environmental Protection

The Group pays close attention to noise control and related employee's occupational protection in accordance with noise control related standards, monitors and controls the impacts of industrial noise to employees' health and surrounding community. Noise pollution generated from the production factories primarily come from boiler, air compressors, vacuum machines, crushing machines, water pumps and other equipment. In terms of factory configuration, the Group strictly adheres to GMP requirements and selects a factory layout designed with significant noise insulation and damping effect. The Group also strives to mitigate noise hazards through advancing the equipment and technologies, using physical isolation, occupational protection, green shielding, etc., and abides by the *PRC Emission Standard for Industrial Enterprises Noise at Boundary*. For instance, Changsha Pharma mitigates the noise nuisance from the boiler room by installing soundproof doors and windows and ventilation silencers. During this Reporting Period, all production bases of the Group achieved 100% in compliance with the noise control standards. No complaint of noise pollution was received.

As a pharmaceutical manufacturing enterprise, the Group has strived its utmost to mitigate the negative impacts brought to the natural environment and insisted on regulating emissions of pollutants. In the view of resources and energy saving, the Group will continuously improve its production equipment and techniques, refines the product structure, and promotes environmental work as to contribute to the protection of the natural environment and resources.

NT PHARMA ENVIRONMENTAL PERFORMANCE DATA IN 2017

In accordance with the Hong Kong Exchanges and Clearing Limited's ("HKEX") ESG Reporting Guide, the Group has prepared the environmental performance data of Suzhou First, Changsha Pharma and Jiangsu Biopharma in line with the materiality principle. The scope is included but not limited to the production processes, facilities and vehicles the Group has operational rights with.

Environmental Performance	Unit	Quantity	Intensity (Unit/ Sales Volume[3])
Resources Consumption			
Purchased Electricity	MWh	10,265	35 MWh/million
Water	m^3	274,152	937 m^3/million
Steam	metric tons	486	1.66 metric tons/million
Natural Gas	m^3	1,028,471	3,516 m^3/million
Packaging Material Consumption			
Instruction Sheet	'000 sheets	12,166	41,591 sheets/million
Label	'000 sheets	44,056	150,614 sheets/million
Small Box	'000 boxes	11,594	39,637 boxes/million
Large Box	'000 boxes	83	282 boxes/million
Ampoule (20ml)	'000 pieces	49	166 pieces/million
Ampoule (100ml)	'000 pieces	209	714 pieces/million
Penicillin Bottle	'000 pieces	42,422	145,028 pieces/million
Rubber Stopper	'000 pieces	39,347	134,516 pieces/million
Aluminum-plastic Cap	'000 pieces	38,468	131,509 pieces/million
Polyvinyl Chloride (PVC)	metric tons	3.78	0.013 metric tons/million
Hazardous Waste			
Sludge from Wastewater Treatment	metric tons	10	0.034 metric tons/million
Waste Drug	metric tons	22.5	0.077 metric tons/million
Waste Organic Solvent	metric tons	2	0.0068 metric tons/million
Non-hazardous Waste			
Medicine Herbal Residue	metric tons	21.6	0.074 metric tons/million
Packaging Waste	metric tons	0.81	0.0028 metric tons/million
Wastewater Discharged and its Parameters			
Industrial Wastewater	metric tons	178,274	609 metric tons/million
Chemical Oxygen Demand (COD)	kg	16,129	55 kg/million
Ammonia Nitrogen[4]	kg	3,022	10 kg/million
Air Pollutant Emissions[5]			
Nitrogen Oxides (NO_x)	metric tons	2.39	0.0082 metric tons/million
Sulphur Dioxide (SO_2)	metric tons	0.41	0.0014 metric tons/million
Greenhouse Gas (GHG) Emissions			
Scope I：Direct Emissions[6]			
Boilers and Vehicles	metric tons CO_2 equivalent	985	3.37 metric tons/million
Scope II：Indirect Emissions[7]			
Purchased Electricity	metric tons CO_2 equivalent	7,134	24 metric tons/million

1 Since the consumption of resources of the Company was comparatively insignificant, its consumption of resources was not included in the calculation.

2 Jiangsu Biopharma began production in 2017 leading to the absence of 2016 data as base year for comparison. Therefore, this calculation is only included Suzhou First and Changsha Pharma.

3 The calculation of this sales volume included Suzhou First, Changsha Pharma and Jiangsu Biopharma and settled in Renminbi (RMB).

4 Changsha Pharma was not involved in ammonia nitrogen emissions. Thus, this calculation has only included Suzhou First and Changsha Pharma.

5 This calculation of air pollutant emissions and respective emission factors were set out based on the Technical Guide for Air Pollutant Emission Inventory for Road Vehicles (Trial) and the 4430 Thermal Production and Supply Industries (including Industrial Boilers) published by Ministry of Environmental Protection of the PRC.

6 This calculation of GHG Scope I emissions and respective emission factors were based on the Guidelines for Accounting and Reporting of Greenhouse Gas Emissions from Land-based Transportation Enterprises (Trial) and the Guidelines for Accounting Methods and Reporting of Greenhouse Gas Emissions in Enterprises in Other Industries (Trial) published by Ministry of Environmental Protection of the PRC.

7 This calculation of GHG Scope II emissions and respective emission factors were set out based on the 2011 and 2012 PRC's Regional Grid Average Carbon Dioxide Emission Factor published by National Development and Reform Commission of PRC.

PRODUCT RESPONSIBILITY

Quality Management

NT Pharma pays close attention to improving and ensuring its product quality. Whilst it focuses on pharmaceutical R&D and production, the Group strives to excel in product quality, raise the standards of the pharmaceutical industry and lead the industry towards a safe and healthy development. The Group strengthens its safety management and safeguards medication safety, and adheres to Pharmaceutical Administration Law of the PRC, Regulations for the Implementation of the Drug Administration Law of the PRC, Measures for the Reporting and Monitoring of Adverse Drug Reactions and other laws and regulations. The Group sets up NT Pharma Drug Safety Management System to regulate drug safety management and management policies regarding raw materials, packaging materials and finished products, to control the Group's production and quality management.

Suzhou First prompts the latest GMP quality system, through quality risk management, correction and prevention measures, quality tracing and other forms to strengthen its product quality management, ensures a steady and proper production of medicine which are for intended use, meeting registration approval and quality standards during the whole production process.

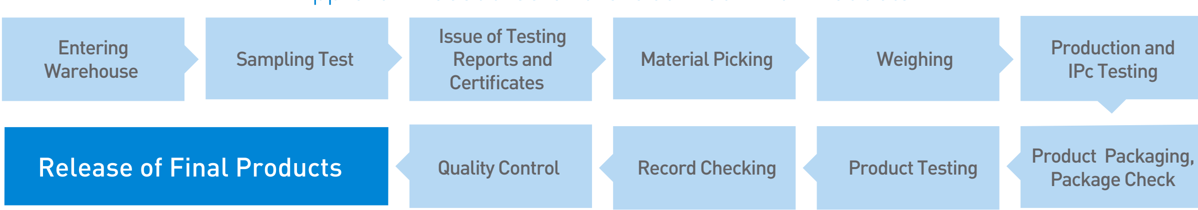
Sales Compliance

The Group is awarded 121 product registration certificates issued by the CFDA and over 20 of the products are being sold and produced concurrently. In order to enhance the transparency of medication disclosure and safeguard medication safety, the Group is in compliance with the Provisions on the Administration of Pharmaceutical Directions and Labels to scientifically prepare instructions, labels and advertisements of the products. The Group prohibits to convey false or misleading message on the products, as well as is obliged to provide proper instructions for patients to take medicine. In addition, NT Pharma recognizes the importance of its trademark and property right of the medicines and regards them as precious assets. The Group complies with the Patent Law of the PRC and related laws and regulations and commences a regulated intellectual property right management system, and apply zero tolerance on any infringement acts. To Further safeguard product's trademark and property rights, the Group takes concrete actions to protect existing trademark such as "Xi Di Ke", and aided with a reporting channel to allow employees to report any suspected breach of the code.

Privacy Protection

To further reinforce the privacy management in protection of the enterprise's property and clients' safety and interests, the Group stipulates a series of stringent and regulated policies for protecting personal information, the Group's properties and classified information (including privacy of the employees and clients); prohibits any abuse of personal information and illegal profiteering acts. In view of the above, the Group restricts only authorized personnel to get access to the customers' and employees' information system.

Approval Procedures of the Qualified Final Products



OPERATIONAL OPTIMIZATION

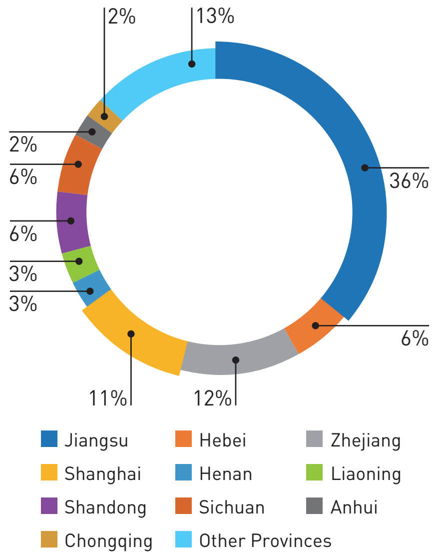
Supply Chain Management

NT Pharma pays attention to the management of supply chain because the selection of suppliers directly impacts the quality and safety of the products. The Group has formulated supply chain management regulations according to the new version of GMP to regulate the supply chain management; conduct regular or irregular assessment towards suppliers; and request for maintaining product's quality from the suppliers, with aim of upholding suppliers' product quality as well as urging to a higher level of supply chain management.

To curate a safe, reliable and trustworthy partnership with the suppliers, the Company and its subsidiaries file an individual profile for each supplier upon the submission of the preliminary report from the suppliers. The profile encloses the audit report, deviation analysis, data change and other relevant information from the suppliers with the aim of bettering control over supplier's quality. As far as the information of suppliers is concerned, the Group explicitly specify the detailed terms concerning the protection of product quality, in the aspects of striving to scientifically evaluate suppliers from aspects of compliance with the law, environmental protection, labor rights protection, integrity management and so on.

The Group is particularly strict and careful in terms of choosing raw material suppliers. The Group has specific filing documents and management procedure for processing the initial visiting report, site review report, list of information provided by suppliers, daily survey of suppliers, qualification audit, statistics of quality deviation, supplier data change record and so on. Quality Audit Department conducts a monthly deviation statistics of product quality provided by suppliers, analyzes the statistic results half-yearly and the results are used for the basis of supplier quality evaluation. The Group regards suppliers as important strategic partners, through communication and feedback system with the suppliers, to establish a mutually beneficial mechanism and to promote a desirable development of the pharmaceutical industry.

The Regional Distribution of Major Suppliers the Group



Service Excellence

Medical quality, medication safety and service excellence are serving as the foundation of the Group's reputation. The Group highly concerns about medication safety and tries its best to systematize the reporting and supervision system on adverse drug reaction. The subsidiaries and the R&D Center of the Company are equipped with specialized department, which is responsible for the safety inspection and quarantine, analysis and reporting throughout the whole product's whole life cycle to ensure the medication safety. The Group is in compliance with the *Measures for the Reporting and Monitoring of Adverse Drug Reactions* set out by the National Center for Adverse Drug Reaction Monitoring of the PRC and other relevant laws and regulations, regulates the Group to deal with the situations in event of untoward effect of its own products and exclusively distributed products. In addition, Drug Recall Mechanism is formulated and the establishment of a service hotline (4008208295*821) and reporting email (safety@ntpharma.com) to aggregate reports in case of adverse reaction on drugs. This recall mechanism timely and effectively ensures that suspected products with potential quality problems are halted in the market as to minimize the impacts caused to the patients. During this Reporting Period, the Group had received no drug recall incident.

ANTI-CORRUPTION

The Group is committed to conforming to honest, compliant and lawful business practices, follows the *Criminal Law of the PRC, Interim Provisions on Prohibiting Commercial Bribery of the PRC, Prevention of Bribery Ordinance* of Hong Kong Special Administrative Region and other laws and regulations, restricts the board of directors, departmental managers, employees and distributors to comply with an integral and ethical business standard, conforms to an ethical business practice and complies with the laws and regulations with the aim of maintaining the integrity reputation of the Group. The Group conducts compliance policy training for all its employees by means of e-learning, compliance policy quiz and face-to-face teaching to further enhance the awareness of compliance requirements. During the tendering process, the Group insists on fair and open procurement; promotes tendering process to be regulatory, transparent and digitalized; prohibits corruptive acts by multiple means. At the same time, the Group sets up a comprehensive supervision system including a whistle-blowing hotline and a mailbox to receive reports for avoidance of bribery, blackmailing, fraud and money laundering acts.

CARING FOR COMMUNITY

The Group actively undertakes the social responsibility as a responsible corporate citizen, has been adhering the principle of "Taken From the Society, Giving Back To the Society" and has kept making contributions benefiting the community in the form of active participation of the charitable activities. Upholding the core values of "Responsibility, Integrity, Innovation, Win-win", the Group views the values as the root to healthy development. The Group advocates employees to launch charity bazaar and make donations during the internal meetings of business department or board of directors' meeting. During this Reporting Period, the Group has been involved in charitable events such as visits to the students in poverty. The Group is exploring other possible contributions to the society and attaining the goal of healthy co-development with the community.

HKEX'S ESG REPORTING GUIDE INDEX

General Disclosure and KPI	Description	Relevant Page
Environmental		
Aspect A1：Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	35
KPI A1.1	The types of emissions and respective emissions data.	38
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	38
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	38
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	38
KPI A1.5	Description of measures to mitigate emissions and results achieved.	35
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	36
Aspect A2：Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	36
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	38
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	38
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	36

General Disclosure and KPI	Description	Relevant Page
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	37
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	38
Aspect A3：The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	37
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	37
	Social	
	Employment and Labour Practices	
Aspect B1：Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	30
Aspect B2：Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	33
Aspect B3：Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	31

General Disclosure	Description	Relevant Page
Aspect B4：Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	30
	Operating Practices	
Aspect B5：Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	40
Aspect B6：Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	39
Aspect B7：Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	41
	Community	
Aspect B8：Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	41

EXECUTIVE DIRECTORS

Mr. Ng Tit（吳鐵先生）, aged 54, co-founder of the Group, has been the Chairman of the Board of Directors and Chief Executive Officer of the Group since 1995. Mr. Ng was appointed as the Company's Executive Director on 1 March 2010, responsible for the overall strategic planning and management of the Group. He has extensive experience in the pharmaceutical industry, having been engaged in the pharmaceutical business for over 20 years. Prior to establishing the Group in 1995, Mr. Ng worked for a number of relevant organisations and enterprises. Mr. Ng is a member of Jiangsu Committee of the Chinese People's Political Consultative Conference ("CPPCC") of the PRC, deputy director of Jiangsu Committee of Hong Kong, Macao, Taiwan and Overseas (Foreign Affairs) of CPPCC, vice president of Overseas Friendship Association of Jiangsu Province, vice president of Federation of HK Jiangsu Community Organisations and Chairman of China Nation Culture Spread Ltd.*（中華民族文化傳播有限公司）. Mr. Ng obtained his bachelor degree from Guizhou University in 1986, and an Executive Master of Business Administration ("EMBA") from Fudan University（復旦大學）in 2007. He is the spouse of Ms. Chin Yu, who is an executive Director, and the brother-in-law of Dr. Qian Wei, who is a non-executive Director.

Ms. Chin Yu（錢余女士）, aged 54, co-founder of the Group. Ms. Chin has been re-designated from non-executive Director to executive Director of the Group since 1 February 2015. Ms. Chin is responsible for the daily operations of NT Pharma (Hong Kong) Co., Ltd. Ms. Chin was appointed as non-executive Director on 1 March 2010. Prior to the establishment of the Group, Ms. Chin was an accounting professional. Ms. Chin worked in Bank of Communications from 1987 to 1993. Ms. Chin is the spouse of Mr. Ng Tit, the Chairman of the Board of Directors and Chief Executive Officer, and the sister of Dr. Qian Wei, a non-executive Director.

Mr. Wu Weizhong（吳為忠先生）, aged 48, was appointed as an executive Director of the Group on 20 March 2015. Mr. Wu is also the Senior Vice President of the Group, General Manager of manufacturing and supply chain centre, Chairman of Suzhou First Pharmaceutical Co., Ltd and Chairman of NT Pharma (Changsha) Co., Ltd, having overall responsibilities for organization of its own brand product production, operational management and supply chain management. Mr. Wu has over 20 years of experience in pharmaceutical manufacturing. Prior to joining the Group, Mr. Wu worked at various positions including engineer, assistant manager and deputy factory manager of Suzhou No. 4 Pharmaceutical Factory and was the factory manager of Suzhou First. Mr. Wu obtained a bachelor's degree in Chemical Engineering from Dalian University of Technology in 1992. He also obtained an EMBA from Fudan University in 2004.

NON-EXECUTIVE DIRECTOR

Dr. Qian Wei（錢唯博士）, aged 61, was appointed as a non-executive Director of the Group on 1 March 2010. Dr. Qian is currently a tenured full professor of Biomedical Engineering, University of Texas, and a fellow of American Institute for Medical and Biological Engineering. He also enrolled the Chinese 1000 Plan as an innovation expert. He is Dean of the Sino-Dutch Biomedical and Information Engineering School of Northeastern University. Dr. Qian was appointed as Allen Henry Endowed Chair Distinguished Professor of Electrical Engineering in the Engineering College at Florida Institute of Technology in 2009. He had previously been an associate professor of Department of Interdisciplinary Oncology at Moffitt Cancer Center, College of Medicine, University of South Florida from 2001 to 2007. Dr. Qian has been given the Stars Award of system research by University of Texas, US in 2008, Award for Outstanding Research Achievements by American Cancer Society in 2000. Dr. Qian received Martrin Silberg Cancer Research Award for outstanding achievements for two consecutive years in 1994 and 1995. He obtained his doctorate of Biomedical Engineering at Southeast University in 1990. He was a Postdoctoral Research Associate of University of Notre Dame in 1992, of University of South Florida in 1994. Dr. Qian is the brother of Ms. Chin Yu, an executive Director and the brother-in-law of Mr. Ng Tit, the Chairman and Chief Executive Officer of the Group.

Ms. Lou Jianying（**婁健穎女士**）, aged 54, is a postgraduate and was appointed as a non-executive Director of the Group on 31 July 2017. From January 1998 to January 2004, she served as the deputy general manager of Hualian Group Asset Trust Co., Ltd.*（華聯集團資產託管有限公司）. From January 2004 to May 2011, she served as the deputy general manager, the chief financial officer, and the secretary of the board of directors of Shanghai No.1 Pharmacy Co., Ltd.*（上海第一醫藥股份有限公司）, a company listed on the Shanghai Stock Exchange (stock code: 600833). From May 2011 to May 2015, Ms. Lou served as the vice president and the secretary of the board of directors of Shanghai Jiao Da Onlly Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600530). From May 2015 to present, Ms. Lou serves as the vice president and the chief financial officer of Shanghai Jiao Da Onlly Co., Ltd. Ms. Lou has been a certified public accountant and a senior accountant in the PRC.

Mr. Ge Jianqiu has resigned from his position as a non-executive Director of the Company with effect from 31 July 2017 at the same time due to his resignation from his positions as the director and the executive vice president of Shanghai Jiao Da Onlly Co., Ltd. His duties as the non-executive Director of the Company were assumed by Ms. Lou Jianying. Mr. Ge has confirmed that he has no disagreement with the Board and has no claims against the Company whatsoever whether in respect of remuneration, payments, Directors' fees or compensation for loss of office, and finally confirmed that he will not disclose any information obtained during his term of office as a Director of the Company to the third party.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Patrick Sun（**辛定華先生**）, aged 59, was initially appointed as an independent non-executive Director on 1 March 2010 for a term of one year and subsequently re-appointed on 7 March 2011 after expiry of his term of office. He is currently an independent non-executive director of Trinity Limited (stock code: 891), Sihuan Pharmaceutical Holdings Group Ltd. (stock code: 460), China Railway Signal & Communication Corporation Limited (stock code: 3969) and Kunlun Energy Company Limited (stock code: 135), all of which are listed in Hong Kong. He is also an independent non-executive director of CRRC Corporation Limited (HKSE stock code: 1766; SSE stock code: 601766) and China Railway Construction Corporation Limited (HKSE stock code: 1186; SSE stock code: 601186), both of which are listed on the stock exchanges of Hong Kong and Shanghai. He is a vice-chairman of The Chamber of Hong Kong Listed Companies and was its chairman (2013 – 2015) and Honorary Chief Executive Officer.

Mr. Sun was an independent non-executive director and non-executive chairman of Solomon Systech (International) Limited, a non-executive director of Renhe Commercial Holdings Company Limited, an executive director of Value Convergence Holdings Limited and SW Kingsway Capital Holdings Limited (all of which are listed companies in Hong Kong), and an independent non-executive director of China Railway Group Limited (listed on the stock exchanges of Hong Kong and Shanghai), China CNR Corporation Limited (which was delisted in May 2015 due to merger with CRRC Corporation Limited) and The Link Management Limited (the manager of The Link Real Estate Investment Trust which is also listed in Hong Kong), the Senior Country Officer and Head of Investment Banking for Hong Kong of JP Morgan Chase, group executive director and Head of Investment Banking for Greater China at Jardine Fleming Holdings Limited. He was a member of the Takeovers & Mergers Panel and the Takeovers Appeal Committee, Deputy Convenor of the Listing Committee of the Stock Exchange and a council member of the Stock Exchange.

Mr. Sun graduated from the Wharton School of the University of Pennsylvania, the United States, with a Bachelor of Science degree in Economics in 1981. Mr. Sun also completed the Stanford Executive Program of Stanford Business School, the United States, in 2000. Mr. Sun is a fellow of the Association of Chartered Certified Accountants, the United Kingdom, and a fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. Yu Tze Shan Hailson (余梓山先生), aged 61, graduated from the University of Calgary with a bachelor degree in Electrical Engineering in 1979, graduated from the University of Hong Kong with a master degree in Electrical Engineering in 1987, graduated from City University of Hong Kong with a master degree of law in Arbitration and Dispute Resolution in 1995 and completed the postgraduate diploma in Investment Management and post-graduate certificates in Hong Kong Laws and Traditional Chinese Medicine courses.

Mr. Yu served as equipment maintenance and testing engineer, equipment maintenance and testing laboratory manager, computer engineering and system engineering manager of Ampex Ferrotec Limited (Hong Kong) successively from June 1979 to September 1987. Mr. Yu joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited and served as general manager of engineering research and development department and consultant of Petroleum Development and LPG Tank Terminal Port successively from October 1987 to January 1998. He has been serving as deputy managing director of Versitech Limited and deputy director of Technology Transfer Office of the University of Hong Kong since February 1998 till now.

Mr. Yu has been serving as an independent non-executive director of China Traditional Chinese Medicine Holdings Co. Limited (formerly known as Winteam Pharmaceutical Group Limited), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 570), since November 2013 till now, and has been serving as an independent non-executive director of Sinopharm Group Co. Ltd., a company listed on the Stock Exchange (stock code: 1099), since September 2014 till now.

Mr. Yu currently is a Charted Engineer, fellow of each of the Institute of Electrical Engineers, Hong Kong Institution of Engineers, the Chartered Institute of Arbitrators and Hong Kong Institute of Arbitrators.

Mr. Yue Nien Martin Tang resigned from his position as an independent non-executive Director of the Company with effect from 29 June 2017 due to health reasons. His duties as the independent non-executive Director of the Company were assumed by Mr. Yu Tze Shan Hailson. Mr. Tang has confirmed that he has no disagreement with the Board and has no claims against the Company whatsoever whether in respect of remuneration, payments, Directors' fees or compensation for loss of office, and finally confirmed that he will not disclose any information obtained during his term of office as a Director of the Company to the third party.

Dr. Lap-Chee Tsui（徐立之博士）, aged 67, was appointed as an Independent non-executive Director on 1 April 2010 and was subsequently re-appointed on 1 April 2011. Dr. Tsui has been an independent non-executive Director of Hang Lung Group (stock code: 00010), a company listed on the Stock Exchange, since November 2014, a director of IDS Medical Holdings Limited since December 2014, an independent non-executive director of Purapharm Corporation Limited (stock code: 1498), a company listed on the Stock Exchange, since July 2015 and president of The Academy of Sciences of Hong Kong since December 2015. He served as the fourteenth Vice-Chancellor of the University of Hong Kong from 2002 to 2014. Prior to the abovementioned appointment in 2002, Dr. Tsui was a member of the Research Institute at The Hospital for Sick Children in Toronto, Canada since 1981, rising to Geneticist-in-Chief of the Hospital in 1996 and Head of the Genetics and Genomic Biology Program in 1998. He also held academic appointments at the University of Toronto since 1983, was awarded the title of University Professor in 1994 and has held an Emeritus status since 2006. He was also the President of the Human Genome Organization from 2000 to 2002. Dr. Tsui has received numerous awards for his work, including the Royal Society of Canada Centennial Award in 1989, Gairdner International Award in 1990, Cresson Medal of Franklin Institute in 1992, XII Sanremo International Award for Genetic Research in 1993, the Distinguished Scientist Award from the Medical Research Council, Canada in 2000, Killam Prize of Canada Council in 2002 and the European Cystic Fibrosis Society Award in 2009. He was elected as Fellow of the Royal Society of Canada in 1990, Fellow of the Royal Society of London in 1991, Member of Academia Sinica in 1992, Foreign Associate of the National Academy of Sciences of the US in 2004, and Foreign Member of the Chinese Academy of Sciences in 2009. Dr. Tsui obtained a bachelor's and master's degree in biology from The Chinese University of Hong Kong in 1972 and 1974 respectively. He also obtained a doctorate degree in biological sciences from the University of Pittsburgh in 1979.

SENIOR MANAGEMENT

Mr. Wang Fei（王飛先生）, Chief Financial Officer

Mr. Wang, aged 41, will join the Company as the Chief Financial Officer with effect from 6 April 2018 and is responsible for the Group's strategic planning, corporate finance activities, overseeing of financial reporting and investor relations matters. Mr. Wang is a Chinese certified public accountant, and has accumulated nearly 20 years of extensive experience in audit, accounting and financial management. Before joining the Company, Mr. Wang worked in AstraZeneca, an international pharmaceutical company, as the chief financial officer of China operation. He was also an independent director of Xinjiang Tianye Co., a company whose A shares were listed on the Shanghai Stock Exchange from March 2013 to October 2016 and a director of Yanchuang Applied Materials (Ganzhou) Inc. Ltd, a company listed on National Equities Exchange and Quotations from October 2016 to November 2017. Mr. Wang graduated from Xinjiang University of Finance and Economics majoring in corporate finance management in 1999 and obtained from Shanghai Jiao Tong University and Euromed Marseille Ecole de Management a master degree majoring in business administration in 2012.

Mr. Tong Ka Kin Kenneth（唐嘉健先生）, Company Secretary

Mr. Tong, aged 32, will join the Company as the Company Secretary with effect from 6 April 2018 and is responsible for company secretarial duties of the Group. Mr. Tong is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators since 2016. He has accumulated more than 10 years of experience in audit, accounting and financial management. Before joining the Company, Mr. Tong had worked for various international well-known accounting firms from 2007 to 2016. Mr. Tong graduated from The City University of Hong Kong with a bachelor degree in business administration in 2007, and obtained a master degree in corporate governance from the Hong Kong Polytechnic University in 2015.

Mr. Chiu Yu Kang (邱于賡先生), Senior Adviser
Mr. Chiu, aged 40, joined the Group in April 2015 to serve as the Group's Chief Financial Officer and Company Secretary and will be re-designated as a senior adviser of the Company regarding merger and acquisition issues, to provide advice for acquisitions of the Group on 6 April 2018. He is responsible for the overall financial management and control, accounting, auditing, corporate financing, investor relations and listing rules compliance of the Group. Mr. Chiu has over 15 years of experience in corporate financing, investor relations, auditing, accounting and financial management. Prior to joining the Group, Mr. Chiu was vice president, chief financial officer and company secretary of a company listed on the Main Board of the Stock Exchange. Mr. Chiu obtained a bachelor degree in Business Administration and a master degree in Economics from The University of Hong Kong in 2001 and 2002 respectively. He is a member of the Association of Chartered Certified Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. Du Xinghui (杜興暉先生), Vice President of the Group and General Manager of the Marketing and Sales Centre
Mr. Du, aged 49, joined the Group in April 2017 to serve as Vice President of the Group and General Manager of the Marketing and Sales Centre. He is responsible for the marketing, sales and brand building of the Company's products (apart from generic drug) in the PRC. Prior to joining the Group, he served as general manager of 夏爾醫藥公司 (Shire Pharmaceutical Company) based in China region. He was the president of the Cancer and Blood Division of 諾華(中國) (Novartis), director of the Cancer Division and director of Cardiovascular and Metabolic Division of 百時美施貴寶公司 (Bristol-Myers Squibb) and regional manager of 禮來公司 (Eli Lilly and Company). Mr. Du obtained a bachelor degree of Preventive Medicine from Beijing Medical University in 1993 and Executive Master of Business Administration degree from China Europe International Business School in 2009.

Mr. Zhuang Yingjian (莊穎健先生), Vice President of the Group and Operation General Manager of the Marketing and Sales Centre
Mr. Zhuang, aged 42, joined the Group in September 2015 to serve as Vice President and Operation General Manager of the Marketing and Sales Centre. He is responsible for the sales and marketing of the Group's generic drug products, assisting the chief executive officer in developing strategic development plans for corporate business and management of the Marketing and Sales Centre, Commerce Department, Operation Department and the Group's Business Development Department. Mr. Zhuang has over 18 years of experience in the pharmacy industry. Prior to joining the Group, he served as a pharmaceutical representative and a manager of a commercial region of Shanghai Johnson & Johnson Pharmaceuticals Limited, a national project director, general manager of the Marketing and Development Department and the Business Development Department of Sinopharm Group Co. Ltd. Mr. Zhuang obtained a bachelor degree in Traditional Chinese Medicine from the Nanjing University of Chinese Medicine in 1998.

Mr. Ge Baoming (葛寶銘先生), Vice President of the Group and General Manager of R&D and Medical Affairs Centre
Mr. Ge, aged 52, joined the Group in March 2013 to serve as the vice President and General Manager of R&D and Medical Affairs Centre. He is responsible for product R&D, clinical medical support, registration and regulatory affairs, managing adverse event of pharmaceuticals and intellectual property management and management of R&D and Medical Affairs Centre. Mr. Ge has over 20 years of experience in product introduction, registration, R&D and clinical medical affairs. Prior to joining the Group, Mr. Ge served as a director of research and development and medical affairs at various well-known pharmaceutical companies, including Rottapharm, Luye Pharma Group Limited and Shanghai Green Valley Pharmaceutical Co., Ltd. Mr. Ge obtained his bachelor degree of Clinical Medicine from Beijing Medical University in 1990. He also obtained a master degree in Clinical Medicine from The University of Western Ontario in 2003.

Ms. Shu Chao（舒超女士）, Vice President of the Group and Director of the Human Resources Department

Ms. Shu, aged 36, joined the Group in October 2015 to serve as Vice President of the Group and Director of the Human Resources Department. She is responsible for the Group's human resources system and performance evaluation system, establishment and promotion of corporate culture, administrative system and operational management support of the Company. Ms. Shu has over 13 years of experience in human resources. Prior to joining the Group, she served as director of human resources of Zhejiang Jiuzhou Pharmaceutical Co., Ltd（浙江九洲藥業股份有限公司）, personnel administration manager of Zhongke Scientific & Technical Co., Ltd.（廣東省中科進出口有限公司）. Ms. Shu obtained a bachelor degree of International Economic and Trading from Xiangtan University（湘潭大學）in 2004 and has enrolled in Zhejiang University（浙江大學）for Master of Administration Management since 2017.

The Board is committed to maintaining a high standard of corporate governance. The Board believes that a high standard of corporate governance will provide a framework for the Company to formulate its business strategies and policies, and manage and lower the associated risks through effective internal control procedures. It will also enhance the transparency of the Company and strengthen the accountability to its shareholders and creditors.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange and certain recommended best practices. The Company has complied with all the applicable code provisions in the Code throughout the year ended 31 December 2017, save as disclosed below:

Code provision A.2.1 of the Code, which stipulates that the roles of chairman and chief executive officer should be separated. The chairman and the chief executive officer of the Company is Mr. Ng Tit. Nevertheless, the Board considers that this structure will not impair the balance of power and the authority of the Board.

The Board currently comprises three executive Directors, two non–executive Directors and three independent non-executive Directors, with independent non-executive Directors representing approximately 37.5% of the Board, which is higher than one third of the Board. Such percentage of independent non-executive Directors on the Board can ensure their views carry significant weight and reflect the independence of the Board. Mr. Ng is the main founder of the Group and he is responsible for the overall strategic planning and management of the Group. He has played an important role during the Group's expansion. Mr. Ng has extensive experience in the pharmaceutical industry, having been engaged in the pharmaceutical business for over 20 years. At present, the Board believes that it is beneficial to the management and development of the Group's businesses for Mr. Ng to be both the chairman and chief executive officer as it helps to facilitate the Board's decision-making.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry to the Directors, it is confirmed that all Directors have complied with the standards as stipulated in the Model Code throughout the year ended 31 December 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended 31 December 2017, the Board at all times met Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise and the number of independent non-executive Directors representing at least one third of the Board.

The Company has received annual confirmations from each of the three independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all existing independent non-executive Directors are independent parties in accordance with the independence guidelines set out in the Listing Rules and are free of any relationship that could materially interfere with the exercise of their independent judgments.

THE BOARD

The Board is responsible for achieving corporate goals, formulating development strategy, reviewing the organizational structure, monitoring business activities and performance of management and determining the policy for corporate governance of the Company so as to protect and maximize the interests of the Company and the shareholders as a whole. Matters relating to the daily operations of the Group are delegated to management. During the year under review, the Board considered and approved the annual budget and its performance under management supervision together with the business reports from management. The Board also reviewed and approved the final results for the year ended 31 December 2017 and other critical business operations. The Board also assessed the internal control and the financial matters of the Group.

Board Composition

The Board composition for the year of 2017 is as follows:

Executive Directors

Mr. Ng Tit *(Chairman and Chief Executive Officer)*
Ms. Chin Yu
Mr. Wu Weizhong

Non-executive Directors

Dr. Qian Wei
Mr. Ge Jianqiu *(resigned on 31 July 2017)*
Ms. Lou Jianying *(appointed on 31 July 2017)*

Independent Non-executive Directors

Mr. Patrick Sun
Mr. Yue Nien Martin Tang *(resigned on 29 June 2017)*
Mr. Yu Tze Shan Hailson *(appointed on 29 June 2017)*
Dr. Lap-Chee Tsui

As at the date of this annual report, the Board comprises eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The members of the Board possess diverse and rich industry backgrounds with appropriate professional qualifications. Please refer to the section headed – "Directors and Senior Management" for their profiles.

To the best knowledge of the Board, save as disclosed in the section headed "Directors and Senior Management", there is no financial, business, family or other material/relevant relationship among members of the Board. Board members are free to exercise their independent judgment.

Under code provision A.4.1 of the Code contained in Appendix 14 of the Listing Rules, non-executive Directors should be appointed for a specific term, subject to re-election. The non-executive Director was appointed for a term of three years, subject to re–election when appropriate by the Company in general meeting.

Board Diversity Policy

To demonstrate the Company' s continued commitment to high standards of corporate governance, the Board adopted a Board Diversity Policy in August 2013 to comply with the code provision A.5.6 of the Code on board diversity. The policy is as follows:

Purpose

This policy aims to set out the approach to achieve diversity on the Board.

Vision

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

Policy Statement

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merit, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Review of this Policy

The Board will review this policy on a regular basis to ensure its continued effectiveness.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

(A) at least one-third of the members of the Board shall be independent non-executive directors;

(B) at least one of the members of the Board shall have obtained accounting or other professional qualifications;

(C) at least 70% of the members of the Board shall have more than seven years of experience in the industry he/she is specialised in; and

(D) at least two of the members of the Board shall have China-related work experience.

For the year ended 31 December 2017, the Board has fulfilled the measurable objectives of the Board Diversity Policy.

Board Meetings

The Board conducts meetings on a regular basis and on an ad hoc basis, whenever required. The Company will convene at least four regular meetings every year. In 2017, the Company convened 5 Board meetings. The attendance records of the Board meetings held during the year ended 31 December 2017 are set out below:

Name of Directors	Meeting attendance/ number of meetings	Attendance rate (%)
Executive Directors		
Mr. Ng Tit *(Chairman and Chief Executive Officer)*	5/5	100%
Ms. Chin Yu	3/5	60%
Mr. Wu Weizhong	3/5	60%
Non-Executive Directors		
Dr. Qian Wei	3/5	60%
Mr. Ge Jianqiu *(resigned on 31 July 2017)*	2/3	67%
Ms. Lou Jianying *(appointed on 31 July 2017)*	3/3	100%
Independent Non-Executive Directors		
Mr. Yu Tze Shan Hailson *(appointed on 29 June 2017)*	3/3	100%
Mr. Yue Nien Martin Tang *(resigned on 29 June 2017)*	1/2	50%
Mr. Patrick Sun	5/5	100%
Dr. Lap-Chee Tsui	5/5	100%

Notices of regular Board meetings are given to all Directors at least 14 days before the meetings. For other Board committee meetings, reasonable notice is generally given. The agendas and accompanying Board papers are given to all Directors in a timely manner.

All Directors have full and timely access to all relevant information with the advice of the company secretary, to ensure that Board procedures and all applicable rules and regulations are followed. Upon making request to the Board, all Directors may obtain independent professional advice at the Company's expense for carrying out their functions.

The minutes of all Board committee meetings are kept by the Company at its Hong Kong office. Draft and final versions of the minutes are normally circulated to the Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

Training for Directors

For each newly appointed Director, he/she will be provided with an induction course so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and the relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary.

During the year ended 31 December 2017, the Company circulated materials relevant to the Director's duties and responsibilities to Directors and management of the Company for their reading and reference.

A summary of the reading record and attending external seminars/briefings of the Directors for the year ended 31 December 2017 is as follows:

	Reading "Listing Document Simplification Guide"	Attending external seminars/briefings
Executive Directors		
Mr. Ng Tit *(Chairman and Chief Executive Officer)*	✓	✓
Ms. Chin Yu	✓	✓
Mr. Wu Weizhong	✓	✓
Non-executive Directors		
Dr. Qian Wei	✓	✓
Ms. Lou Jianying *(appointed on 31 July 2017)*	✓	✓
Independent Non-executive Directors		
Mr. Patrick Sun	✓	✓
Mr. Yu Tze Shan Hailson *(appointed on 29 June 2017)*	✓	✓
Dr. Lap-Chee Tsui	✓	✓

Directors' and Senior Officers' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to indemnify the Directors and senior officers for their liabilities arising out of corporate activities. For the year ended 31 December 2017, no claim has been made against the Directors and senior officers.

Board Committees

The Board has set up three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively the "Board Committees"), for overseeing particular aspects of the Company's affairs.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

AUDIT COMMITTEE

The Board established the Audit Committee on 26 March 2011, with written terms of reference in compliance with the Listing Rules. It is chaired by Mr. Patrick Sun and comprises two other members, namely Mr. Yu Tze Shan Hailson and Dr. Lap-Chee Tsui, all of whom are independent non-executive Directors.

The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of the external auditors, review the financial statements, oversee and provide material advice in respect of the financial reporting system, oversee the internal control procedures and perform the corporate governance duties of the Company.

The Audit Committee is responsible for performing the following corporate governance duties:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to Directors;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
5. to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code and Corporate Governance Report).

During the year ended 31 December 2017, the Audit Committee convened three meetings:

Name of Directors	Meeting attendance/ number of meetings	Attendance rate (%)
Mr. Patrick Sun *(Chairman)*	3/3	100%
Mr. Yue Nien Martin Tang *(resigned on 29 June 2017)*	2/2	100%
Mr. Yu Tze Shan Hailson *(appointed on 29 June 2017)*	1/1	100%
Dr. Lap-Chee Tsui	3/3	100%

During the year ended 31 December 2017 and up to the date of this report, the Audit Committee together with the management of the Company reviewed the corporate governance code, the accounting principles and practices adopted by the Group and discussed the Group's internal control, risk management and financial reporting matters, including a review of the annual results for the year ended 31 December 2017 and the interim results for the six months ended 30 June 2017, with recommendation to the Board for approval. The Audit Committee has also recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Crowe Horwath (HK) CPA Limited be re-appointed as the external auditor of the Company.

REMUNERATION COMMITTEE

The Board established the Remuneration Committee on 26 March 2011, with written terms of reference in compliance with the Listing Rules. Mr. Yu Tze Shan Hailson, an independent non-executive Director, is the chairman of the Remuneration Committee. Mr. Patrick Sun, an independent non-executive Director, and Mr. Ng Tit, an executive Director, are the other two members of the Remuneration Committee.

The primary functions of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration package of Directors and senior management, as well as the retirement scheme and the performance assessment system and bonus and commission policies of the Company.

The remuneration of Directors is based on their skills, knowledge and, performance of the Company, industry benchmarks, and prevailing market conditions. No Director or senior executive will be involved in any discussion in connection with his or her own remuneration. The Remuneration Committee may also consult with the chairman on its proposals relating to the remuneration of other executives and Directors and has access to professional advice if required. The main objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high caliber team which is essential to the success of the Company.

During the year ended 31 December 2017, the Remuneration Committee convened three meetings:

Name of Directors	Meeting attendance/ number of meetings	Attendance rate (%)
Mr. Yue Nien Martin Tang *(resigned on 29 June 2017)*	1/2	50%
Mr. Yu Tze Shan Hailson *(Chairman)* *(appointed on 29 June 2017)*	2/2	100%
Mr. Patrick Sun	3/3	100%
Mr. Ng Tit	3/3	100%

During the year under review, the Remuneration Committee has reviewed the remuneration policy and structure of the executive Directors and senior management of the Company, and offered advice on the same to the Board.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of members of the senior management by band for the year ended 31 December 2017 are set out below:

Remuneration band (RMB)	Number of individuals
0 – 500,000	0
500,001 – 1,000,000	1
1,000,001 – 1,500,000	0
1,500,001 – 2,000,000	1
2,000,001 – 2,500,000	2
2,500,001 – 3,000,000	0
3,000,001 – 3,500,000	0
3,500,001 – 4,000,000	1

NOMINATION COMMITTEE

The Board established the Nomination Committee on 26 March 2011, with written terms of reference in compliance with the Listing Rules. It is chaired by Mr. Ng Tit, an executive Director, and comprises two other members, namely Mr. Patrick Sun and Mr. Yu Tze Shan Hailson, both of whom are independent non-executive Directors.

The primary functions of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board.

The duties of the Nomination Committee also include reviewing the structure, number and composition of the Board; submitting proposals to the Board on the appointment of the chief executive officer; reviewing the independence of the independent non-executive Directors and submitting proposals to the Board. The authority and duties of the nomination committee are clearly set out in its terms of reference.

During the year ended 31 December 2017, the Nomination Committee convened three meeting:

Name of Directors	Meeting attendance/ number of meetings	Attendance rate (%)
Mr. Ng Tit *(Chairman)*	3/3	100%
Mr. Patrick Sun	3/3	100%
Mr. Yue Nien Martin Tang *(resigned on 29 June 2017)*	2/2	50%
Mr. Yu Tze Shan Hailson *(appointed on 29 June 2017)*	2/2	100%

During the year under review, the Nomination Committee has reviewed the structure, size and diversity (including the skills, knowledge, experience, gender, cultural and educational background, ethnicity and length of services) of the Board, conducted performance evaluations to assess whether the non-executive Directors have spent enough time in fulfilling their duties, assessed the independence of independent non-executive Directors, and kept under review the leadership needs of the organization, both executive and non-executive, with a view to ensuring the continued ability of the organization to compete effectively in the marketplace.

Before appointments are made by the Board, the Nomination Committee will evaluate comprehensively the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Nomination Committee will (where applicable and appropriate):

1. Use open advertising or the services of external advisers to facilitate the search;
2. Consider candidates from a wide range of backgrounds; and
3. Consider candidates on merit and against objective criteria, taking into account the amount of time required to be devoted to the position.

ACCOUNTABILITY

The Directors acknowledge their responsibility to present a balanced, clear and understandable set of consolidated financial statements in each of the annual and interim reports. If the Directors were aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties would be clearly and prominently set out and discussed in detail in this Corporate Governance Report.

INTERNAL AUDIT

The Internal Audit ("IA") of the Group is designed to help the Group protect its assets and information. The presence of IA empowers the Group to implement best business practices in challenging business environments. The Group's IA covers a number of in-house procedures and policies including, among others, the relevant financial, operational and compliance controls and risk management procedures. IA carries out systematic independent reviews of all business units and subsidiaries in the Group on an ongoing basis. The frequency of review of individual business unit or subsidiary is determined after an assessment of the risks involved. The Audit Committee endorses the internal audit plan annually. IA has unrestricted access to all parts of the business, and direct access to any level of management including the chairman, or the chairman of the Audit Committee, as it considers necessary. The audit result is discussed and agreed with the management of the Group subsequent to each review. A summary of major audit findings together with the actions to be taken by the Group's management for rectifying the control weaknesses is also submitted to the Audit Committee. The implementation of the remedial actions will then be followed up and the implementation progress will be reported to the Audit Committee each time it meets.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of risk management and internal control and reviewing its effectiveness. The risk management and internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss and management rather than elimination of risks associated with its business activities. During the year 2017, the Board, through the Audit Committee, reviewed the effectiveness of the Group's risk management and internal control system covering all material controls and risk management functions. The review is conducted annually in accordance with the requirement of the Code. In accordance with the Code requirements, the Audit Committee also reviewed and was satisfied with the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget for the year ended 31 December 2017. In addition, IA conducts regular and independent reviews of the effectiveness of the Group's risk management and internal control system. The Audit Committee reviews the findings and opinion of IA on the effectiveness of the Group's risk management and internal control system and reports to the Board on such reviews. To ensure the highest standard of integrity in our businesses, the Group has adopted a "Code of Conduct" defining the ethical standards expected of all employees. Training courses on the "Code of Conduct" are held regularly for all employees.

The Board is not aware of any significant internal control weaknesses nor significant breach of limits or risk management policies.

RISK FACTORS

The Group's businesses, financial conditions, results of operations or growth prospects may be affected by risks and uncertainties directly or indirectly pertaining to the Group's businesses. The risk factors set out below are those that could result in the Group's businesses, financial conditions, results of operations or growth prospects differing materially from expected or historical results. Such factors are by no means exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future. In addition, this Annual Report does not constitute a recommendation or advice to invest in the shares of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the shares of the Company.

Economic Environment and Conditions

Substantially all of our operations are located in China, and substantially all of our sales are made in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China.

Adverse changes in political, economic and other policies of the Chinese government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and could otherwise materially and adversely affect our business, operations or competitive position.

Product Concentration

We are largely dependent on sales of our four core products, Miacalcic, Shusi, Xi De Ke and Zhuo'ao. If we are unable to maintain the sales volumes, pricing levels and profit margins of these core products, our revenue and profitability could be adversely affected.

Market Environment

We operate in a highly competitive environment and we may not be able to compete effectively against current and future competitors. Our inability to compete effectively could result in decrease of sales, reduction of price and loss of market share, any of which could have a material adverse effect on our results of operations and profit margins.

Provincial Tendering

In each province where we market our products, we are required to participate in a government-sponsored competitive bidding process every year or every few years. During the provincial tendering process, we and our competitors submit pricing and other product information to local pricing bureaus for selection, which is based on the bid price, clinical effectiveness and quality of each product and the reputation of the bidder. For each product category, a local pricing bureau will permit a limited number of products for sale in the relevant province or local district.

We may fail to win bids in a provincial tendering process due to various factors, including reduced demand for the relevant product, uncompetitive bidding price or local protectionism. We may also win bids at low prices that will limit our profit margins. There can be no assurance that our bids will enable us to win the tendering process and maintain our market share without compromising our profitability. In addition, we may lose in the tendering process because the relevant product is perceived to be less clinically effective than competing products or our services or other aspects of our operations are perceived to be less competitive.

New Product

Our long-term competitiveness depends on our ability to enhance our existing products and to develop and commercialize new pharmaceutical products through our research and development activities. The development process of pharmaceutical products in general, is time-consuming and costly, and there can be no assurance that our research and development activities will enable us to successfully develop new pharmaceutical products.

INDEPENDENT AUDITORS' REMUNERATION

During the year ended 31 December 2017, the remunerations paid or payable to the Group's auditors, Crowe Horwath (HK) CPA Limited, in respect of their audit and non-audit services are as follows:

	For the year ended 31 December 2017 RMB'000
Audit services	1,627
Under provision in prior year	23
Non-audit services	17

COMMUNICATION WITH SHAREHOLDERS

The Company believes that the annual general meeting is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Group's performance. Separate resolutions are proposed for each substantially separate issue at the annual general meeting. In accordance with the Listing Rules, voting by poll is mandatory at all general meetings except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedure or administrative matter to be voted on by a show of hands. The poll results are posted on the websites of "HKEx news" and the Group respectively on the same day of the general meeting.

During the year ended 31 December 2017, an annual general meeting of the Company was held on 5 June 2017 and the attendance record of the Directors is set out below:

	Meeting attendance/ number of meetings
Executive Directors	
Mr. Ng Tit	1/1
Ms. Chin Yu	1/1
Mr. Wu Weizhong *(Note 1)*	0/1
Non-executive Directors	
Dr. Qian Wei *(Note 1)*	0/1
Mr. Ge Jianqiu *(Note 1)*	0/1
Ms. Lou Jianying *(Note 2)*	–
Independent Non-executive Directors	
Mr. Patrick Sun	1/1
Mr. Yue Nien Martin Tang	1/1
Mr. Yu Tze Shan Hailson *(Note 3)*	–
Dr. Lap-Chee Tsui	1/1

Notes:

1. Due to other business commitments, Mr. Wu Weizhong, Dr. Qian Wei and Mr. Ge Jianqiu, were unable to attend the annual general meeting of the Company held on 5 June 2017.

2. Ms. Lou Jianying was appointed on 31 July 2017 and therefore had not attended the annual general meeting.

3. Mr. Yu Tze Shan Hailson was appointed on 29 June 2017 and therefore had not attended the annual general meeting.

FAIR DISCLOSURE

The Company uses its best endeavors to distribute material information about the Group to all interested parties as widely as possible. Information about the Group can be found on the Company's website including descriptions of each business and the interim and annual reports of the Company.

FINANCIAL REPORTING

The Directors of the Company acknowledge their responsibility for preparing the financial statements which give a true and fair view of the Group's affairs and of its results and cash flows for the year 2017 in accordance with Hong Kong Financial Reporting Standards, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. The Directors of the Company endeavor to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. The adoption of new or amended accounting standards that became effective during the year has not had a significant impact on the Group's results of operations and financial position except for those disclosed in note 2(c) to the financial statements on page 88 of this report. The responsibilities of the external auditors with respect to the audit of financial statements are set out in the Independent Auditor's Report on pages 73 to 78 of this report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

COMPANY SECRETARY

Mr. Chiu Yu Kang, our company secretary has resigned with effect from 6 April 2018 and was re-designated as senior adviser of the Company.

In compliance with Rule 3.29 of the Listing Rules, Mr. Chiu, has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2017.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's memorandum and articles of association during the year.

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting and Putting Forward Proposals at Shareholders' Meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, shareholders are requested to follow article 58 of the amended and restated articles of association of the Company. Pursuant to article 58 of the amended and restated articles of association of the Company, general meetings shall be convened on the written requisition of any one or more members of the Company to the Directors or secretary of the Company deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. Such meeting shall be held within two months after the deposit of such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) themselves may convene the general meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

If a member, who is entitled to attend and vote at the relevant general meeting, wishes to nominate a person (not being the nominating member) to stand for election as a Director, he or she should lodge at the principal place of business of the Company in Hong Kong or at the registered office of the Company notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his or her willingness to be so elected and including such person's biographical details and written consent to the publication of his/her personal data. The minimum length of the period, during which such notice(s) are given, shall be at least seven days and that (if the notice(s) are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior the date of such general meeting.

ENQUIRIES TO THE BOARD

Enquiries may be put to the Board through the Company's principal place of business in Hong Kong at Unit 2305-06, 23/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong (Email: ir@ntpharma.com).

The Directors have pleasure in presenting the annual report of the Company together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Group is mainly engaged in investment, research and development, manufacturing and sales of pharmaceutical products, as well as the provision of pharmaceutical marketing and promotion services in China and more than 20 foreign countries.

FINANCIAL RESULTS

The profit of the Group for the year ended 31 December 2017 and the financial position of the Company and its subsidiaries as at that date are set out in the financial statements on pages 79 to 176 of this report.

BUSINESS REVIEW

The review of the business of the Group, including a description of principal risks and uncertainties and an indication of likely future development in the Group's businesses, for the year ended 31 December 2017 as required by Schedule 5 to the Hong Kong Companies Ordinance is contained in the Business Review (pages 13 to 18), Operating Results (pages 18 to 22), Prospect and Outlook of the Group (page 17) sections under Management Discussion and Analysis, Risk Factors section (pages 58 to 59) under Corporate Governance Report as well as note 34 to the consolidated financial statements. These discussions form part of this report.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years are set out on page 5 of this report. This summary does not form part of the audited consolidated financial statements.

DIVIDENDS

The directors recommend the payment of a final dividend of HK3.5 cents per share, representing a total dividend distribution of approximately HK$64.9 million (2016: HK$39.0 million). The final dividend will be payable on 2 August 2018. The proposed dividend has not been reflected as dividends payable in the financial statements for the year ended 31 December 2017, but will be reflected as appropriations of retained profits for the year ending 31 December 2018.

The Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

TRANSFER TO RESERVES

Profit attributable to equity shareholders of RMB165.2 million (2016: profit attributable to equity shareholders of RMB116.2 million) has been transferred to reserves. Other movements in reserves during the year are set out in the consolidated statement of changes in equity.

FIXED ASSETS

Details of the movements of fixed assets during the year are set out in note 15 to the financial statements.

BORROWINGS AND PLEDGED ASSETS

Details of the Group's borrowings and pledged assets are set out in notes 27 and 24 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 32(c) to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the aggregate amount of revenue and purchases attributable to the Group's five largest customers and suppliers represented 63.1% and 99.9% of the Group's total revenue and purchases respectively.

During the year under review, the largest customer of the Group accounted for approximately 19.0% of the total revenue and the largest supplier of the Group accounted for approximately 62.0% of the total purchases of the Group.

As far as the Company is aware, neither the Directors, their associates, nor those substantial shareholders who are interested in more than 5% of the shares or underlying shares of the Company had any interest in the five largest customers and suppliers of the Group.

The Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, including complaints analyse and study and make recommendations on remedies with the aim of improving service quality.

The Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

DIRECTORS

The Directors who held office during the year ended 31 December 2017 and up to the date of this report are:

Executive Directors

Mr. NG Tit *(Chairman and Chief Executive Officer)*
Ms. CHIN Yu
Mr. WU Weizhong

Non-executive Directors

Dr. QIAN Wei
Ms. LOU Jianying *(appointed on 31 July 2017)*

Independent Non-executive Directors

Mr. Patrick SUN
Mr. YU Tze Shan Hailson *(appointed on 29 June 2017)*
Dr. Lap-Chee TSUI

Mr. Wu Weizhong, Mr. Patrick Sun and Dr. Lap-Chee Tsui will retire from office as Directors by rotation at the forthcoming annual general meeting. Ms. Lou Jianying and Mr. Yu Tze Shan Hailson was appointed as a non-executive Director and an independent non-executive Director on 31 July 2017 and 29 June 2017, respectively. Pursuant to the Articles of Association of the Company, each of Ms. Lou Jianying and Mr. Yu Tze Shan Hailson will hold office until the forthcoming annual general meeting. All of them, being eligible have offered themselves for re– election pursuant to the articles of association of the Company.

Biographical details of the Directors of the Company are set out on pages 45 to 48 of this report. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the Independence Guidelines under the Listing Rules and the Company still considers such Directors to be independent.

PRE-IPO SHARE OPTION SCHEME

The Company adopted a share option scheme ("Pre-IPO Share Option Scheme") on 7 April 2011. Under the Pre-IPO Share Option Scheme, the Company granted 50,027,881 options before the listing of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company. Up to 31 December 2017, no further option has been granted pursuant to the Pre-IPO Share Option Scheme. A summary of the principal terms and conditions of the Pre-IPO Share Option Scheme is set out in the section headed "Pre-IPO Share Option Scheme" in Appendix VIII of the Prospectus of the Company. No options were lapsed during the year ended 31 December 2017.

As at 31 December 2017, options to subscribe for an aggregate of 3,815,740 shares of the Company were outstanding and these options relate to the options granted to the following grantees.

Employees of the Company Working under Continuous Contracts other than the Directors

				Number of share options				
	Date of grant	Option period	Exercised price	Balance as at 1/1/2017	Exercised during the year	Lapsed/ cancelled during the year	Balance as at 31/12/2017	Approximate percentage to the issued share capital
Employees	18/9/2009	18/9/2009–18/9/2019	US$0.20	1,999,074	–	–	1,999,074 (Note 1)	0.13%
	28/1/2010	28/1/2010–28/1/2020	US$0.20	1,516,666	–	–	1,516,666 (Note 2)	0.10%
	1/9/2010	1/9/2010–1/9/2020	US$0.20	300,000	–	–	300,000 (Note 3)	0.02%

Notes:

1. The options were vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 18/9/2010, 18/9/2011 and 18/9/2012, respectively.
2. The options were vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 28/1/2011, 28/1/2012 and 28/1/2013, respectively.
3. The options were vested in three tranches in the proportion of 1/3, 1/3 and 1/3 on 1/9/2011, 1/9/2012 and 1/9/2013, respectively.

Long position in share options of the Company

Name of Director	Date of grant	Option period	Exercised price	Number of share options: Balance as at 1/1/2017	Exercised during the year	Lapsed/ cancelled during the year	Balance as at 31/12/2017	Approximate percentage to the issued share capital
Wu Weizhong	18/9/2009	18/9/2009–18/9/2019	US$0.20	2,800,046	–	–	2,800,046	0.18%

NEW SHARE OPTION SCHEME

The Company adopted a new share option scheme (the "New Share Option Scheme") on 22 September 2014. Under the New Share Option Scheme, the Company granted 6,300,000 options to certain senior management staff of the Company on 10 November 2014, and granted 41,500,000 options to certain individuals on 15 January 2015, respectively. Each option gives the holder the right to subscribe for one ordinary share in the Company. Movements of share options are set out in note 30(a), (b) and (c) to the financial statements.

A summary of the principal terms of the New Share Option Scheme is set out in Appendix I of the circular of the Company dated 4 September 2014. 220,834 unvested options were lapsed and 329,166 options were exercised during the year ended 31 December 2017.

As at 31 December 2017, options to subscribe for an aggregate of 28,026,384 shares of the Company were outstanding.

SHARE AWARD SCHEME

With effect from 6 March 2014, the share award scheme (the "Share Award Scheme") of the Company, which was adopted on 11 January 2012, was terminated. No share had been granted nor held by the trustee under the Share Award Scheme since its adoption.

The Company adopted the new share award scheme (the "New Share Award Scheme") on 4 September 2015. The purposes of the New Share Award Scheme are to recognise the contribution made by certain employees of the Group and to provide eligible employees with incentives in order to retain them for the continual operation and development of the Group and attract suitable personnel for the growth and further development of the Group.

As at 31 December 2017, the trustee of the Share Award Scheme held a total of 25,665,702 (2016: 9,981,000) shares and 4,501,798 (2016: nil) shares granted under the Share Award Scheme.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in place during the year ended 31 December 2017.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, during the year under review, neither the Company nor any of its subsidiaries were party to any arrangement which would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. Save as disclosed in this report, none of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the shares or debentures of the Company or any other corporate body or had exercised any such right.

DIRECTORS' SERVICE CONTRACTS

The executive Directors, Mr. Ng Tit, Ms. Chin Yu and Mr. Wu Weizhong, has each entered into a service agreement with the Company for an initial term of three years commencing from 26 March 2011, 1 February 2015 and 20 March 2015, respectively, which shall continue unless terminated by either the Company or the Director giving at least three months' written notice to the other party. Each of

Mr. Yu Tze Shan Hailson and Ms. Lou Jianying has entered into an appointment letter with the Company for a term of three years commencing from 29 June 2017 and 31 July 2017, respectively, subject to termination in certain circumstances as stipulated in the appointment letter and retirement by rotation and re-election at the annual general meeting in accordance with the memorandum and articles of association of the Company. Save as disclosed above, each of the non-executive Directors and independent non-executive Directors has entered into a service agreement with the Company for a term of three years commencing from 26 March 2014.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SENIOR OFFICERS' LIABILITY INSURANCE AND INDEMNITY/PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate liability insurance to indemnify the Directors and senior officers for their liabilities arising out of corporate activities. For the year ended 31 December 2017, no claim has been made against the Directors and senior officers.

REMUNERATION POLICY

The Group's remuneration policy is to compensate its employees based on their performance, qualifications and the Group's operational results.

The emoluments of the Directors and senior management are determined by the Remuneration Committee with reference to the Group's operational results, their individual performance and comparable prevailing market conditions.

The Company was not aware of any arrangement under which a Director has waived or agreed to waive any emoluments. Details of the emoluments of the Directors are set out in note 10 to the financial statements.

COMPLIANCE OF THE NON–COMPETITION UNDERTAKING

As disclosed in the Prospectus, Mr. Ng Tit, Ms. Chin Yu and Golden Base Investment Limited ("Golden Base") (collectively referred to as the "Controlling Shareholders") have entered into a non-competition undertaking agreement dated 4 April 2011 in favor of the Company (the "Non-competition Undertaking"), pursuant to which each of them has undertaken to the Company that he/she/it will not, and will procure that his/her/its associates (except any members of the Group) will not, during the restricted period, directly or indirectly, either on his/her/its own account or in conjunction with or on behalf of any person, firm or company, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business in PRC or elsewhere in the world which is or may be in competition with our business, and any other business which any member of the Group may undertake from time to time after the listing of the Company's shares.

Each of the Controlling Shareholders had confirmed his/her/its compliance with the Non-competition Undertaking for the year.

The independent non-executive Directors have reviewed the Controlling Shareholders' compliance with the Non-competition Undertaking. The independent non-executive Directors confirmed, to the best of their knowledge, that the Controlling Shareholders did not breach the terms of the Non–competition Undertaking.

COMPETING BUSINESS

Save and except for interests in the Group, none of the Directors and controlling shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in any business as at 31 December 2017 which, directly or indirectly, competes or is likely to compete with the Group's business.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange under the Model Code contained in Appendix 10 to the Listing Rules, were as follows:

Long Positions in the Ordinary Shares of the Company

Name of Director	Number of shares of the Company				Approximate percentage of interest in the Company
	Personal interests	Family interests	Corporate interests	Other interests	
Ng Tit	500,000 (Note 1)	4,000,000 (Note 1)	602,092,000 (Note 2)	–	38.92%
Chin Yu	4,500,000 (Note 1)	–	602,092,000 (Note 2)	–	38.92%
Wu Weizhong	388,125	–	–	–	0.02%

Notes:

(1) Mr. Ng Tit and his spouse, Ms. Chin Yu jointly own 500,000 shares of the Company. Ms. Chin Yu beneficially owned 4,000,000 shares of the Company.

(2) An aggregate of 602,092,000 shares is beneficially owned by Golden Base Investment Limited ("Golden Base"). Mr. Ng Tit and Ms. Chin Yu are the controlling shareholders of Golden Base.

Long Positions in the Underlying Shares of the Company

Save as disclosed above, as at 31 December 2017, none of the Directors nor the Chief Executives of the Company or their associates (including their spouses and children under 18 years of age) had any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations, recorded in the register required to be kept under Section 352 of the SFO or required to be notified to the Company and the Stock Exchange under the Model Code contained in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2017, the interests and short positions of the substantial shareholders of the Company (other than the Directors and Chief Executives 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 Part XV of the SFO were as follows:

Name	Number of shares (long positions) Beneficial owner	Interests of controlled corporation	Family interests	Approximate percentage of interest in the Company
Golden Base	602,092,000	–	–	38.63%
Ieong Chong Mang	45,381,500	–	220,279,000	17.05%
Shum Ning (Note 1)	–	220,279,000 (Note 1)	45,381,500	17.05%

Note:

(1) Ieong Chong Mang is the spouse of Shum Ning. 220,279,200 shares are beneficially owned by Annie Investment Co., Ltd., which is in turn wholly owned by Shum Ning.

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any other parties (other than the Directors and Chief Executives of the Company) who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance in relation to the Group's business (as defined in the Listing Rules) to which the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2017.

CONTRACT OF SIGNIFICANCE

Save as disclosed, no contract of significance had been entered into between the Company or any of its subsidiaries, and a controlling shareholder of the Company or any of its subsidiaries.

CHANGES IN THE BOARD AND THE DIRECTORS' INFORMATION

There was no change in the Board and the information of Directors since the date of the Company's 2017 interim report.

ISSUE OF REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("CPS")

Pursuant to the placing agreement (the "Placing Agreement") dated 19 April 2017 entered into between the Company and Shenwan Hongyuan Securities (H.K.) Limited as the placing agent (the "Placing Agent"), the Company agreed to issue and the Placing Agent agreed to place, on a best effort basis, up to an aggregate of 325,000,000 CPSs to not less than six placees at a price of HK$1.83 per CPS. Each of the CPSs is convertible into one ordinary share of the Company. The issue price of HK$1.83 per CPS represents a premium of approximately 6.40% to the closing price of HK$1.72 per share as quoted on the Stock Exchange on the date of the Placing Agreement.

The Placing was completed on 13 June 2017. 294,659,500 CPSs have been issued under the specific mandate which was granted to the Directors at the extraordinary general meeting held on 5 June 2017, and successfully placed by the Placing Agent to not less than six placees (who are independent professional, institutional or other investors) at the price of HK$1.83 per CPS pursuant to the terms and conditions of the Placing Agreement. The aggregate nominal value of the CPS is approximately US$23.57.

Reasons and Benefits for the Issue of CPSs

The Directors consider that raising funds by issuing CPSs is appropriate taking into account the recent favourable market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position for any possible future investment opportunities that the Group may identify from time to time. Other than the issue of the CPSs, the Board has considered other alternative means to raise funds. Having considered that the CPSs to be issued by the Company is mainly of equity in nature, the issue of which will not adversely affect the Group's gearing position and the cost of funding associated with the issue of the CPSs is relatively low compared with other means, the Board is of the view that the issue of the CPSs is the most appropriate way to raise funds in the current market conditions. The Board considers that the issue of the CPSs will strengthen the financial position of the Group, which could consequently lower the cost of funding associated with debt financing for any future investment opportunities.

Intended Use of Proceeds

The gross and net proceeds from the Placing amounted to approximately HK$539.23 million and approximately HK$533.32 million (the "Net Proceeds"), respectively. As disclosed in the announcement of the Company dated 13 June 2017, the net proceeds from the placing, after deducting the estimated expenses incidental thereto) is intended to be used in the following manner: (i) approximately HK$33,322,085 for the Group's general working capital use; (ii) approximately HK$180,000,000 for the repayment of existing debt of the Group; and (iii) approximately HK$320,000,000 for business development of the Group as and when opportunities arise. As at 31 December 2017, the actual use of net proceeds is as follows: (i) HK$33,322,085 was used for the Group's general working capital use; (ii) HK$180,000,000 was used for the repayment of existing debt of the Group; and (iii) HK$320,000,000 was used for business development of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 37 to the consolidated financial statements also constituted continuing connected transactions under the Listing Rules but are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to the Listing Rules. The Company has complied with the disclosure requirements of the Listing Rules in respect of such continuing connected transactions.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and to the best knowledge of the Board, the Company has maintained sufficient public float as required under the Listing Rules as at the date of this report.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules and certain recommended best practices. The Company has complied with all the applicable code provisions in the CG Code throughout the year ended 31 December 2017 except for the deviation from code provision A.2.1 of the CG Code, which stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Ng Tit assumes both the roles of Chairman and Chief Executive Officer of the Company. Nevertheless, the division of responsibilities between the two roles are clearly defined. On the whole, the role of Chairman is that of monitoring the duties and performance of the Board, whereas the role of Chief Executive Officer is that of managing the Company's business. The Board believes that at the current stage of development of the Company, vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board currently comprises three Executive Directors, two non-executive Directors and three independent non-executive Directors, with the independent non-executive Directors representing approximately 37.5% of the Board, which is higher than one third of the Board. Such percentage of independent non-executive Directors on the Board can ensure their views carry significant weight and reflect the independence of the Board.

NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the Directors recommended a dividend as further disclosed in note 32(b) to the consolidated financial statements.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. On specific enquiries made, all Directors have confirmed that they have complied with the standards as stipulated in the Model Code throughout the year ended 31 December 2017.

CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors. The Company considers each of the independent non-executive Directors to be independent.

AUDITORS

The consolidated financial statements for the five years ended 31 December 2013, 2014, 2015, 2016 and 2017 were audited by Crowe Horwath (HK) CPA Limited, who will retire and being eligible, offered themselves for re-appointment. A resolution for the reappointment of Crowe Horwath (HK) CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Ng Tit
Chairman

Hong Kong, 26 March 2018

BOARD OF DIRECTORS

Executive Directors	Mr. NG Tit *(Chairman and Chief Executive Officer)* Ms. CHIN Yu Mr. WU Weizhong
Non-executive Directors	Dr. QIAN Wei Mr. GE Jianqiu (resigned on 31 July 2017) Ms. LOU Jianying (appointed on 31 July 2017)
Independent Non-executive Directors	Mr. Patrick SUN Dr. Lap-Chee TSUI Mr. Yue Nien Martin TANG (resigned on 29 June 2017) Mr. YU Tze Shan Hailson (appointed on 29 June 2017)

BOARD COMMITTEES

Audit Committee	Mr. Patrick SUN *(Chairman)* Dr. Lap-Chee TSUI Mr. Yue Nien Martin TANG (resigned on 29 June 2017) Mr. YU Tze Shan Hailson (appointed on 29 June 2017)
Remuneration Committee	Mr. Yue Nien Martin TANG *(Chairman)* (resigned on 29 June 2017) Mr. YU Tze Shan Hailson *(Chairman)* (appointed on 29 June 2017) Mr. Patrick SUN Mr. NG Tit
Nomination Committee	Mr. NG Tit *(Chairman)* Mr. Patrick SUN Mr. Yue Nien Martin TANG (resigned on 29 June 2017) Mr. YU Tze Shan Hailson (appointed on 29 June 2017)

CORPORATE INFORMATION

COMPANY SECRETARY
Mr. Chiu Yu Kang (resigned on 6 April 2018)
Mr. Tong Ka Kin Kenneth (appointed on 6 April 2018)

AUDITOR
Crowe Horwath (HK) CPA Limited
Certified Public Accountants

LEGAL ADVISORS AS TO HONG KONG LAW
Li & Partners

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit 2305-06, 23/F
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Hong Kong

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN CHINA
11/F, Building 2, Bund Finance Centre
600 Zhongshan Dong Er Road, Huangpu District,
Shanghai, PRC

REGISTERED OFFICE
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
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China Construction Bank (Asia) Corporation Limited
China Merchants Bank Co., Limited
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STOCK CODE
1011

Crowe Horwath

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

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Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA NT PHARMA GROUP COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China NT Pharma Group Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 79 to 176, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS OF OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

The key audit matter	How the matter was addressed in our audit
(a) Recoverability of intangible assets (refer to notes 2(j) and (l)(ii), 3(a), (c) and (d), 17(a) and (f) to consolidated financial statements) At 31 December 2017, the Group has a significant amount of intangible assets of approximately RMB1,301.9 million (2016: approximately RMB1,156.7 million), representing approximately 47.17% (2016: 45.14%) of the Group's total assets, including approximately RMB1,190 million (2016: RMB1,030 million) relating to exclusive intellectual property rights, marketing and distribution rights associated with the trademarks and brand names for the commercialization Miacalcic branded injectable and nasal spray drug products which are used for treatment of bone pains caused by osteolysis and lower bone mass, osteoporosis, Paget's disease, hypercalcemia and reflex sympathetic dystrophy syndrome ("Miacalcic Injection and Miacalcic Nasal Spray"), for an indefinite period of time in Mainland China and other designated countries as further detailed in note 17(a) to the consolidated financial statements. Management of the Group considered that each of Miacalcic Injection and Miacalcic Nasal Spray has an indefinite useful life, as discussed in note 3(d) to the consolidated financial statements, and is not amortised but is tested annually for impairment. There is a risk for the recoverability of each of the Group's identified cash generating units ("CGUs"), to which the relevant intangible assets are allocated, that may result in impairment to the carrying value of those assets of the CGUs. This could be due to weaker than forecast demand, product obsolescence, changes in governmental regulations or other factors. The assessment of recoverable amounts of the CGUs, to which the relevant intangible assets are allocated, is determined on the basis of value-in-use calculations conducted by independent professional valuers with experiences in valuing similar assets. Due to the inherent uncertainty and complexity, significant judgements and estimates involved in forecasting future cash flows, based on the assumptions which reflect management's view of future business prospects, estimating the economic useful lives, and determining appropriate discount rates, which are the basis of the assessment of recoverability. This is the key judgmental area that our audit is concentrated on. The Group's policy on impairment of intangible assets and the uncertainties on the accounting estimates and judgments are disclosed in the note 2(l)(ii), and note 3(a), (c) and (d) to the consolidated financial statements, respectively.	Our audit procedures in this area included: – Assessing the external valuers' independence, competence, capabilities and objectivity. – Performing certain procedures to identify indicators for impairment of intangible assets. These included reviewing the future business plans and forecast performance, reviewing management meeting minutes, reviewing governmental policies and approvals for the relevant pharmaceutical products in relevant countries in particular in Mainland China where the intangible assets are principally allocated to the identified CGUs, and enquiring management as to whether they are aware of any indicators of impairment; – Checking that valuation methodology used and allocation of cash flows between cash generating units is consistent year on year; – Evaluating the cash flows projections in the valuation models to detailed financial forecasts prepared by management; – Assessing the appropriateness of the key assumptions, primarily estimated future economic useful lives, revenue, margins on sales and growth rates used including whether they are reasonable in light of historic growth rates; evaluating that long-term growth rates in the models do not exceed industry published data, by reference to published growth rates of comparable companies; – Challenging the judgements of management on the key assumptions used including margins on sales, discount rates, growth rates (including those used in the terminal value calculations); and – Evaluating management's sensitivity analysis and performing our own sensitivity analysis on the key assumptions used. We also assessed whether the Group's disclosures in respect of the impairment review and the sensitivity of the outcome of the impairment review to changes in the key assumptions reflected the risks inherent in the valuation.

KEY AUDIT MATTERS (CONTINUED)

The key audit matter	How the matter was addressed in our audit
(b) Recoverability of trade receivables (refer to notes 2(l)(i), 23 and 34(a) to the consolidated financial statements) At 31 December 2017, trade and bills receivables of approximately RMB652.1 million (net of provision for impairment) without collateral as security for settlements. The Group had credit concentration risk as 23% (2016: 47%) and 79% (2016: 87%) of the total trade receivables due from the Group's largest customer and top five largest customers, respectively. Determining impairment provisions against the trade and bills receivable is a judgmental area which involves significant judgmental estimates by management of the probability of default by the customers whose abilities to settle their trade debts may deteriorate after the year end.	We assessed the adequacy of provision for impairment and reasonableness of the assumptions used by management in making provision for impairment against trade and bills receivables. This included an assessment of: – the Group's internal control on debt recovery and actions taken to collect the overdue debts; – past settlement history of the customers and cash received after year end and up to the audit opinion date, on a sample basis, of customer debts; – ageing analysis for trade and bills receivables by customers and update on the creditworthiness of the customers; – any disputes with customers by comparing, on a sample basis, the discrepancies to the debtor confirmations directly obtained from the customers, review of correspondences with the customers and enquiries of the Group's external solicitors. We also assessed the disclosure on the provision for trade and bill receivables in the consolidated financial statements.

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, 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.

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

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

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

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

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

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

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

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

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2018

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Note	2017 RMB'000	2016 RMB'000 (Restated)
Continuing operations			
Revenue	4	604,846	359,609
Cost of sales		(120,611)	(105,776)
Gross profit		484,235	253,833
Other revenue and other income	5	22,269	4,757
Other net loss	6	(2,320)	(2,005)
Gain on disposal of investment property	16(f)	7,652	–
Impairment of trade receivables	7(c)	(7,050)	–
Reversal of impairment of trade receivables	7(c)	–	3,420
Impairment of other receivables	7(c)	(569)	–
Fair value change on financial liabilities at fair value through profit or loss	33	9,050	–
Selling and distribution expenses		(91,852)	(106,866)
Administrative expenses		(151,837)	(88,564)
Profit from operations		269,578	64,575
Finance costs	7(a)	(43,150)	(29,032)
Profit before taxation	7	226,428	35,543
Income tax expense	8(a)	(15,883)	(10,843)
Profit for the year from continuing operations		210,545	24,700
Discontinued operation	9		
(Loss)/profit for the year from discontinued operation		(48,916)	91,060
Profit for the year		161,629	115,760
Attributable to:			
Equity holders of the Company		165,195	116,181
Non-controlling interests		(3,566)	(421)
Profit for the year		161,629	115,760

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

	Note	2017 RMB'000	2016 RMB'000 (Restated)
Profit attributable to equity holders of the Company arises from:			
Continuing operations		214,111	25,121
Discontinued operation		(48,916)	91,060
		165,195	116,181
Earnings per share	13		
From continuing and discontinued operations			
Basic		10.72 cents	7.50 cents
Diluted		9.12 cents	7.46 cents
From continuing operations			
Basic		13.89 cents	1.62 cents
Diluted		11.98 cents	1.61 cents

The notes on pages 87 to 176 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHE COMPREHENSIVE INCOME

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

	2017 RMB'000	2016 RMB'000 (Restated)
Profit for the year	161,629	115,760
Items that will not be reclassified to profit or loss:		
Revaluation surplus on transfer of owner-occupied property to investment property	–	18,032
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the People's Republic of China (the "PRC")	(43,808)	18,365
Total comprehensive income for the year	117,821	152,157
Attributable to:		
Equity holders of the Company	121,387	152,578
Non-controlling interests	(3,566)	(421)
	117,821	152,157
Total comprehensive income for the year attributable to owners of the Company arises from:		
Continuing operations	170,303	61,518
Discontinued operation	(48,916)	91,060
	121,387	152,578

The notes on pages 87 to 176 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Fixed assets			
– Property, plant and equipment	15	250,355	266,625
– Interests in leasehold land held for own use under operating leases	15	41,985	42,975
Investment property	16	–	42,131
		292,340	351,731
Intangible assets	17	1,301,926	1,156,700
Goodwill	18	–	–
Interest in an associate, net	20	18,892	11,969
Available-for-sale financial asset	21	533	–
Deferred tax assets	29(b)	56,885	57,745
		1,670,576	1,578,145
Current assets			
Inventories	22	65,313	167,062
Trade and other receivables	23	811,792	594,908
Pledged bank deposits	24	65,170	133,000
Cash and cash equivalents	25	146,868	89,624
		1,089,143	984,594
Current liabilities			
Trade and other payables	26	509,839	449,027
Bank and other borrowings	27	656,055	892,449
Financial liabilities at fair value through profit or loss	33	7,095	–
Current taxation	29(a)	34,014	26,103
		1,207,003	1,367,579
Net current liabilities		(117,860)	(382,985)
Total assets		2,759,719	2,562,739

	Note	2017 RMB'000	2016 RMB'000
Total assets less current liabilities		1,552,716	1,195,160
Non-current liabilities			
Considerations payable	28	–	156,138
Financial liabilities at fair value through profit or loss	33	123,963	–
		123,963	156,138
NET ASSETS		1,428,753	1,039,022
CAPITAL AND RESERVES	32		
Share capital		1	1
Reserves		1,420,379	1,027,082
Total equity attributable to equity holders of the Company		1,420,380	1,027,083
Non-controlling interests	19(ii)	8,373	11,939
TOTAL EQUITY		1,428,753	1,039,022

Approved and authorised for issue by the board of directors on 26 March 2018 and signed on its behalf by:

Ng Tit
Chairman and Chief Executive Officer

Chin Yu
Director

The notes on pages 87 to 176 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to equity holders of the Company												
	Share capital RMB'000 (note 33(c))	Convertible preference shares RMB'000 (note 33)	Share premium RMB'000 (note 33(d)(i))	Exchange reserve RMB'000 (note 33(d)(ii))	Statutory reserve RMB'000 (note 33(d)(iii))	Merger reserve RMB'000 (note 33(d)(iv))	Other reserve RMB'000 (note 33(d)(v))	Capital reserve RMB'000 (note 33(d)(vi))	Property revaluation reserve RMB'000 (note 33(d)(vii))	Accumulated losses RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at 1 January 2016	1	–	1,487,120	43,599	88,206	8,256	338,509	38,264	–	(1,113,592)	890,363	12,360	902,723
Changes in equity for 2016:													
Profit/(loss) for the year	–	–	–	–	–	–	–	–	–	116,181	116,181	(421)	115,760
Other comprehensive income													
Revaluation surplus on transfer of owner-occupied property to investment property	–	–	–	–	–	–	–	–	18,032	–	18,032	–	18,032
Exchange differences on translation of financial statements of entities outside the PRC	–	–	–	18,365	–	–	–	–	–	–	18,365	–	18,365
Total comprehensive income	–	–	–	18,365	–	–	–	–	18,032	116,181	152,578	(421)	152,157
Dividend paid (note 12(b))	–	–	–	–	–	–	–	–	–	(13,249)	(13,249)	–	(13,249)
Equity-settled share-based transactions (note 7(b))	–	–	–	–	–	–	–	2,625	–	–	2,625	–	2,625
Issue of new shares upon exercise of share options (note 32 (c)(iii))	–	–	441	–	–	–	–	(171)	–	–	270	–	270
Shares purchased for share award scheme (note 30(d))	–	–	–	–	–	–	–	(5,504)	–	–	(5,504)	–	(5,504)
Balance at 31 December 2016 and 1 January 2017	1	–	1,487,561	61,964	88,206	8,256	338,509	35,214	18,032	(1,010,660)	1,027,083	11,939	1,039,022
Changes in equity for 2017:													
Profit/(loss) for the year	–	–	–	–	–	–	–	–	–	165,195	165,195	(3,566)	161,629
Other comprehensive income													
Exchange differences on translation of financial statements of entities outside the PRC	–	–	–	(43,808)	–	–	–	–	–	–	(43,808)	–	(43,808)
Total comprehensive income	–	–	–	(43,808)	–	–	–	–	–	165,195	121,387	(3,566)	117,821
Dividend paid (note 12(b))	–	–	–	–	–	–	–	–	–	(33,954)	(33,954)	–	(33,954)
Equity-settled share-based transactions (note 7(b))	–	–	–	–	–	–	–	7,638	–	–	7,638	–	7,638
Issue of new shares upon exercise of share options (note 32 (c)(iii))	–	–	592	–	–	–	–	(226)	–	–	366	–	366
Shares purchased for share award scheme (note 30(d))	–	–	–	–	–	–	–	(31,854)	–	–	(31,854)	–	(31,854)
Release upon disposal of properties	–	–	–	–	–	–	–	–	(18,032)	18,032	–	–	–
Issue of convertible preference shares, net of issuing costs (note 33)	–	329,714	–	–	–	–	–	–	–	–	329,714	–	329,714
Balance at 31 December 2017	1	329,714	1,488,153	18,156	88,206	8,256	338,509	10,772	–	(861,387)	1,420,380	8,373	1,428,753

The notes on pages 87 to 176 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation			
– From continuing operations		226,428	35,543
– From discontinued operation		(48,916)	121,060
		177,512	156,603
Adjustments for:			
Depreciation	7(c)&9	22,004	17,204
Amortisation of lease prepayments	7(c)&9	990	477
Amortisation of intangible assets	7(c)&9	11,427	5,325
Write-down of inventories	22	1,411	2,032
Impairment of trade receivables	7(c)&9	7,050	20,222
Reversal of impairment of trade receivables	7(c)&9	(1,550)	(27,273)
Impairment of other receivables	7(c)&9	569	541
Reversal of impairment of other receivables	7(c)&9	(970)	–
Finance costs	7(a)	43,150	29,032
Interest income	5&9	(2,796)	(4,061)
Net loss on disposal of property, plant and equipment	6&9	252	1,404
Gain on disposal of investment property	16	(7,652)	–
Equity-settled share-based payment expenses	7(b)	7,638	2,625
Share of loss of an associate	20	1,077	31
Loss on disposal of intangible assets	9	–	7,493
Loss on disposal of a subsidiary	9	–	3,504
Fair value change on financial liabilities at fair value through profit or loss	33	(9,050)	–
Changes in working capital:			
Decrease in inventories		100,338	5,740
Increase in trade and other receivables		(221,983)	(280,591)
Increase in trade and other payables		25,256	80,460
Decrease in pledged bank deposits		–	3,389
Cash generated from operations		154,673	24,157
Tax paid			
– PRC Income Tax paid		(7,112)	(3,464)
Net cash generated from operating activities		147,561	20,693

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

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

	Note	2017 RMB'000	2016 RMB'000
Investing activities			
Payment for consideration balance in relation to the acquisition of a subsidiary in prior years		(13,000)	(9,513)
Payment for purchase of property, plant and equipment		(9,734)	(11,953)
Payment for purchase of intangible assets – Miacalcic Nasal Spray and Miacalcic Injection		(334,455)	(712,126)
Payment for purchase of intangible assets – others		(2,449)	(124)
Payment for purchase of available-for-sale financial assets		(533)	–
Proceeds from disposal of property, plant and equipment		3,671	–
Net proceeds from disposal of investment property		49,783	–
Interest received		2,796	4,061
Decrease/(increase) in pledged bank deposits	24	67,830	(113,000)
Capital contribution to an associate	20	(8,000)	(12,000)
Net cash inflow on disposal of a subsidiary	36	–	435
Net cash used in investing activities		(244,091)	(854,220)
Financing activities			
Proceeds from new bank borrowings	25(b)	524,050	1,070,391
Repayment of bank borrowings	25(b)	(736,446)	(319,112)
Interest paid	7(a)	(43,150)	(24,763)
Proceeds from issuance of convertible preference shares	33	474,179	–
Payment for cost of issuing convertible preference shares	33	(4,304)	–
Proceeds from issuance of shares under share option scheme	30(c)	366	270
Redemption of unsecured debenture		–	(120,000)
Repayment of interest of unsecured debenture		–	(4,269)
Payment for shares purchased under share award scheme	30(d)	(31,854)	(5,504)
Dividend paid	12	(33,954)	(13,249)
Net cash generated from financing activities		148,887	583,764
Net increase/(decrease) in cash and cash equivalents		52,357	(249,763)
Cash and cash equivalents at 1 January		89,624	327,995
Effect of foreign exchange rate changes		4,887	11,392
Cash and cash equivalents at 31 December	25	146,868	89,624

The notes on pages 87 to 176 form part of these financial statements.

1. PRINCIPAL ACTIVITIES OF REPORTING ENTITY

The Company was incorporated in the Cayman Islands on 1 March 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 23 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in research and development, manufacturing, sales and distribution of pharmaceutical products and the provision of marketing and promotion services to suppliers in the People's Republic of China ("PRC or "Mainland China").

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in the PRC where the majority of the entities within the Group operate (i.e. the Group's functional currency).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following asset and liability are stated at their fair value:

- Available-for-sale financial asset and

- Financial liabilities at fair value through profit or loss

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

The consolidated financial statements have been prepared on a going concern basis, which is further detailed in note 3(j) below.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (continued)

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

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

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.

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 business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (iv) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 25(b). 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 25(b), the application of these amendments has had no impact on the Group's consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide guidance on how an entity determines, in accordance with HKAS 12 Income Taxes, whether to recognise a deferred tax asset in relation to unrealised losses of a debt instrument that is measured at fair value under certain specific facts and circumstances, such as it is probable that all the contracted cash flows of the debt instrument will be collected and any gains/losses on the debt instruments are taxable (deductible only when realised). The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to HKFRS 12 As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

The Group has applied the amendments to HKFRS 12 included in the Annual Improvements to HKFRs 2014-2016 Cycle for the first time in the current year. The amendments to HKAS 28 Investments in Associates and Joint Ventures included in the annual improvements are not yet mandatorily effective and they have not been early applied by the Group.

HKFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates and joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarified that except for summarised financial information, all other disclosure requirements under HKFRS 12 are applicable. The amendments have had no impact on the Group's financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

(d) Subsidiaries and non-controlling interests

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests (continued)

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (note 2(l)), unless this investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates (continued)

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

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

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

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

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2(l)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(f)(i) Business combinations

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

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

– deferred tax assets or liabilities and assets and liabilities, related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employees Benefits* respectively:

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

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f)(i) Business combinations (continued)

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

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

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 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f)(ii) Goodwill

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

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

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

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

(f)(iii) Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

(g) Construction in progress

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated in the consolidated statement of financial position at cost less impairment losses (note 2(l)(ii)). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent that these are regarded as an adjustment to borrowing costs (note 2(z)).

Construction in progress is not depreciated until such time as the assets are completed and substantially ready for their intended use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (note 2(l)(ii)).

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

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

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

– Plant and machinery	5 – 20 years
– Leasehold improvements	Over the term of lease
– Furniture, fixtures and office equipment	3 – 5 years
– Motor vehicles	3 – 5 years

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

(i) Investment properties

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

On initial recognition, investment properties are measured at cost including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by the end of owner-occupation, any excess of fair value of that item over the carrying amount at the date of change is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets (other than goodwill)

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite useful lives as set out in note (iv) to (ix) below.

(i) Brand rights with indefinite useful life

As disclosed in note 17(a) to the consolidated financial statements, the Group has acquired the exclusive intellectual property rights, marketing and distribution rights associated with trademarks and brand names for commercialisation of Miacalcic branded injectable and nasal spray pharmaceutical drugs which are used for treatment of bone pains caused by osteolysis and lower bone mass, osteoporosis, Paget's disease, hypercalcemia and reflex sympathetic dystrophy syndrome in all dosage forms (the "Miacalcic Injection" and "Miacalcic Nasal Spray") for an indefinite period of time in the Mainland China and certain other designated countries. Each of Miacalcic Injection and Miacalcic Nasal Spray is considered to have an indefinite useful life, given the strength and durability of the brand in treating the bone pains and level of marketing support. The risk of market-related factors causing a reduction in its life is considered to be relatively low. Up to date of approval of the financial statements, management of the Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factors that could limit its useful life. Accordingly, Miacalcic Injection and Miacalcic Nasal Spray are not amortised and are tested annually for impairment in accordance with note 2(l)(ii).

(ii) Club memberships

Club memberships represent the rights to use the club facilities for an indefinite period of time and are stated in the consolidated statement of financial position at cost less impairment losses (note 2(l)(ii)).

(iii) Good Supply Practices ("GSP") licences

GSP licences that are acquired by the Group with indefinite useful lives are stated in the consolidated statement of financial position at cost less impairment losses (note 2(l)(ii)).

The following intangible assets with finite use lives are stated at cost less accumulated amortisation and impairment losses (note 2(l)(ii)). Both the period and basis of amortisation of all intangible assets with finite useful lives are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets (other than goodwill) (continued)

(iv) Research and development

– Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred. Expenditure on development activities (relating to the design and testing of new or improved products) is capitalised under the category of "product development in progress" if the product or process is technically and commercially feasible, the Group has sufficient resources and the intention to complete the development, and the cost can be reliably measured. Upon the commencement of the commercial product of a product, the expenditure on development activities is transferred to "deferred development costs" and amortised on a straight– line basis over the period of its expected benefit. Research and development costs comprise costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

– Deferred development costs that are required by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses. The value in use model is used for the impairment assessment by the management of the Group.

(v) Intellectual property rights

Intellectual property rights (including the acquired deferred development costs, note 2(iv) above) are carried at cost less accumulated amortisation and impairment losses (note 2(l)(ii)). Amortisation is charged to profit or loss on a straight line basis over a period of 2 years and 17.33 years.

(vi) Trademarks

Trademarks that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 2(l)(ii)). Amortisation of trademarks is charged to profit or loss on a straight line basis over a period of 10 years.

(vii) New medicine protection rights

New medicine protection rights that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 2(l)(ii)). Amortisation of new medicine protection rights is charged to profit or loss on a straight line basis over the rights protection period.

(viii) Exclusive agency rights

Exclusive agency rights that are acquired by the Group are stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 2(l)(ii)). Amortisation of exclusive agency rights is charged to profit or loss on a straight line basis over the agency period ranging from 4 to 10 years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets (other than goodwill) (continued)

(ix) Computer software

Computer software that is acquired by the Group is stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 2(l)(ii)). Computer software is amortised over its estimated useful life of 5 to 10 years.

(k) Leased assets

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

(i) Classification of assets leased to the Group

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

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

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

(ii) Assets acquired under finance lease

When the Group acquire the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recognised as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the terms of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leased assets (continued)

(iii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(l) Impairment of assets

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

- For investments in associates accounted for under equity method in the consolidated financial statements, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2 (k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (continued)

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

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

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

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

(ii) Impairment of other assets

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

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Inventories

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

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

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

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

(n) Trade and other receivables

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

(o) Interest-bearing borrowings

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

(p) Trade and other payables

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

(q) Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits

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

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

(ii) Share option schemes

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Share award scheme

The Company operates a share award scheme for the purpose of providing incentives and rewards to eligible participants. An employee share trust is established and administered by an independent trustee and is funded by the Group's cash contributions. The considerations paid including any related transaction costs by the Company to purchase shares of the Company for the scheme are deducted from equity as an employee share trust. The administrator of the employee share trust purchases the Company's shares in the open market as award shares to employees upon vesting. Upon vesting of the award shares, the corresponding amount in the shares held under share award scheme will be transferred to the employee share trust.

(iv) Termination benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax

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

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

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

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

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

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

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

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

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

- the same taxable entity; or

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

(t) Provisions and contingent liabilities

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, loan from a substantial shareholder, bank borrowings and note payable) are subsequently measured at amortised cost, using the effective interest method.

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.

(v) Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently re-measured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

(w) Convertible preference shares

The component parts of the convertible preference shares are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component. The liability component of the convertible preference shares are designated as financial liabilities at fair value through profit or loss and are subsequently re-measured to their fair value at the end of the reporting period. The resulting fair value gain or loss is recognised in profit or loss immediately.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Convertible preference shares (continued)

The conversion option embedded in the instrument classified as equity is determined by deducting the fair value of the liability component from the fair value of the instrument as a whole. This is recognised and included and presented as "Convertible preference shares" in equity, net of any income tax effects, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium and share capital. Where the conversion option of the convertible preference shares remains unexercised, the balance recognised in equity. No gain or loss is recognised in profit or loss upon exercise of the conversion option.

Transaction costs that relate to the issue of the convertible preference shares are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion.

(x) Revenue recognition

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

(i) Sale of goods

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

(ii) Service income

Service income is recognised when the relevant services are rendered.

(iii) Sub-licensing fee income

Sub-licensing fee income is recognised on an accruals basis and in accordance with the terms of the relevant agreement.

(iv) Government grant/subsidy income

Government grant/subsidy income is recognised in the consolidation statement of financial position initially when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. Government grant/subsidy income that compensates the Group for expenses incurred is recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Government grant/subsidy income that compensates the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(v) Interest income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and those subsidiaries operating in Hong Kong is Hong Kong dollars while the functional currency for those subsidiaries operating in the PRC is RMB, which is the presentation currency of the consolidated financial statements.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

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

On disposal of a foreign operation with a functional currency other than Renminbi, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

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

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

(aa) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It occurs if the operation is abandoned.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Discontinued operations(continued)

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(bb) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(cc) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. Notes 17 and 30 contain information about the assumptions and their risk factors relating to impairment of intangible assets and the valuation of share options granted, respectively. Other key sources of estimation uncertainty in the preparation of the financial statements are as follows:

(a) Impairment of non-current assets

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected cash flows to be generated by the asset are discounted to their present value at the appropriate pretax discount rates that reflect the specific risks of the related non-current assets. Estimation of future cash flows requires significant judgement relating to the future level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions relating to projections of sales volumes, sales revenue and amount of operating costs.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Impairment of non-current assets(continued)

At 31 December 2017, as disclosed in note 17(f) below, management of the Group conducted the impairment assessment test, using the following key assumptions, on identified cash generating units ("CGUs") to which the Group's intangible assets, being brand rights of Miacalcic Injection and Miacalcic Nasal Spray and intellectual property rights of Xi Di Ke and Songzhi Wan, were allocated:

– Miacalcic Injection: pre-tax discount rate at 24.07% and expected growth rate of 3% for the forecast period beyond five years.
– Miacalcic Nasal Spray: pre-tax discount rate at 23.82% and expected growth rate of 3% beyond five years.
– Xi Di Ke: pre-tax discount rate at 23.48% and expected growth rate of 3% beyond five years.
– Songzhi Wan: pre-tax discount rate at 23.13% and expected growth rate of 3% beyond five years.

The above discount rates were determined based on the weighted average cost of capital of the Company which also reflected the specific risks of the respective CGUs and the above growth rates were not to exceed the average long-term growth rate for the relevant industry growth rate for the business of the respective CGUs. Based on the impairment assessment tests performed, the recoverable amounts of the relevant CGUs, to which Miacalcic Injection, Miacalcic Nasal Spray, Xi Di Ke and Songzhi Wan were allocated respectively, exceeded their respective carrying amounts and accordingly, no impairment on the carrying amounts of Miacalcic Injection, Miacalcic Nasal Spray, Xi Di Ke and Songzhi Wan were considered necessary at 31 December 2017.

For the purpose of sensitivity analysis on the potential possible downside effects on the above impairment assessment test on carrying amounts of Miacalcic Injection, Miacalcic Nasal Spray, Xi Di Ke and Songzhi Wan, had each of the above pre-tax discount rate been increased by 1% or each of their above growth rates decreased by 3% in the forecast period, no impairment was required in these scenarios on their respective carrying amounts at 31 December 2017.

(b) Depreciation and amortisation of property, plant and equipment and interest in leasehold land held for own use under operating lease

Property, plant and equipment are depreciated or amortised on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. Interest in leasehold land held for own use under operating lease is amortised over the lease term on a straight-line basis. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Useful lives and amortisation of intangible assets

The intangible assets with definite useful lives are amortised on a straight-line basis over the estimated useful lives. The management determines the estimated useful life and basis for amortisation taking into account factors including but not limited to, contractual terms of respective contracts, the expected usage of the assets by the Group based on past experience, technical obsolescence arising from changes or improvements in production or from a change in the market demand for the products of the assets. The estimation of the useful life and basis for amortisation is a matter of judgment based on the experience of the Group. Management reviews the useful life and basis for amortisation of intangible assets annually and, if expectations are significantly different from previous estimates of useful economics life, the amortisation rate for future periods will be adjusted accordingly.

Had different amortisation rates been used to calculate the amortisation of the intangible assets, the Group's result of operations and financial position could be materially different.

(d) Indefinite useful life for brand rights of Miacalcic Injection and Miacalcic Nasal Spray

As disclosed in note 17(a) to the consolidated financial statements, the Group has acquired the exclusive intellectual property rights and distribution rights associated with trademarks and brand names for commercialisation of Miacalcic Injection and Miacalcic Nasal Spray which are used for treatment of bone pains caused by osteolysis and lower bone mass, osteoporosis, Paget's disease, hypercalcemia and reflex sympathetic dystrophy syndrome in all dosage forms for an indefinite period of time in the Mainland China and certain other designated countries. Miacalcic Injection and Miacalcic Nasal Spray are well-known international orthopedic brands for a long time. Management of the Group considered that each of Miacalcic Injection and Miacalcic Nasal Spray has an indefinite useful life, given the strength and durability of the brands in treating the bone pains and level of marketing support. The risk of market-related factors causing a reduction in its life is considered to be relatively low. Up to the date of approval of the financial statements, management of the Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factors that could limit its economics useful life. Accordingly, Miacalcic Injection and Miacalcic Nasal Spray are not amortised. Miacalcic Injection and Miacalcic Nasal Spray are tested annually for impairment which is further disclosed in note 17(f).

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature.

Net realisable value could change significantly as a result of changes in customer preferences and competitor actions in response to market conditions. Management reassesses these estimates at the end of each reporting period.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(f) Impairment of trade and other receivables

The Group evaluates whether there is any objective evidence that trade and other receivables are impaired as a result of the inability of the customers to make the required payments. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at an initial recognition of these assets), where the effect of discounting is material. The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant. The assessment is then made collectively for financial assets carried at amortised cost which are not individually significant but share similar credit risk characteristics, and have not been individually assessed as impaired. Future cash flows of financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective asset group, and ageing profile of the collective asset group.

The Group estimates the impairment allowance for trade and other receivables by assessing the recoverability based on past write-off experience, credit history, past settlement records of debtors and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimates, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group re-assesses the impairment allowance at the end of each reporting period.

At 31 December 2017, included in the trade and bills receivables (net of allowance for bad and doubtful debtors) were approximately RMB292,215,000 receivable from two large state-owned pharmaceutical distributors in the Mainland China, which have sound financial position and good historical payment records, and management of the Group did not expect that there were material risks of non-payment from them.

All the aged and overdue trade receivables of RMB566,332,000 (2016: RMB566,332,000) related to the vaccine business, which was discontinued in 2015, had been fully provided for at both reporting period ends.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(g) Deferred tax assets

When assessing whether there will be sufficient future taxable profits available against which the deductible temporary differences can be utilised, the Group recognises deferred tax assets to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, using tax rates that would apply in the period when the asset would be utilised. In determining the amount of deferred tax assets, the Group exercises judgments about the estimated timing and amount of future taxable profits, and of the tax rates applicable in the future according to the existing tax policies and other relevant regulations. Differences between such estimates and the actual timing and amount of future taxable profits and the actual applicable tax rates affect the amount of deferred tax assets that should be recognised.

(h) Functional currency

The Company is carrying out its operating activities and making management decisions in Hong Kong and has significant degree of autonomy from its foreign subsidiaries in the way its business is managed. In the opinion of the directors of the Company, the functional currency of the Company is Hong Kong dollars.

(i) Income taxes and deferred taxation

The Group is subject to corporate income taxes in the Mainland China and Hong Kong. Significant judgements are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

(j) Going concern basis

At 31 December 2017, the Group's current liabilities exceeded current assets by approximately RMB117,860,000 which included, as disclosed in note 27 below, approximately RMB218,291,000 in respect of the non-current portions of long-term borrowings that contained a demand clause for immediate repayment at the discretion of the banks under the underlying loan agreements. During the year ended 31 December 2017 and up to the date of approval for the consolidated financial statements, there are no breaches on any of covenants of the relevant loan agreements. Notwithstanding the demand clause for immediate repayment in the bank loan agreements, the Company considered that the banks will not exercise their discretionary rights to demand immediate repayment of these non-current portions of these long-term borrowings in the next twelve months from the date of approval of the consolidated financial statements and before their maturities.

The consolidated financial statements have been prepared on the assumption that the Group will be able to operate as a going concern in the foreseeable future, after taking into consideration of (a) unused and available credit facilities of approximately RMB142 million, (b) new bank loans of approximately RMB28.5 million subsequently obtained from banks up to the date of approval for the consolidated financial statements, (c) additional new credit facilities and/or financial arrangements which are currently under serious and advanced stage of discussions between the Group and certain financial institutions, and (d) continuing financial support from a substantial shareholder of the Company who has agreed to provide adequate funds to the Group to enable it to meet its debts as and when they fall due in the foreseeable future.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(j) Going concern basis (continued)

Management of the Company has prepared a cash flow forecast of the Group for a period covering not less than twelve months from date of approval for the consolidated financial statements. Based on the cash flow forecast, after having taken into account of the Group's projected cash flows, current financial resources, existing and new credit facilities, the financial support from a substantial shareholder of the Company and the future capital expenditure requirement, management of the Company is of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of approval for the consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

(k) Fair value of financial liabilities at fair value through profit or loss

The fair values of liability component and call option of the convertible preference shares are determined using valuation techniques including reference to other instruments that are substantially the same, discount cash flow analysis and option pricing model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Details of the assumptions used in determining the fair values of the liability component and call option of the convertible preference shares are set out in note 33.

4. REVENUE

The principal activities of the Group are research and development, manufacturing, sales and distribution of pharmaceutical products and provision of marketing and promotion services to suppliers.

The amount of each significant category of revenue is as follows:

	Continuing operations	
	2017	2016
	RMB'000	RMB'000
		(Restated)
Revenue from:		
Sales of proprietary pharmaceutical products	**372,455**	313,782
Revenue from Miacalcic:		
– Sales of injectable products	**97,220**	–
– Sub-licensing fee income	**135,171**	45,827
	604,846	359,609

Sales of pharmaceutical products are derived from selling pharmaceutical products through the Group's two reportable segments as discussed in note 14.

5. OTHER REVENUE AND OTHER INCOME

	Continuing operations	
	2017	2016
	RMB'000	RMB'000
		(Restated)
Bank interest income	**94**	2,569
Government grants and subsidies	**14,438**	–
Sundry income	**7,737**	2,188
	22,269	4,757

Government grants and subsidies were received from the local government authorities in the PRC. There are no conditions attached to the grants and subsidies received by the Group.

6. OTHER NET LOSS

	Continuing operations	
	2017	2016
	RMB'000	RMB'000
		(Restated)
Net loss on disposal of property, plant and equipment	**388**	1,388
Net exchange loss	**1,932**	617
	2,320	2,005

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

	Continuing operations	
	2017	2016
	RMB'000	RMB'000
		(Restated)
Interest on bank and other borrowings	**42,720**	23,467
Interest on unsecured debenture	**–**	4,269
Bank charges	**430**	1,296
	43,150	29,032

7. PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs

	Continuing operations	
	2017	2016
	RMB'000	RMB'000
		(Restated)
Contributions to defined contribution retirement plans	**14,115**	6,821
Salaries, wages and other benefits	**84,743**	46,720
Equity-settled share-based payment expenses (note 30 (c) and (d))	**7,638**	2,625
	106,496	56,166

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement schemes (the "Schemes") organised by the relevant local authorities whereby the PRC subsidiaries are required to make contributions to the Schemes at rates which range from 15% to 20% (2016: 15% to 21%) of the eligible employees' salaries during the year. The relevant local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% (2016: 5%) of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (2016: HK$30,000). Contributions to the MPF scheme vest immediately.

The Group has no other material obligation for payment of pension benefits beyond the annual contributions described above.

7. PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

	Note	Continuing operations 2017 RMB'000	2016 RMB'000 (Restated)
Cost of inventories recognised as expense		120,611	105,776
Depreciation of property, plant and equipment	15	19,842	15,054
Amortisation of lease prepayments	15	990	243
Amortisation of intangible assets	17	11,404	5,147
Impairment loss of trade receivables	23(b)	7,050	–
Impairment loss of other receivables	23(d)	569	–
Loss on disposal of property, plant and equipment		388	1,388
Auditors' remuneration:			
– audit services		1,627	1,643
– Under-provision in prior year		23	69
– non-audit services		17	246
Operating lease charges in respect of properties		13,508	7,890
Reversal of impairment of trade receivables	23(b)	–	(3,420)
Research and development costs		8,415	6,911

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	Continuing operations 2017 RMB'000	2016 RMB'000 (Restated)
Current tax – PRC Income Tax		
Provision for the year	21,270	10,430
(Over)/under provision in respect of prior years	(6,247)	413
	15,023	10,843
Deferred tax		
Origination and reversal of temporary differences (note 29(b))	860	–
Income tax expense	15,883	10,843

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (CONTINUED)

(b) Reconciliation between actual income tax expense and profit before taxation at applicable tax rates:

	2017 RMB'000	2016 RMB'000
Profit before taxation from continuing operations	226,428	35,543
Notional tax on profit before taxation, calculated at the tax rates applicable in the jurisdictions concerned (notes (i) and (ii))	21,733	10,808
Tax effect of non-deductible expenses	4,441	4,679
Tax effect of non-taxable income	(22,423)	(8,483)
Tax effect of unused tax losses not recognised	11,780	8,317
Tax effect of other temporary differences recognised	6,599	(4,891)
(Over)/under provision in respect of prior years	(6,247)	413
Income tax expense for the year from continuing operations	15,883	10,843

Notes:

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

(ii) The Company's subsidiaries in the Hong Kong Special Administrative Region are subject to Hong Kong Profits Tax at tax rate of 16.5% (2016: 16.5%). No income tax provision is made for the Hong Kong subsidiaries for the years ended 31 December 2017 and 2016, as these subsidiaries either derived no income subject to Hong Kong Profits Tax or sustained tax losses for Hong Kong Profits Tax purposes.

The Company's subsidiaries in PRC are subject to a statutory income tax rate of 25% (2016: 25%), except for the subsidiary which is qualified for High and New Technology Enterprises and would be entitled to enjoy a beneficial tax rate of 15% (2016: 15%).

9. DISCONTINUED OPERATION

On 15 December 2017, the Company and Shanghai Fudan-Zhangjiang Bio Pharmaceutical ("FDZH") entered into the termination of sales and promotion agreement. With effect from December 2017, the Group had ceased third party pharmaceutical promotion and sales. The operation of the third-party pharmaceutical promotional and sales business in the PRC was classified as discontinued operation

The results of the discontinued operation included in the profit for the year are set out below. The comparative profit and cash flows from the discontinued operation have been re-presented to include the operation classified as discontinued in the current year. The comparative consolidated statement of profit or loss has been re-presented to show the discontinued operation separately from continuing operations.

9. DISCONTINUED OPERATION (CONTINUED)

	2017 RMB'000	2016 RMB'000
Profit for the year from discontinued operation:		
Revenue	277,062	555,510
Cost of sales	(126,028)	(315,714)
Gross profit	151,034	239,796
Other revenue	1,865	5,304
Loss on disposal of intangible assets	–	(7,493)
Loss on disposal of a subsidiary	–	(3,504)
Net gain on disposal of property, plant and equipment	136	(16)
Penalty	(11,607)	–
Provision for a legal claim (note 38)	(20,000)	–
Impairment of trade receivables	–	(20,222)
Impairment of other receivables	–	(541)
Reversal of impairment of trade receivables	1,550	23,853
Reversal of impairment of other receivable	970	–
Selling and distribution expenses	(102,198)	(94,581)
Administrative expenses	(69,589)	(21,505)
Share of loss of an associate	(1,077)	(31)
(Loss)/profit before taxation	(48,916)	121,060
Income tax (note 29(b))	–	(30,000)
(Loss)/profit for the year from discontinued operation	(48,916)	91,060
Profit for the year from discontinued operation include the following:		
Cost of inventories recognised as expense	(126,028)	(315,714)
Contributions to defined contribution retirement plans	(1,284)	(1,699)
Salaries, wages and other benefits	(5,092)	(6,740)
Equity-settled share-based payments	–	–
Total staff costs	(6,376)	(8,439)
Depreciation	(2,162)	(2,150)
Amortisation of lease prepayments	–	(234)
Amortisation of intangible assets	(23)	(178)
Impairment loss of trade receivables	–	(20,222)
Impairment loss of other receivables	–	(541)
Reversal of impairment loss of trade receivables	1,550	23,853
Reversal of other receivables	970	–
Cash flows from discontinued operation:		
Net cash (outflows)/inflows from operating activities	(46,766)	52,849
Net cash inflows/(outflows) from investing activities	107,838	(123,557)
Net cash (outflows)/inflows from financing activities	(99,345)	39,244
Net cash outflows	(38,273)	(31,464)
(Loss)/earnings per share		
Basic, from discontinued operation	(3.17) cents	5.88 cents
Diluted, from discontinued operation	(2.86) cents	5.85 cents

10. DIRECTORS' EMOLUMENTS

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

Year ended 31 December 2017

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment expenses *(note)*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Ng Tit	–	5,710	2,398	15	–	8,123
Chin Yu	–	162	–	–	–	162
Wu Weizhong	–	3,688	–	27	719	4,434
Non-executive directors						
Qian Wei	–	–	–	–	–	–
Ge Jianqiu (iii)	425	–	–	–	–	425
Lou Jianying (i)	–	–	–	–	–	–
Independent non-executive directors						
Patrick Sun	216	–	–	–	–	216
Yue Nien Martin Tang (iv)	108	–	–	–	–	108
Lap-Chee Tsui	216	–	–	–	–	216
Tze Shan Hailson Yu (ii)	108	–	–	–	–	108
Total	1,073	9,560	2,398	42	719	13,792

10. DIRECTORS' EMOLUMENTS (CONTINUED)

Year ended 31 December 2016

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment expenses *(note)*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Ng Tit	–	5,727	5,283	16	–	11,026
Chin Yu	–	–	–	–	615	615
Wu Weizhong	–	1,136	–	94	35	1,265
Non-executive directors						
Qian Wei	–	–	–	–	–	–
Ge Jianqiu	222	–	–	–	–	222
Wang Fan	–	–	–	–	–	–
Independent non-executive directors						
Patrick Sun	222	–	–	–	–	222
Yue Nien Martin Tang	222	–	–	–	–	222
Lap-Chee Tsui	222	–	–	–	–	222
Total	888	6,863	5,283	110	650	13,794

(i) Ms. Lou Jianying was appointed as non-executive director on 31 July 2017.

(ii) Mr. Yu Tze Shan Hailson was appointed as independent non-executive director on 29 June 2017.

(iii) Mr. Ge Jianqiu has resigned from non-executive director on 31 July 2017.

(iv) Mr. Yue Nien Martin Tang has resigned from independent non-executive director on 29 June 2017.

Note: These represent the estimated value of share options granted to the directors on the date of grant. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(r)(ii).

During the years ended 31 December 2017 and 2016, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 11 below as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest paid emoluments, two directors (2016: two directors) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three individuals (2016: three individuals) are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	3,607	3,414
Contributions to retirement benefits schemes	155	163
Equity-settled share-based payment expenses	4,476	292
	8,238	3,869

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

	2017 Number of individuals	2016 Number of individuals
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	–	2
HK$2,000,001 to HK$2,500,000	2	–
HK$2,500,001 to HK$3,000,000	–	–
HK$3,000,001 to HK$3,500,000	–	–
Over HK$3,500,000	1	–

12. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2017 RMB'000	2016 RMB'000
Final dividend proposed after the end of the reporting period of HK$3.5 cents (2016:HK$2.5 cents) per share	54,220	33,954

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period and is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

12. DIVIDENDS (CONTINUED)

(b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2017 RMB'000	2016 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$2.5 cents (2016:HK$1.0 cent) per share	33,954	13,249

13. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held for the share award scheme:

	2017 RMB'000	2016 RMB'000 (Restated)
Profit attributable to owners of the Company	214,111	25,121
(Loss)/profit from discontinued operation attributable to owners of the Company	(48,916)	91,060
	165,195	116,181

Weighted average number of ordinary shares (basic)

	2017 Number of of shares '000	2016 Number of of shares '000
Issued ordinary shares at 1 January	1,558,248	1,557,998
Effect of shares repurchased and held under share award scheme	(16,943)	(9,682)
Effect of share options exercised	239	60
	1,541,544	1,548,376

13. EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company and adjusted for the fair value gain recognised on the financial liabilities at fair value through profit or loss. The weighted average number of ordinary shares as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise or conversion of all diluted potential ordinary shares into ordinary shares.

	2017 RMB'000	2016 RMB'000 (Restated)
Earnings		
Profit from continuing operations attributable to owners of the Company	214,111	25,121
Fair value change on financial liabilities at fair value through profit or loss	(9,050)	–
Profit from continuing operations used to determine diluted earnings per share	205,061	25,121
(Loss)/profit from discontinued operation attributable to owners of the Company	(48,916)	91,060
	156,145	116,181

	2017 Number of of shares '000	2016 Number of of shares '000
Weighted average number of ordinary shares (basic) (note(a) above)	1,541,544	1,548,376
Effect of deemed issue of ordinary shares under the Company's share options schemes	7,040	8,488
Effect of conversion of convertible preference shares	163,072	–
Weighted average number of ordinary shares (diluted)	1,711,656	1,556,864

14. SEGMENT REPORTING

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments:

– Proprietary products production and sales: revenue from production and sales of NT branded products and generic drugs through the Company's subsidiary, Suzhou First Pharmaceutical Co., Ltd ("Suzhou First Pharma"), Jiangsu NT Biopharma Co., Ltd ("Jiangsu Biopharma") and NT Pharma (Changsha) Co., Ltd ("Changsha Pharmaceutical").

– Miacalcic: revenue from selling and marketing Miacalcic injectable and nasal spray branded products for treatment of bone pain caused by osteolysis and lower bone mass, osteoporosis, Paget's disease, hypercalcemia and reflex sympathetic dystrophy syndrome and sub-licensing of intellectual property rights and distribution rights of Miacalcic Injection and Miacalcic Nasal Spray, as defined and referred to in note 17(a) below.

In December 2017, as disclosed in Note 9, the third-party pharmaceutical promotion and sales segment had been ceased and discontinued.

(a) Segment results, assets and liability

For the purpose of assessing segment performance and allocation resources between segments, the Group's most senior executive management, who are also the executive directors of the Company, monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

– Segment assets include all tangible and intangible assets and other current and non-current assets with exception of unallocated corporate assets. Segment liabilities include trade and other payables and bank and other borrowings attributable to each reporting segment, with the exception of uncollected corporate liabilities.

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

Segments results represent profit or loss attributable to the segment without allocation of certain administrative costs and directors' remuneration. Taxation is not allocated to reportable segments. This is measure reported to the Group's most senior executive management for the purpose of resources allocation and performance assessment.

14. SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liability (continued)

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

	Continuing operations					
	Proprietary products production and sales		Miacalcic		Total	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Reportable segment revenue from external customers	372,455	313,782	232,391	45,827	604,846	359,609
Reportable segment gross profit	279,716	208,006	204,519	45,827	484,235	253,833
Reportable segment results	134,615	59,917	166,084	45,365	300,699	105,282
Other revenue:						
– Government grants and subsidies	14,438	–	–	–	14,438	–
– Sundry net income	7,737	2,188	–	–	7,737	2,188
Other net loss:						
– Loss on disposal of fixed assets	(388)	(1,388)	–	–	(388)	(1,388)
Fair value change on financial liabilities at fair value through profit or loss	–	–	9,050	–	9,050	–
Depreciation and amortisation	(28,835)	(18,172)	–	–	(28,835)	(18,172)
Impairment loss on trade receivables	(7,050)	–	–	–	(7,050)	–
Reversal of impairment of trade receivables	–	3,420	–	–	–	3,420
Impairment loss of other receivables	(569)	–	–	–	(569)	–
Reportable segment assets	1,021,352	648,042	1,204,917	1,056,700	2,226,269	1,704,742
Additions to non-current segment assets during the year	4,426	9,073	226,873	1,030,648	231,299	1,039,721
Reportable segment liabilities	687,227	263,283	573,317	821,252	1,260,544	1,084,535
Reportable segment capital commitments	484	474	–	450,905	484	451,379

14. SEGMENT REPORTING (CONTINUED)

(b) Reconciliations of reportable segment revenue and profit or loss

	Continuing operations	
	2017	2016
	RMB'000	RMB'000
Revenue		
Reportable segment total revenue and consolidated revenue	**604,846**	359,609
Profit		
Reportable segment operating profit	**300,699**	105,282
Unallocated head office and corporate expenses	**(36,935)**	(42,659)
Other revenue – unallocated	**94**	2,569
Other net loss – unallocated	**(1,932)**	(617)
Gain on disposal of investment property	**7,652**	–
Finance costs	**(43,150)**	(29,032)
Consolidated profit before taxation (continuing operations)	**226,428**	35,543
Assets		
Reportable segment assets	**2,226,269**	1,704,742
Assets relating to discontinued operation	**466,791**	781,758
Unallocated head office and corporate assets	**66,659**	76,239
Consolidated total assets	**2,759,719**	2,562,739
Liabilities		
Reportable segment liabilities	**1,260,544**	1,084,535
Liabilities relating to discontinued operation	**65,277**	425,187
Unallocated head office and corporate liabilities	**5,145**	13,995
Consolidated total liabilities	**1,330,966**	1,523,717

14. SEGMENT REPORTING (CONTINUED)

(c) Geographic information

The following table set out information about the geographical location of the Group's revenue from external customers and the Group's non-current assets. The geographical location of the Group's non-current assets is based on the physical location of the non-current assets and in the case of intangible assets, the location of the use of relevant intellectual property rights and distribution rights to which they are allocated.

	Revenue from external customers				Non-current assets*			
	2017		2016		2017		2016	
	Continuing operations RMB'000	Discontinued operations RMB'000	Continuing operations RMB'000	Discontinued operations RMB'000	Continuing operations RMB'000	Discontinued operations RMB'000	Continuing operations RMB'000	Discontinued operations RMB'000
PRC	571,024	277,062	349,344	555,510	1,590,548	20,458	1,426,532	49,044
Hong Kong	–	–	–	–	2,152	–	44,824	–
Other countries	33,822	–	10,265	–	–	–	–	–
	604,846	277,062	359,609	555,510	1,592,700	20,458	1,471,356	49,044

* Excluding deferred tax assets and available-for-sale financial assets of RMB56,885,000 (2016: RMB57,745,000) and RMB533,000 (2016: Nil) which were related to operation in the PRC and Hong Kong, respectively.

(d) Information from major customers

Revenue from major customers, which individually amounted to 10% or more of the total revenue, is set out below:

For the year ended 31 December 2017

	Continuing operations RMB'000	Discontinued operation RMB'000	Total RMB'000
Customer A	184,292	–	184,292
Customer B	135,171	–	135,171
Customer C	–	112,800	112,800
Customer D	–	93,412	93,412
Customer E	N/A	N/A	N/A

14. SEGMENT REPORTING (CONTINUED)

(d) Information from major customers (continued)

For the year ended 31 December 2016

	Continuing operations RMB'000	Discontinued operation RMB'000	Total RMB'000
Customer A	102,503	–	102,503
Customer B	N/A	N/A	N/A
Customer C	N/A	N/A	N/A
Customer D	–	230,953	230,953
Customer E	2,656	301,592	304,248

N/A – not applicable for the respective customer from which the sales was less than 10% of the total revenue of the respective year.

15. FIXED ASSETS

	Property, plant and equipment								
	Land and buildings held for use under finance lease RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Furniture, fixture and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:									
At 1 January 2017	261,867	77,591	10,536	10,078	7,530	2,006	369,608	47,754	417,362
Exchange adjustments	–	–	–	(80)	(140)	–	(220)	–	(220)
Additions	2,093	1,896	3,991	1,578	3	173	9,734	–	9,734
Disposals	(3,246)	(3,082)	(1,493)	(566)	(307)	–	(8,694)	–	(8,694)
At 31 December 2017	260,714	76,405	13,034	11,010	7,086	2,179	370,428	47,754	418,182
Accumulated depreciation and amortisation:									
At 1 January 2017	51,996	29,803	10,528	5,549	5,107	–	102,983	4,779	107,762
Exchange adjustments	–	–	–	(29)	(114)	–	(143)	–	(143)
Charge for the year	12,447	6,172	1,302	1,579	504	–	22,004	990	22,994
Written back on disposal	–	(2,723)	(1,252)	(520)	(276)	–	(4,771)	–	(4,771)
At 31 December 2017	64,443	33,252	10,578	6,579	5,221	–	120,073	5,769	125,842
Net book value:									
At 31 December 2017	196,271	43,153	2,456	4,431	1,865	2,179	250,355	41,985	292,340

15. FIXED ASSETS (CONTINUED)

	Property, plant and equipment								
	Land and buildings held for use under finance lease RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Furniture, fixture and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:									
At 1 January 2016	278,930	74,801	10,259	8,023	7,201	9,651	388,865	47,754	436,619
Exchange adjustments	1,929	–	94	41	124	–	2,188	–	2,188
Revaluation upon transfer to investment property	18,032	–	–	–	–	–	18,032	–	18,032
Transfer to investment property (note 16)	(49,243)	–	–	–	–	–	(49,243)	–	(49,243)
Additions	7,542	933	183	2,294	637	364	11,953	–	11,953
Transfer	6,051	1,958	–	–	–	(8,009)	–	–	–
Disposals	(1,374)	(101)	–	(280)	(432)	–	(2,187)	–	(2,187)
At 31 December 2016	261,867	77,591	10,536	10,078	7,530	2,006	369,608	47,754	417,362
Accumulated depreciation and amortisation:									
At 1 January 2016	44,734	23,491	10,152	5,157	4,830	–	88,364	3,790	92,154
Exchange adjustments	314	–	63	30	121	–	528	–	528
Transfer to investment property	(7,112)	–	–	–	–	–	(7,112)	–	(7,112)
Charge for the year	14,060	6,403	313	614	588	–	21,978	989	22,967
Written back on disposal	–	(91)	–	(252)	(432)	–	(775)	–	(775)
At 31 December 2016	51,996	29,803	10,528	5,549	5,107	–	102,983	4,779	107,762
Net book value:									
At 31 December 2016	209,871	47,788	8	4,529	2,423	2,006	266,625	42,975	309,600

(a) Interests in leasehold land held for own use under operating leases represent land use rights under medium term leases in the PRC. As at 31 December 2017, the remaining period of the land use rights ranged from 33 to 46 years (2016: 34 to 47 years).

(b) As at 31 December 2017, certain banking facilities of the Group were secured by certain property, plant and equipment of the Group with a net book value amounting of RMB84,693,000 (2016: RMB 89,792,000). Such property is located in PRC under medium-term land lease (note 27).

(c) During the year ended 31 December 2017, included in depreciation on property, plant and equipment and amortization charge on lease prepayment were aggregate amounts of RMB20,832,000 (2016: RMB15,297,000) and RMB2,162,000 (2016: RMB2,384,000) charged to the continuing operations and discontinued operation, respectively. During the last year ended 31 December 2016, the depreciation and amortization charge for the new factory of NT Biopharmaceuticals Jiangsu Co., Ltd. (泰凌生物製藥江蘇有限公司) amounted to RMB4,774,000 and RMB512,000, respectively) were included in prepayments because the new factory was pending the approval for the drug manufacturing permit, which was only granted in March 2017, by relevant authorities as further detailed in note 19(ii) below.

15. FIXED ASSETS (CONTINUED)

(d) During the year ended 31 December 2016, an owner-occupied property with carrying amount approximately of RMB24,099,000 (equivalent to HK$26,941,000) was transferred to investment property upon the change of the intention of the usage of the property by the directors of the Company. Fair value of the owner-occupied property at the date of transfer amounted to approximately of RMB42,131,000 (equivalent to HK$47,100,000) resulting in a gain on revaluation approximately of RMB18,032,000 (equivalent to HK$20,159,000) credited to property revaluation reserve.

16. INVESTMENT PROPERTY

	RMB'000
AT FAIR VALUE	
At 1 January 2016	–
Transfer from property, plant and equipment (note 15)	42,131
At 31 December 2016 and 1 January 2017	42,131
Disposal	(42,131)
At 31 December 2017	–

(a) As at 31 December 2016, the directors of the Company intended to change the usage of the owner-occupied property to investment property to earn rental income and/or for capital appreciation and as evidenced by the vacancy of the property, while the Group was looking for tenant in the market. The property revaluation reserve, being difference between the carrying amount and fair value which amounted to approximately of RMB18,032,000 (equivalent to HK$20,159,000), was recognised in other comprehensive income for the year ended 31 December 2016.

Upon disposal of the property as disclosed in (f) below, the property revaluation reserve of approximately HK$18,032,000 was released and credited to accumulated losses during the year ended 31 December 2017.

(b) The Group's investment property was held under medium-term leases in Hong Kong and was measured under the fair value model.

(c) The fair value of the investment property of the Group approximately of RMB42,131,000 (equivalent to HK$47,100,000) at 31 December 2016 were arrived at on the basis of open market value with reference to recent market transactions in comparable properties by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), a firm of independent professional qualified valuers. JLL have, among their staff, Fellows of the Hong Kong Institute of Surveyors with experience in the location and category of properties being valued.

(d) The valuation of the Group's investment property at 31 December 2016 was classified as Level 2 of the fair value hierarchy.

(e) As at 31 December 2016, the Group's investment property with carrying amount of RMB42,131,000 (2015: RMB24,035,000, which was classified as the office property and carried at the net book value) was pledged to a bank to secure banking facilities grated to the Group (note 27).

(f) The investment property was disposed to an independent third party at a consideration of approximately HK$56,387,000 (equivalent to approximately RMB49,783,000) and a gain on disposal of approximately RMB7,652,000 (2016: Nil) was credited to the profit or loss during the year ended 31 December 2017.

17. INTANGIBLE ASSETS

	Brand rights with indefinite useful life RMB'000	Intellectual property rights RMB'000	Trademarks RMB'000	New medicine protection rights RMB'000	GSP licence RMB'000	Club memberships RMB'000	Computer software RMB'000	Exclusive agency rights RMB'000	Total RMB'000
Cost:									
At 1 January 2016	–	131,425	7,283	9,330	7,030	1,172	6,301	50,000	212,541
Disposal	–	–	–	–	(7,030)	–	(510)	–	(7,540)
Additions	1,030,648	–	–	–	–	–	124	–	1,030,772
Exchange adjustments	5,243	–	–	–	–	78		–	5,321
At 31 December 2016 and 1 January 2017	1,035,891	131,425	7,283	9,330	–	1,250	5,915	50,000	1,241,094
Disposal	–	–	–	–	–	–	–	–	–
Additions	226,873	–	–	–	–	178	2,271	–	229,322
Exchange adjustments	(72,586)	–	–	–	–	(83)	–	–	(72,669)
At 31 December 2017	1,190,178	131,425	7,283	9,330	–	1,345	8,186	50,000	1,397,747
Accumulated amortisation and impairment									
At 1 January 2016	–	7,224	7,283	9,330	–	–	5,279	50,000	79,116
Charge for the year	–	5,066	–	–	–	–	259	–	5,325
Written off of disposal	–	–	–	–	–	–	(47)	–	(47)
At 31 December 2016 and 1 January 2017	–	12,290	7,283	9,330	–	–	5,491	50,000	84,394
Charge for the year	–	10,899	–	–	–	–	528	–	11,427
Written off of disposal	–	–	–	–	–	–	–	–	–
At 31 December 2017	–	23,189	7,283	9,330	–	–	6,019	50,000	95,821
Net book value:									
At 31 December 2017	1,190,178	108,236	–	–	–	1,345	2,167	–	1,301,926
At 31 December 2016	1,035,891	119,135	–	–	–	1,250	424	–	1,156,700

(a) Brand rights with indefinite useful life

(i) On 18 May 2016, NT Pharma International Company Limited, a wholly owned subsidiary of the Company incorporated in Hong Kong ("NT Pharma HK"), as the purchaser, entered into (i) an asset purchase agreement (the "Asset Purchase Agreement"), (ii) a Licence Agreement (" the Licence Agreement") and (iii) a Supply Agreement (the "Supply Agreement") with Novartis AG and Novartis Pharma AG, being companies organized under the laws of Switzerland (collectively "Novartis").

17. INTANGIBLE ASSETS (CONTINUED)

(a) Brand rights with indefinite useful life (continued)

(i) (continued)

Pursuant to the Asset Purchase Agreement, Novartis has agreed to transfer and NT Pharma HK has agreed to acquire (a) exclusive intellectual property rights, marketing and distribution rights associated with the trademarks and brand names for commercialisation of Miacalcic branded injectable pharmaceutical products for treatment of bone pains caused by osteolysis and lower bone mass, osteoporosis, Paget's disease, hypercalcemia and reflex sympathetic dystrophy syndrome in all dosage forms that are approved, marketed, distributed and/or sold by Novartis and its affiliates (the "Miaclcic Injection") and (b) exclusive intellectual property rights, marketing and distribution rights associated with the trademarks and brand names for the commercialisation of Miacalcic branded nasal spray pharmaceutical products in the form of nasal spray mainly for treatment of postmenopausal osteoporosis, that is approved, marketed, distributed and/or sold by Novartis and its affiliates (the "Miacalcic Nasal Spray"), for use in Mainland China and other designated countries. Miacalcic is a well-known international orthopedic brand for a long time.

Pursuant to the Licence Agreement, Novartis has granted exclusive licences for the respective intellectual property rights marketing and distribution rights associated with the trademarks and brand names of Miacalcic Injection and Miacalcic Nasal Spray that were acquired, respectively, by NT Pharma HK under the Asset Purchase Agreement and Second SPA (as defined below) for an indefinite period of time of use in Mainland China and other designated countries, after completion dates of their acquisitions.

Miacalcic Injection

The transactions under the Asset Purchase Agreement, the Licence Agreement, and the Supply Agreement were approved by the Company's shareholders at its extraordinary general meeting held on 7 July 2016. The purchase price for the exclusive intellectual property rights, marketing and distribution rights associated with the trademarks and brand names of Miacalcic Injection under the Asset Purchase Agreement and the Licence Agreement, which mainly include (a) the marketing authorisations and the Miacalcic import drug licences, (b) the transferred property (know-how, books and records, commercial information, marketing authorisation data and medical information (and any and all intellectual property rights in the forgoing)), (c) the transferred domain names, and (d) trademarks for commercialisation of Miacalcic Injection branded drugs, for an indefinite period of time for use in Mainland China and other designated countries was US$145 million (equivalent to approximately RMB1,006,965,000), after an arm's length of negotiations made between the Group and Novartis.

Pursuant to the Supply Agreement, Novartis shall manufacture and supply Miacalcic Injection branded products at the supply price effective on 7 July 2016 that are based upon consolidated total production costs of Novartis. Novartis may adjust the supply price on a unit-by-unit basis in accordance with the respective actual percentage increase or decrease in the consolidated total production costs, as applicable, calculated in the ordinary course of business consistent with past practice and consistent with the calculation of the supply price in the basis agreed with Novartis, provided that (a) there will be no upward adjustment in the first two years after 7 July 2016, and (b) the after-adjustment price applicable in the third and fourth year shall not exceed the relevant agreed ceiling price applicable in that period.

17. INTANGIBLE ASSETS (CONTINUED)

(a) Brand rights with indefinite useful life (continued)

(i) (continued)

Miacalcic Injection (continued)

The acquisition of Miacalcic Injection at the consideration of US$145 million was completed on 7 July 2016. The other direct costs relating to the acquisition of Miacalcic Injection amounted to approximately RMB23,683,000 were also capitalized. The directors of the Company considered that Miacalcic Injection shall has an indefinite period of time of use in Mainland China and other designated countries based on the Asset Purchase Agreement and the Licence Agreement.

Miacalcic Nasal Spray

On 25 October 2017, the purchase of Miacalcic Nasal Spray for curing osteoporosis had been completed under the two supplemental agreements: an asset purchase agreement ("Second SPA") and a supply agreement ("Second Supply Agreement"), both were made on 25 October 2017 between Novartis and NT Pharma HK. Based on the Second SPA, the consideration for the proposed purchase of Miacalcic Nasal Spray was revised to US$34 million (equivalent to approximately RMB225.5 million).

(ii) According to the Supply Agreement in relation to Miacalcic Injection, during the Phase 1 Period (which means the period, on a country-by-country basis, from the acquisition completion date (i.e. 7 July 2016 for Miacalcic Injection) until the earlier of (a) the marketing authorisation date or with respect to the China Territory, date of obtaining the Import Drug Licence for Miacalcic Injection; and (b) two years from the acquisition date (i.e. 6 July 2018 for Miacalcic Injection) with respect to the period in which the Group (as purchaser of Miacalcic Injection) has not built up its own sales team and/or has not yet obtained the legitimate marketing authorisation rights to distribute, sell or invoice sales for the Miacalcic Injection branded drug products in each country of the territories as designated under the Assets Purchase Agreement and the Licence Agreement, all the intellectual property rights, marketing and distribution rights associated with trademarks and brand names for commercialisation of Miacalcic Injection branded drugs are licenced back to Novartis, which acts in its capacity as a principal, is allowed to use all these rights to sell the Miacalcic Injection branded drug products in those countries as designated under the Asset Purchase Agreement and the Licence Agreement and in consideration of this sub-licensing arrangement for the use of these rights of Miacalcic Injection in each of the territories as designated under Asset Purchase Agreement and the Licence Agreement.

During the year ended 31 December 2017, the Group earned sub-licensing fee income of RMB127,709,000 (7 July 2016 to 31 December 2016: RMB45,827,000) from sub-licensing these intellectual property rights, marketing and distribution rights associated with trademarks and brand names relating to commercialization of Miacalcic Injection branded drugs.

According to the Second Supply Agreement in relation to Miacalcic Nasal Spray, during the Pre-MA Transfer Period (which means the period, on a country-by-country basis, from the respective closing date (which was 25 October 2017) until the earlier of (a) the marketing authorization date or the Import Drug Licence for Miacalcic Nasal Spray Transfer Date; and (b) two years from the respective closing date (i.e. 25 October 2019 for Miacalcic Nasal Spray) with respect to the period in which NT Pharma HK (as purchaser of the intellectual rights, marketing and distribution rights) has not yet obtained the marketing authorisation to distribute, sell or invoice sales for the Miacalcic Nasal Spray branded products in each country of the territories as designated under the Second SPA, all the relevant intellectual property rights, marketing and distribution rights associated with trademarks and brand names for commercialisation of the Miacalcic Nasal Spray products are licenced back by NT Pharma HK to Novartis, which acts in its capacity as a principal and in consideration of this sub-licencing arrangement, Novartis shall pay the Group a sub-licencing fee for its use of these rights of Miacalcic Nasal Spray in the relevant territories as designated under the Second SPA and Second Supply Agreement.

17. INTANGIBLE ASSETS (CONTINUED)

(a) Brand rights with indefinite useful life (continued)

(ii) (continued)

During the period from 25 October 2017 to 31 December 2017, the Group earned licencing fee income from Novartis, in respect of the intellectual rights, marketing and distribution rights relating to Miacalcic Nasal Spray, of approximately RMB7,462,000 (2016: Nil).

(iii) Miacalcic Injection and Miacalcic Nasal Spray are well-known international orthopedic brands for a long time. Miacalcic Injection and Miacalcic Nasal Spray are considered to have an indefinite period of economic useful life in Mainland China and other designated countries under the Asset Purchase Agreement and Second SPA, and the Licence Agreement, given the strength and durability of the brands in treating the bone pains and the level of marketing support. Up to the date of approval for the consolidated financial statements, the risk of market-related factors causing a reduction in its life is considered to be relatively low. At 31 December 2017 and up to the date of approval for the consolidated financial statements, the Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factors that could limit its economic useful life. Accordingly, Miacalcic Injection and Miacalcic Nasal Spray are not amortised but are tested annually for impairment in accordance with the Group's accounting policy as set out in note 2(l)(ii). At 31 December 2017, the impairment test on Miacalcic Injection was performed as disclosed in note 17(f) below.

(b) Intellectual property rights

Intellectual property rights represent patents, know-how and trademarks in relation to Xi Di Ke and Songzhi Wan. Xi Di Ke is the commercial name of an uroacitides injection formula and a unique national class 1 new drug approved by the CFDA for the treatment of non-small cell lung cancer and breast cancer. An added indication of Xi Di Ke is for treating myelodysplastic syndrome ("MDS") which is in clinical trial phase II. At 31 December 2017, costs of Xi Di Ke amounted to approximately RMB38,542,000 (2016: RMB38,542,000) of which approximately RMB14,580,000 (2016: RMB14,580,000), RMB3,000,000 (2016: RMB3,000,000) and RMB20,962,000 (2016: RMB20,962,000) were respectively related to the patents for drug use in treating non-small cell cancer and breast cancer, know-hows for MDS and trademarks of Xi Di Ke that were acquired by the Group in 2013. The patents of Xi Di Ke will expire in October 2019. In 2015 and 2016, the Group submitted two applications for new patents of which the know-hows were developed on the existing patents for Xi Di Ke. Management of the Group is optimistic in obtaining the new patents for Xi Di Ke such that the legal protection period of the patents for Xi Di Ke will be extended further in the future. During the years ended 31 December 2016 and 2015, the GMP Certificate for commercialization of Xi Di Ke has not yet been granted by the CFDA and Xi Di Ke was not available for intended use at 31 December 2016 and 2015 and as such, amortisation for the cost of Xi Di Ke has not yet been commenced for both years. On 2 March 2017, the GMP Certificate for Xi Di Ke has been granted by the CFDA to the Group and the costs of patents and trademarks for Xi Di Ke are amortised on a straight-line basis over their respective estimated useful life of 3 years and 10 years, respectively, based on the experience of management of the Group. During the year ended 31 December 2017, amortisation charge on patents and trademarks of Xi Di Ke in aggregate amounted to approximately RMB5,833,000 (2016: Nil). The capitalised acquisition costs of know-hows for MDS of Xi Di Ke, which is still in clinical trial phase II, are deferred and not subject to amortisation as regulatory approval for use is not yet obtained at both reporting period ends.

17. INTANGIBLE ASSETS (CONTINUED)

(b) Intellectual property rights (continued)

Songzhi Wan, with a cost of approximately RMB92,883,000 acquired in 2015, is the only Chinese medicine capable of treating Hepatitis C approved by the CFDA, which was included in the National Major Scientific and Technical Breakthrough Program under the "10th Five-Year Plan" and the National High Technology Research and Development Program (863 Program) successively during the course of its development. During the phase I-II-III clinical trial of Songzhi Wan, its efficacy and safety had been carefully verified with modern medicine, for which it was finally approved with a National New Drug Certificate, and it has 20 years of patent protection from 30 April 2000. After the expiration of the National New Drug Certificate, the exclusive rights of the patents for Songzhi Wan, which is classified as a Type 2 of the Chinese medicine, can be further extended, at insignificant costs, by 14 years from 30 April 2020. The drug manufacturing permit for Songzhi Wan was obtained from the relevant governmental authorities on 1 January 2016 and during the year ended 31 December 2016, the commercial production for Songzhi Wan was commenced. The costs of Songzhi Wan are amortised on a straight-line basis over its useful life of 18.33 years and the amortisation charge of RMB5,066,000 (2016: RMB5,066,000) was charged to the profit or loss for the year ended 31 December 2017.

At 31 December 2017, the carrying amounts of Xi Di Ke and Songzhi Wan amounted to approximately RMB25,486,000 (2016: RMB31,319,000) and RMB82,750,000 (2016: RMB87,816,000), respectively. The directors of the Company are of the opinion that the carrying amounts of Xi Di Ke and Songzhi Wan can be recovered, based on the impairment assessment test as further detailed in note (f) below, and as such, no impairment was considered necessary for each of them at both reporting period ends.

(c) During the year ended 31 December 2016, the carrying amount of the GSP licence was transferred to 上海鑫合醫藥有限公司 ("上海鑫合"), which was a former associate at the time of transfer, at zero consideration as part of the arrangement under a conditional agreement dated 21 December 2015 for a contemplated disposal of the Group's interest in 上海鑫合 to an independent third party buyer for a proposed consideration of approximately US$5.5 million which was subsequently terminated by that buyer in 2016, and accordingly, a loss of disposal of RMB7,030,000 was charged to profit or loss for the year ended 31 December 2016.

(d) Exclusive agency rights represent agency fees of RMB30 million and RMB20 million prepaid to suppliers to secure the PRC distribution rights of 10 years and 4 years for two pharmaceutical products, respectively. These exclusive agency rights were amortised on a straight-line basis over their respective useful lives, being the period of agency rights. By the end of 2012, the Group decided to terminate a herbal dermatological product as a consequence of surging raw materials cost and relinquished the exclusive agency right. A full impairment loss of RMB17,000,000 was provided accordingly for the remaining book value of the exclusive agency right, in the previous years.

(e) Club memberships represent the rights to use the club facilities over an indefinite period of time. Accordingly, no amortisation has been charged to profit or loss during the years ended 31 December 2017 and 2016. Management of the Group considered that no impairment indicators for the club memberships for which the expected fair value less cost of disposal exceeded the carrying amounts at 31 December 2017. At the end of both reporting periods, the carrying amounts of the club memberships were below their fair value less cost of disposal and accordingly, no impairment loss was considered necessary.

(Expressed in Renminbi unless otherwise indicated)

17. INTANGIBLE ASSETS (CONTINUED)

(f) Impairment assessment tests

As at 31 December 2017, the recoverable amount of the brand rights of Miacalcic Injection and Miacalcic Masal Spray, and intellectual property rights of Xi Di Ke and Songzhi Wan (2016: Xi Di Ke and Songzhi Wan) had been determined based on a value-in-use calculations with reference to professional valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") (2016: JLL), an independent firm of professional and qualified valuers with qualification and experience in the assets being valued. The calculation used cash flow projections based on financial budgets approved by management of the Group covering a five-year period for Miacalcic Injection, Miacalcic Nasal Spray, Xi Di Ke and Songzhi Wan. Cash flows beyond their respective projection periods are extrapolated using the following estimated long-term growth rates which were based on the relevant industry growth forecasts and did not exceed the average long-term growth rates for the businesses of the cash generating units ("CGUs") to which these intangible assets of Miacalcic Injection, Xi Di Ke and Songzhi Wan are allocated. JLL estimated the following pre-tax discount rates on basis of weighted average cost of capital of the relevant entities with the Group, which also included additional risk premiums to reflect the size premium risk and specific risk of these CGUs.

2017	Pre-tax Discount rate	Long-term growth rate
Miacalcic Injection	24.07%	3%#
Miacalcic Nasal Spray	23.82%	3%#
Xi Di Ke	23.48%	3%#
Songzhi Wan	23.13%	3%#

2016	Pre-tax Discount rate	Long-term growth rate
Miacalcic Injection	23.85%	4.8%*
Xi Di Ke	23.72%	3%#
Songzhi Wan	23.68%	3%#

beyond a projection period of five years.

* beyond a projection period of nine years.

Based on the impairment assessment, the recoverable amounts of the CGUs, to which these intangible assets of Macalcic Injection, Miacalcic Nasal Spray, Xi Di Ke and Songzhi Wan are allocated, exceeded their respective carrying amounts of these CGUs and accordingly, no impairment for each of Miacalcic Injection, Miacalcic Nasal Spray, Xi Di Ke and Songzhi Wan was required at 31 December 2017 and 2016.

(Expressed in Renminbi unless otherwise indicated)

17. INTANGIBLE ASSETS (CONTINUED)

(f) Impairment assessment tests (continued)

Profoma sensitivity analysis on potential downside effects on the carrying amounts of CGUs, to which these intangible assets are allocated, arising from the following unexpected unfavorable changes on the assumptions for their respective discount rates and long-term growth rates applied in the above impairment assessments are summarized below:

	If discount rate +1%	If long-term growth rate -3%	If discount rate +1% and long-term growth rate -3%
Proforma downside effects on the carrying amounts of following intangible assets at 31 December 2017:			
– Miacalcic Injection	No	No	No
– Miacalcic Nasal Spray	No	No	No
– Xi Di Ke	No	No	No
– Songzhi Wan	No	No	No

	If discount rate +1%	If long-term growth rate –3%	If discount rate +1% and long-term growth rate –3%
Proforma downside effects on the carrying amounts of following intangible assets at 31 December 2016:			
– Miacalcic Injection	No	No	No
– Xi Di Ke	No	No	No
– Songzhi wan	No	No	No

18. GOODWILL

The goodwill of RMB1,250,000 was derived from prior year business acquisitions of NT Tongzhou (BJ) Pharma Co., Ltd. and NT Tongzhou Pharma (SH) Co., Ltd. and, as expected synergy at acquisition date, was allocated to the vaccine promotion and sales business segment, which was subsequently discontinued in 2012. Full impairment for the goodwill was therefore made during the year ended 31 December 2012.

(Expressed in Renminbi unless otherwise indicated)

19. INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	Place of incorporation and business	Particulars of issued and paid up/registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
NT Pharma (Group) Co., Ltd.	BVI	9 shares of US$1 each	100%	100%	–	Investment holding
Kimford Investment Limited ("Kimford")	BVI	1 share of US$1	100%	–	100%	Investment holding
Goldwise Resources Limited	BVI	1 share of US$1	100%	–	100%	Dormant
Tai Ning Pharmaceutical (Investment) Company Limited	BVI	1 share of US$1	100%	–	100%	Investment holding
Farbo Investment Limited	BVI	1 share of US$1	100%	–	100%	Investment holding
Humford Investment Limited	BVI	1 share of US$1	100%	–	100%	Investment holding
Green-Life Healthy Foods (Hong Kong) Company Limited	Hong Kong	1 share	100%	–	100%	Dormant
NTP (China) Investment Co., Limited	Hong Kong	15,000,000 shares	100%	–	100%	Investment holding
NT Pharma (HK) Limited	Hong Kong	2 shares	100%	–	100%	Trading of prescription medicines
NT Pharma (Overseas) Holding Co., Ltd.	BVI	1 share of US$1	100%	–	100%	Investment holding
NT Pharma International Company Limited	Hong Kong	1 share	100%	–	100%	Provision of use right of licence
NT Pharma Pacific Company Limited (note (iii))	Hong Kong	1 share of HK$1	100%	–	100%	Dormant
NT Pharma (SH) Co., Ltd. (泰凌醫藥貿易(上海)有限公司) (note (i))	PRC	US$2,000,000	100%	–	100%	Sales of prescription medicines
NT Tongzhou (BJ) Pharma Co., Ltd. (泰凌同舟(北京)醫藥 有限公司) (note (i))	PRC	RMB10,000,000	100%	–	100%	Sales of prescription medicines and vaccines
Guangdong NT Pharma Co., Ltd. (廣東泰凌醫藥有限公司) (note (i))	PRC	RMB20,000,000	100%	–	100%	Sales of prescription medicines and vaccines

(Expressed in Renminbi unless otherwise indicated)

19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and business	Particulars of issued and paid up/registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
NT Tongzhou Pharma Consulting (SH) Co., Ltd. （泰凌同舟醫藥諮詢（上海）有限公司） (note (i))	PRC	US$3,370,000	100%	–	100%	Provision of logistics and consulting services
Hainan Tai Ling Medical Information Consulting Co., Ltd. （海南泰靈醫葯信息諮詢有限公司） (note (i))	PRC	RMB100,000,000	100%	–	100%	Sales of vaccines
NT Tongzhou Pharma (SH) Co., Ltd. （泰凌同舟醫藥（上海）有限公司） (note (i))	PRC	RMB50,000,000	100%	–	100%	Sales of prescription medicines and vaccines
Suzhou First Pharmaceutical Co., Ltd. ("Suzhou First Pharma") （蘇州第壹醫藥有限公司） (notes (i))	PRC	RMB181,625,000	100%	–	100%	Manufacturing of prescription medicines
NT Pharma (China) Co., Ltd. （泰凌醫藥（中國）有限公司） (note (i))	PRC	US$11,851,400	100%	–	100%	Dormant
NT Pharma (Jiangsu) Co., Ltd. （泰凌醫藥（江蘇）有限公司） (note (i))	PRC	RMB276,600,000	100%	–	100%	Sales of prescription medicines and vaccines
NT Pharma Information Consulting (SH) Co., Ltd. （泰凌醫藥信息諮詢（上海）有限公司） (note (i))	PRC	US$26,500,000	100%	–	100%	Provision of consulting services
NT (Jiangsu) Biotechnology Co., Ltd. （泰凌（江蘇）生物科技有限公司） (note (i))	PRC	US$30,070,000	100%	–	100%	Investment holding
NTP (China) Investment Co., Ltd. （泰凌（中國）投資有限公司） (note (i))	PRC	US$30,000,000	100%	–	100%	Provision of consulting services
NT Biopharmaceuticals Jiangsu Co., Ltd. 泰凌生物製藥江蘇有限公司 (notes (i), (ii))	PRC	RMB112,359,550	89%	–	89%	Research and development of prescription medicines and vaccines
NT Pharma (Changsha) Co., Ltd （泰凌醫藥（長沙）有限公司） (note (i))	PRC	RMB10,000,000	100%	–	100%	Manufacturing of prescription medicines
NT Pharma (Jiangsu) Investment Co., Ltd. （江蘇泰凌投資有限公司） (note (i))	PRC	RMB36,000,000	100%	–	100%	Investment holding
Suzhou Pharmaceutical Taizhou Co.,LTD （蘇壹制药泰州有限公司） (note (i))	PRC	RMB50,000,000	100%		100%	Dormant

19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Notes:

(i) The English translation of the company names is for reference only. The official names of these entities are in Chinese.

(ii) On 11 August 2015, the Group made an investment agreement ("Investment Agreement") with two independent third parties ("New Investors"), pursuant to which, the registered capital of NT Biopharmaceuticals Jiangsu Co., Ltd (泰凌生物製藥江蘇有限公司) was increased to RMB112,359,550, by RMB12,359,550 which was acquired by the New Investors for an aggregate sum of RMB50,000,000 in cash ("Invested Capital") in November 2015, and another wholly-owned indirect subsidiary of the Company shall transfer its intellectual property rights and trademark of Xi Di Ke, with carrying amount of RMB25,486,000 (2016: RMB31,319,000) at 31 December 2017 (note 17(b)), to NT Biopharmaceuticals Jiangsu Co., Ltd (泰凌生物製藥江蘇有限公司), at no consideration, and such transfer has not yet been completed as at 31 December 2017.

Based on the Investment Agreement, when the board of directors of NT Biopharmaceuticals Jiangsu Co., Ltd (泰凌生物製藥江蘇有限公司) declares distribution of its profits, the New Investors shall be entitled, out of the declared profit of NT Biopharmaceuticals Jiangsu Co., Ltd, (泰凌生物製藥江蘇有限公司), to a dividend at the higher of a preferred dividend calculated at 8% of the Invested Capital, or a dividend out of profit declared for distribution in accordance with their respective shareholdings in NT Biopharmaceuticals Jiangsu Co., Ltd. (泰凌生物製藥江蘇有限公司). In addition, according to the terms of the Investment Agreement, the Group has undertaken to the New Investors that NT Biopharmaceuticals Jiangsu Co., Ltd (泰凌生物製藥江蘇有限公司) shall submit application for an initial public offer listing in a recognized stock exchange in the PRC (the "IPO") before 31 December 2019 and obtain the approval from China Securities Regulatory Commission for the IPO before 31 December 2021 and failing which, the Group shall repurchase from the New Investors for their equity interests in NT Biopharmaceuticals Jiangsu Co., Ltd (泰凌生物製藥江蘇有限公司) at the consideration to be determined at the higher of the fair value of their equity interests in NT Biopharmaceuticals Jiangsu Co., Ltd (泰凌生物製藥江蘇有限公司) at the repurchase date and the Invested Capital plus a return calculated at the annual rate of 30% over the prevailing interest rates, to be announced by The Peoples' Bank of China from time to time, during the period up to the repurchase date.

In March 2017, the GMP Certificate was granted by CFDA for Xi Di Ke which was commercially launched during the year.

Summarized financial information in respect of NT Biopharmaceuticals Jiangsu Co., Ltd, that has non-controlling interests, is set out below. The summarized financial information below represents amounts before intra-group elimination:

NT Biopharmaceuticals Jiangsu Co., Ltd

	2017 **RMB'000**	2016 RMB'000
Non-current assets	**132,172**	139,495
Current assets	**50,673**	50,981
Current liabilities	**(55,243)**	30,455
Net assets	**127,602**	160,021
Carrying amount of NCI	**8,373**	11,939
Revenue	**37,094**	–
Loss for the year	**(32,419)**	(3,831)
Loss allocated to NCI	**(3.566)**	(421)
Cash flows used in operating activities	**(44,274)**	(866)
Cash flows used in investing activities	**(507)**	(1,920)
Cash flows generated from financing activities	**44,564**	–

(iii) Incorporated on 22 August 2017.

20. INTEREST IN AN ASSOCIATE

	2017 RMB'000	2016 RMB'000
At 1 January	11,969	–
Capital contribution	8,000	12,000
Share of post-acquisition loss	(1,077)	(31)
At 31 December	18,892	11,969

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

			Proportion of ownership interest			
Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
泰州醫藥城盈泰醫藥有限公司 ("盈泰醫藥")	PRC	RMB100,000,000	40%	–	40%	Sales of prescription medicines and provision of consulting services

盈泰醫藥 is an unlisted corporate entity whose quoted market price is not available.

(b) On 18 September 2016, the Group entered into an investment agreement with an independent third party (泰州醫藥城盈商貿有限公司, New Investor), pursuant to which, the Group and New Investor agreed to establish a company (泰州醫藥城盈泰醫藥有限公司, 盈泰醫藥), which has registered capital of RMB100 million. The Group and the New Investor contributed RMB40 million and RMB60 million to 盈泰醫藥 in which the Group and New Investor own 40% and 60%, respectively. Since the Group has the power to appoint two directors out of five directors of the board of 盈泰醫藥, the Group can only exercise significant influence over its operating and financial activities, accordingly, it is regarded as an associate using the equity accounting method. The Group contributed RMB8 million (2016: RMB12 million) to capital 盈泰醫藥 during the year, with the balance of RMB20 million (2016: RMB28 million) to be disclosed as capital commitments as further detailed in note 35 to the financial statements.

20. INTEREST IN AN ASSOCIATE (CONTINUED)

(c) Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

盈泰醫藥

	2017 RMB'000	2016 RMB'000
Gross amounts of the associate's		
Non-current assets	–	–
Current assets	47,229	34,207
Non-current liabilities	–	–
Current liabilities	–	4,285
Total equity	47,229	29,922
Revenue	109,483	31,082
Loss for the year	2,693	77
Other comprehensive loss	–	–
Total comprehensive loss	2,693	77
Reconciliation to the Group's interest in the associate		
Gross amount of net assets of the associate	47,229	29,922
Group's share of net assets of the associate	18,892	11,969
Carrying amount in the consolidated financial statements	18,892	11,969
Aggregate amounts of the Group's share of the associate's		
Loss for the year	1,077	31
Other comprehensive loss	–	–
Total comprehensive loss	1,077	31

21. AVAILABLE-FOR-SALE FINANCIAL ASSET

The available-for-sale financial asset represents the club debenture that is stated at fair value. The fair value is determined with reference to the recent similar market transactions around/or at the reporting period end and the cost of disposal is estimated by management of the Group after taking into account of the handling charges to be charged by the club and other transaction costs in disposal of the club debenture.

22. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2017 RMB'000	2016 RMB'000
Raw materials	19,745	18,837
Work in progress	3,137	4,309
Finished goods	42,431	143,916
	65,313	167,062

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

	2017 RMB'000	2016 RMB'000
Cost of inventories sold (note)	245,228	419,458
Write-down of inventory in normal course of business	1,411	2,032
	246,639	421,490

Note:

Cost of inventories sold includes RMB71,642,000 (2016: RMB31,032,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately for each of these types of expenses in note 7(b) and (c) above, and raw materials of RMB3,581,000 (2016: RMB1,853,000).

23. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade debtors and bills receivable	1,270,563	1,074,489
Less: Allowance for doubtful debts (note (b))	(618,457)	(612,957)
	652,106	461,532
Deposits, prepayments and other receivables (note (d))	159,686	133,376
	811,792	594,908

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

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

Ageing analysis of trade debtors and bills receivable (net of allowance for doubtful debts), based on the billing date of invoice, is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	221,542	285,185
More than 3 months but within 6 months	19,098	73,295
More than 6 months but within 1 year	263,294	70,219
More than 1 year but within 2 years	148,172	32,833
More than 2 years	–	–
	652,106	461,532

Ageing analysis of trade debtors and bills receivable (net of allowance for doubtful debts), based on payment due date, is as follows:

	2017 RMB'000	2016 RMB'000
Not past due	190,372	198,306
Less than 3 months past due	49,935	159,288
More than 3 months but less than 6 months past due	218,677	49,844
More than 6 months but less than 1 year past due	50,757	47,293
More than 1 year but less than 2 years past due	142,365	6,801
More than 2 years	–	–
	652,106	461,532

Trade debtors are normally due within 60 to 180 days from the date of billing. All trade debtors are related to non-vaccine business. Management of the Group considered that the above carrying amounts of trade receivables can be fully recoverable, after taking into account of the credit standing, financial position and past payment history records of the respective customers. Further details of the Group's credit policy are set out in note 34(a).

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade debtors

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**612,957**	620,008
Impairment loss recognised during the year (notes 7(c) and 9)	**7,050**	20,222
Reversal of impairment during the year (notes 7(c) and 9)	**(1,550)**	(27,273)
At 31 December	**618,457**	612,957
Analysis of allowance for impairment of trade debtors at 31 December:		
Vaccine*	**566,332**	566,332
Non-vaccine	**52,125**	46,625
	618,457	612,957

* The business of third-party vaccine and pharmaceuticals had been discontinued in 2015 and all the related trade receivables had been fully impaired at both reporting period ends.

Impairment losses in respect of trade debtors and bills receivable was 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 debtors and bills receivable directly (note 2(l)(i)).

As at 31 December 2017, the Group performed an individual credit evaluation on all vaccine debtors. These evaluations considered the debtor's background, financial strengths, repayment status during and after 2017, and other specific circumstances with the debtors. As a result of the evaluation exercise based on the information available and current circumstances at 31 December 2017, the Group recorded impairment provision of RMB566,332,000 (2016: RMB566,332,000) against the gross receivables balance from customers of the vaccine business which were overdue for more than one year and brought forward from previous years, and a reversal of impairment of Nil (2016: RMB2,371,000) was credited to the consolidated income statement for the year ended 31 December 2017. In respect of non-vaccine business related trade receivables, allowance for doubtful debts of RMB52,125,000 (2016: RMB46,625,000) was recognised against the gross receivable balance of RMB704,231,000 (2016: RMB508,157,000) as at 31 December 2017, resulting in a reversal of impairment of non-vaccine trade receivables of RMB1,550,000 (2016: RMB24,902,000) for the year ended 31 December 2017.

As at 31 December 2017, the Group's trade debtors and bills receivable of RMB618,457,000 (2016: RMB612,957,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts of RMB7,050,000 (2016: RMB20,222,000) was recognised and charged to the consolidated income statement for the year ended 31 December 2017.

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	190,372	198,306
Less than 3 months past due	49,935	81,489
More than 3 months but less than 6 months past due	218,620	49,717
More than 6 months past due	184,189	52,000
	452,744	183,206
	643,116	381,512

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired included balances of RMB452,744,000 (2016: RMB183,206,000) in respect of non-vaccine business. These non-vaccine receivables relate to a number of independent customers that have demonstrated a consistent track record of repayment 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 any significant change in their credit quality and the balances are still considered to be fully recoverable. The non-vaccine receivables that were past due but not impaired represent management's assessment of the recoverability of the individual balances based on information available and current circumstances.

The Group does not hold any collateral over non-vaccine related receivable balances.

(d) Deposits, prepayments and other receivables

	2017 RMB'000	2016 RMB'000
VAT recoverable	35,360	60,980
Other receivables, net of allowance for impairment loss (note below)	13,483	10,118
Prepayments	12,310	21,636
Prepayments for purchase of goods	88,000	30,226
Advances paid to suppliers	3,419	5,277
Rental and other deposits	7,114	5,139
	159,686	133,376

Note:

At the reporting end, allowance for impairment loss on other receivables amounted to RMB36,417,000 (2016: RMB36,818,000).

24. PLEDGED BANK DEPOSITS

Bank deposits of the Group of RMB65,170,000 (2016: RMB133,000,000) were pledged to banks to secure certain bank borrowings (note 27) and bank acceptance bills amounting to RMB115,895,000 (2016: RMB40,000,000) (note 26) as at 31 December 2017.

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2017 RMB'000	2016 RMB'000
Cash at banks and in hand	146,868	89,624

As at 31 December 2017, the Group's cash and bank balances placed with banks in the PRC amounted to RMB92,172,000 (2016: RMB72,480,000). Remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

(b) Reconciliation of liabilities arising from financing activities

	Bank and other borrowings (note 27) RMB'000
At 1 January 2017	892,449
Changes from financing cash flows:	
Proceeds of new bank borrowings	524,050
Repayment of bank and other borrowings	(736,446)
Total changes from financing cash flows	680,053
Exchange adjustments	(23,998)
At 31 December 2017	656,055

26. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade creditors	15,875	24,628
Bills payable (note (a))	115,895	40,000
Total trade creditors and bills payable (note (b))	131,770	64,628
Receipts in advance from customers	12,573	7,914
Accrued promotional expenses	17,563	81,953
Accrued staff costs	3,109	2,191
Considerations payable (note 28)	223,712	188,156
Other payables and accruals	121,112	104,185
	509,839	449,027

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

Notes:

(a) As at 31 December 2017, bills payable of RMB115,895,000 (2016: RMB40,000,000) were secured by the bank deposits of RMB65,000,000 (2016: RMB20,000,000).

(b) Ageing analysis of trade creditors and bills payable based on the billing date of invoices is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	124,136	56,738
More than 3 months but within 6 months	4,989	2,816
More than 6 months but within 1 year	246	2,011
More than 1 year	2,399	3,063
	131,770	64,628

27. BANK AND OTHER BORROWINGS

Details of bank and other borrowings are as follows:

	2017 RMB'000	2016 RMB'000
Bank borrowings	656,055	703,466
Other borrowings	–	188,983
	656,055	892,449
Secured	656,055	803,466
Unsecured	–	88,983
	656,055	892,449

	2017 RMB'000	2016 RMB'000
Carrying amount payable:		
– Within one year	437,764	497,596
– After one but within two years	65,764	155,565
– After two but within five years	152,527	232,958
– Over five years	–	6,330
Total borrowings	656,055	892,449
Less: Current loans portion of borrowings due for repayment within one year	(437,764)	(497,596)
Non-current portion of borrowings subject to immediate demand repayment clause	(218,291)	(394,853)
Non-current borrowings	–	–

(i) Certain of the Group's bank borrowings facilities are subject to the fulfillment of covenants as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable immediately. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 34(b). During the year end at 31 December 2017, and up to date of approval for the consolidated financial statements, there was no beach of covenants of the relevant loan agreements.

27. BANK AND OTHER BORROWINGS (CONTINUED)

(ii) As at 31 December 2017, the Group had banking and the other borrowings facilities of RMB839,000,000 (2016: RMB827,429,000), which were utilised to the extent of RMB697,000,000 (2016: RMB678,391,000). The banking and other borrowings facilities were secured by certain assets of the Group as set out below:

	2017 RMB'000	2016 RMB'000
Fixed assets	84,693	89,792
Investment property	–	42,131
Pledged bank deposits	170	113,000
	84,863	244,923

(iii) At 31 December 2017, other borrowing of RMBNil (2016: RMB88,983,000) was guaranteed by two executive directors of the Company, Mr. Ng Tit and Ms Chin Yu, and corporate guarantees provided by the Company and a subsidiary.

28. CONSIDERATIONS PAYABLE

These represented the balances payable for the acquisition of the intellectual property rights and distribution rights relating to Miacalcic Injection, Miacalcic Nasal Spray and Songzhi Wan.

Details of considerations payable are as follows:

	2017 RMB'000	2016 RMB'000
Miacalcic Injection (note 17(a))	145,992	318,522
Miacalcic Nasal Spray (note 17(a))	64,948	–
Songzhi Wan	12,772	25,772
Total considerations payable	223,712	344,294
Less: Portion classified under current liabilities (note 26)	(223,712)	(188,156)
Non-current portion	–	156,138

29. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2017 RMB'000	2016 RMB'000
Provision for Hong Kong Profits Tax	2,417	2,417
Provision for PRC income tax	31,597	23,686
	34,014	26,103

(b) Deferred tax assets and liabilities recognised:

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

	Provision for asset impairment RMB'000
At 1 January 2016	87,745
Charged to profit or loss (note 9 & note below)	(30,000)
At 31 December 2016 and 1 January 2017	57,745
Charged to profit or loss (note 8(a))	(860)
At 31 December 2017	56,885

Note: For the year ended 31 December 2016, the effects of reversal of the temporary difference for deferred tax assets of approximately RMB30,000,000, in respect of the operation which was discontinued in 2017 as referred to note 9, arose mainly from internal restructuring of the business of the relevant subsidiaries within the Group which contributed to a decrease in expected future taxable profits of these subsidiaries against which, the deductible temporary differences, which were previously recognized as deferred tax assets in respect of the provision for impairment of trade receivables, would be utilized in the future.

29. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised: (continued)

Reconciliation to the consolidated statement of financial position

	2017 RMB'000	2016 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	56,885	57,745
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	–
	56,885	57,745

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(s), the Group did not recognise deferred tax assets in respect of unused tax losses of certain subsidiaries amounting to RMB626,518,000 (2016: RMB1,311,897,000) and other temporary differences amounting to RMB522,808,000 (2016: RMB516,298,000) as at 31 December 2017. The directors consider it is not probable that future taxable profits will be available to utilise these deferred tax assets. The tax losses will expire in following years:

	2017 RMB'000	2016 RMB'000
2017	–	572,719
2018	268,731	480,016
2019	103,216	45,007
2020	66,104	67,112
2021	110,005	147,043
2022	78,462	–
	626,518	1,311,897

(d) Deferred tax liabilities not recognised

No deferred tax liabilities in respect of undistributed profits of PRC subsidiaries have been provided as the Group controls the dividend policy of these subsidiaries and has no plans to distribute profits that are subject to PRC dividend withholding tax in the foreseeable future.

As at 31 December 2017, the aggregate amounts of undistributed profits of the Group's PRC subsidiaries, for which the deferred tax liabilities have not been recognised, were approximately RMB270,431,000 (2016: RMB195,822,000). No deferred tax liability has been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of these temporary differences and it is probable that such differences will not reverse in the foreseeable future.

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Share option schemes

NT Pharma Holdings Company Limited ("NT Holdings") operated a share option scheme which was adopted on 18 September 2009 ("2009 Share Option Scheme"). Under the scheme, certain employees of the Group may be granted share options to acquire the shares in NT Holdings. The options vest after one to three years from the date of grant and are exercisable within ten years after the date of grant. Each option gives the holder the right to subscribe for one ordinary share in NT Holdings.

On 7 April 2011, the directors of NT Holdings terminated the 2009 Share Option Scheme and the directors of the Company adopted the Pre-IPO Share Option Scheme under which each option gives the holder the right to subscribe for one ordinary share in the Company. Under the Pre-IPO Share Option Scheme, each grantee of options under the 2009 Share Option Scheme exchanged his/her options under the 2009 Share Option Scheme for options under the Pre-IPO Share Option Scheme on a 2 for 1 basis. The exercise price payable by the grantees for each option granted under the Pre-IPO Share Option Scheme is double the exercise price payable by the grantees for their respective options granted under the 2009 Share Option Scheme (save for those options which have an exercise price of 70% of the price at which the Company offered its shares for subscription in the public offering on 20 April 2011 (the "Offer Price")). All other terms of the Pre-IPO Share Option Scheme are identical to the 2009 Share Option Scheme. The exchange of the share options was considered a modification to the 2009 Share Option Scheme. As the modification did not result in a material change in the value of the outstanding options at the date of modification, the modification had no impact on the profit or loss of the Group for the year ended 31 December 2011.

The Company adopted a share award scheme (the "Share Award Scheme") on 11 January 2012 which was subsequently terminated on 6 March 2014.

A new share option scheme was approved and adopted by the shareholders of the Company pursuant to an ordinary resolution passed on 22 September 2014 ("2014 Share Option Scheme"). The 2014 Share Option Scheme was set up for the purpose to provide rewards and incentives to eligible participants for their contribution to the Group. The exercise price is to be determined by the Board and shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of such a share option; (ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding to the day of offer of such a share option; and (c) the nominal value of the Shares. A nominal consideration of HK$1 is payable on acceptance of the share option within 21 days from the date of making such offer.

The maximum number of shares in respect of which options may be granted under the 2014 Share Option Scheme and any other share option schemes of the Company may not exceed 10% of the issued share capital of the Company at the date of approval of the 2014 Share Option Scheme. The options under the 2014 Share Option Scheme vest after one to three years from the date of grant are exercisable for a period of ten years following the date of grant.

During the year ended 31 December 2017 and 2016, no share option was granted to employees under the 2014 Share Option Scheme.

(Expressed in Renminbi unless otherwise indicated)

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

Share option schemes (continued)

(a) The terms and conditions of the grants (after modification)

Date	Number of options	Vesting conditions	Exercise period
Options granted to directors:			
– 1 March 2010	2,400,000	Exercisable in 3 equal tranches from 1 March each year from 2011 to 2013	On or prior to 28 February 2020
– 1 July 2010	3,227,325	Exercisable in 3 equal tranches from 1 July each year from 2011 to 2013	On or prior to 30 June 2020
– 15 January 2015	8,000,000	Vesting of the options is conditional upon the performance of the participant. Options granted are vested in 3 equal tranches from 1 January each year from 2017 to 2018	On or prior to 14 January 2025
	13,627,325		
Options granted to employees:			
– 18 September 2009	29,003,915	Exercisable in 3 equal tranches from 18 September each year from 2010 to 2012	On or prior to 17 September 2019
– 28 January 2010	11,373,966	Exercisable in 3 equal tranches from 28 January 2010 to 2012	On or prior to 27 January 2020
– 1 March 2010	100,000	Exercisable in 3 equal tranches from 1 March each year from 2010 to 2012	On or prior to 28 February 2020
– 1 July 2010	1,522,675	Exercisable in 3 equal tranches from 1 July each year from 2010 to 2012	On or prior to 30 June 2020
– 1 September 2010	800,000	Exercisable in 3 equal tranches from 1 September each year from 2010 to 2012	On or prior to 31 August 2020
– 1 November 2010	1,000,000	Exercisable in 3 equal tranches from 1 November each year from 2010 to 2012	On or prior to 31 October 2020
– 17 December 2010	600,000	Exercisable in 3 equal tranches from 17 December each year from 2010 to 2012	On or prior to 16 December 2020
– 10 November 2014	487,500	Immediate from the date of grant	On or prior to 9 November 2024
– 10 November 2014	1,462,500	Exercisable in 3 equal tranches from 10 November each year from 2016 to 2017	On or prior to 9 November 2024
– 10 November 2014	850,000	Vesting of the options is conditional upon the performance of the participants. Options granted are vested in 3 equal tranches from 10 November each year from 2016 to 2017	On or prior to 9 November 2024
– 15 January 2015	1,200,000	Vesting of the option is conditional upon the performance of the participants	On or prior to 9 November 2024
	48,400,556		
Options granted to consultants (as quasi-employees):			
– 15 January 2015	9,000,000	Vesting of the option is conditional upon the performance of the participant	On or prior to 14 January 2025
	71,027,881		

(Expressed in Renminbi unless otherwise indicated)

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

Share option schemes (continued)

(b) The number and weighted average exercise prices of share options

	2017		2016	
	Weighted average exercise price	Weighted Number of options	Weighted average exercise price	Weighted Number of options
Outstanding at the beginning of the year	US$0.17	28,576,384	US$0.17	28,826,384
Exercised during the year	US$0.16	(329,166)	US$0.16	(250,000)
Forfeited during the year				
– Unvested	US$0.16	(220,834)	–	–
– Vested	–	–	–	–
Granted during the year	–	–	–	–
Outstanding at the end of the year	US$0.17	28,026,384	US$0.17	28,576,384
Exercisable at the end of the year	US$0.17	24,015,740	US$0.17	24,565,740

The share options outstanding at 31 December 2017 under the 2009 Share option Scheme and 2014 Share Option Scheme had exercise price of US$0.2 (2016: US$0.20) and ranged from US$0.16 to US$0.20 (2016: ranged from US$0.16 to US$0.20), respectively and weighted average remaining contractual life of 2 years (2016: 3 years) and 6.5 years (2016: 7.5 years), respectively.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options. The estimate of the fair value of the share options granted is measured based on a Binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Binomial lattice model.

Fair value of share options and assumptions	Options granted on 18 September 2009	Options granted on 28 January 2010	Options granted on 1 March 2010	Options granted on 1 July 2010	Options granted on 1 September 2010	Options granted on 1 November 2010	Options granted on 17 December 2010	Options granted on 10 November 2014	Options granted on 15 January 2016
Fair value at measurement date	US$0.14	US$0.16	US$0.14	US$0.22	US$0.22	US$0.16	US$0.18	HK$0.87	HK$0.67
Share price	US$0.24	US$0.28	US$0.24	US$0.34	US$0.34	US$0.34	US$0.34	HK$1.24	HK$1.20
Exercise price	US$0.20	US$0.20	US$0.20	US$0.20	US$0.20	US$0.20	HK$3.18 (70% of the Offer Price)	HK$1.25	HK$1.23
Expected volatility	58.46%	58.23%	58.00%	59.51%	58.94%	53.10%	57.19%	61.66%	74.90%
Option life	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	4.297%	4.378%	4.293%	4.072%	3.415%	3.241%	3.858%	1.83%	1.49%

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions (continued)

The expected volatility is based on the historical volatility of listed companies in similar industries (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

The Group recognised the total expense of RMB880,000 (2016: RMB2,625,000) in the profit or loss during the year in relation of share options granted by the Company.

(d) Share award scheme

The Company's share award scheme was adopted on 4 September 2016 for the purchase of rewarding and directors and employees of the Company and its subsidiaries (the "eligible employees") with the shares of the Company. Pursuant to the share award scheme, existing shares of the Company will be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the eligible employees until such shares are vested with the eligible employees in accordance with the provisions of the share award scheme. The shares of the Company granted under the scheme and held by the trustee until vesting are referred to as the reward share units and each reward share unit shall represent one ordinary share of the Company.

During the year ended 31 December 2017, the trustee had purchased 20,186,500 shares (2016: 2,929,500 shares) of the Company at a total cost (including related transaction costs) of RMB31,854,000 (2016: RMB5,504,000) which had been deducted from the equity. 4,501,798 shares (2016: Nil) were awarded to eligible employees during the year ended 31 December 2017, under the share award scheme, with aggregate fair value of approximately HK$6,758,000 (2016: Nil) at award dates when they were vested, which was charged to profit or loss during the year ended 31 December 2017. At 31 December 2017, the trustee held 25,665,702 (2016: 9,981,000) shares of the Company purchased but not yet awarded under the share award scheme.

31. FINANCIAL INSTRUMENTS BY CATEGORIES

	2017 RMB'000	2016 RMB'000
Financial assets		
Available for sale financial asset at fair value	533	–
Trade and other receivables	672,703	466,671
Pledged bank deposits	65,170	133,000
Cash and cash equivalents	146,868	89,624
At amortised cost	884,741	689,295
Financial liabilities		
Trade and other payables	509,839	605,165
Bank and other borrowings	656,055	892,449
At amortised cost	1,165,894	1,497,614
Financial liabilities at fair value through profit or loss	131,058	–
	1,296,952	1,497,614

31. FINANCIAL INSTRUMENTS BY CATEGORIES (CONTINUED)

(a) Financial assets and liabilities measured at fair value

The disclosure of fair value measurements by level of the following fair value measurement hierarchy:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets and liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Available-for-sale financial asset	–	533	–	533
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	–	130,557	130,557

There were no transfer between Level 1 and Level 2, or transfers into or out of Level 3 in the current year.

(b) Reconciliation of Level 3 fair value measurement of financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000
At 13 June 2017	141,408
Issuing costs	(1,247)
Fair value change	(9,050)
Exchange adjustment	(53)
At 31 December 2017	131,058

The above change in fair value is included in "fair value change on financial liabilities at fair value through profit or loss" in the consolidated statement of profit or loss.

(c) Fair values of financial instruments carried at other than fair value

The fair values of these financial instruments are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

32. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000 (note 32(c))	Convertible preference shares RMB'000 (note 33)	Share premium RMB'000 (note 32(d)(i))	Exchange reserve RMB'000 (note 32(d)(ii))	Other reserve RMB'000 (note 32(d)(v))	Capital reserve RMB'000 (note 32(d)(vi))	Accumulated losses RMB'000	Total
Balance at 1 January 2016	1	–	1,487,120	6,284	383,379	624	(1,158,536)	718,872
Changes in equity for 2016:								
Profit for the year	–	–	–	–	–	–	114,770	114,770
Other comprehensive income								
Exchange differences on translation	–	–	–	47,574	–	–	–	47,574
Total comprehensive income	–	–	–	47,574	–	–	114,770	162,344
Dividend paid	–	–	–	–	(13,249)	–	–	(13,249)
Share options exercised	–	–	441	–	–	(171)	–	270
Equity-settled share-based transactions	–	–	–	–	–	2,625	–	2,625
Shares purchased for share award scheme (Note 30(d))	–	–	–	–	–	(5,504)	–	(5,504)
Forfeiture of share options	–	–	–	–	–	–	–	-
Balance at 31 December 2016 and 1 January 2017	1	-	1,487,561	53,858	370,130	(2,426)	(1,043,766)	865,358
Changes in equity for 2017:								
Profit for the year	-	-	-	-	-	-	84,972	84,972
Other comprehensive income								
Exchange differences on translation	-	-	-	(73,240)	-	-	-	(73,240)
Total comprehensive income	-	-	-	(73,240)	-	-	84,972	11,732
Dividend paid	-	-	-	-	(33,954)	-	-	(33,954)
Share options exercised (note 32(c) (iii))	-	-	592	-	-	(226)	-	366
Equity-settled share-based transactions (note 7(b))	-	-	-	-	-	7,638	-	7,638
Shares purchased for share award scheme (Note 30(d))	-	-	-	-	-	(31,854)	-	(31,854)
Forfeiture of share options	-	-	-	-	-	-	-	-
Issue of convertible preference share, net (Note 33)	-	329,714	-	-	-	-	-	329,714
Balance at 31 December 2017	1	329,714	1,488,153	(19,382)	336,176	(26,868)	(958,794)	1,149,000

32. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividend

A dividend of HK3.5 cents (2016: HK2.5 cent) per ordinary share and preference share after the end of the reporting period is proposed. The dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

(c) Share capital

A summary of movements in the Company's issued share capital during the years ended 31 December 2017 and 2016 are as follows:

	2017		2016	
	No of shares '000	RMB'000	No of shares '000	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	1,558,248	1	1,557,998	1
Shares issued upon exercise of share options (note (ii) below)	329	–	250	–
	1,558,577	1	1,558,248	1

Notes:

(i) The Company was incorporated on 1 March 2010 with an authorised share capital of US$50,100 divided into 626,250,000,000 shares of US$0.00000008 each and one share was issued at par upon incorporation.

(ii) During the year ended 31 December 2017, share options to subscribe for 329,166 (2016: 250,000) shares were exercised for cash proceeds of approximately RMB366,000 (2016: RMB270,000), for which RMB0.2 (2016: RMB0.14) was credited to share capital and approximately RMB592,000 (2016: RMB441,000) was credited to the share premium account and approximately RMB226,000 (2016: RMB171,000) was debited to capital reserve.

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the nominal value of the shares of the Company and proceeds received from the issuance of shares of the Company. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

32. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves (continued)

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of non-PRC entities. The reserve is dealt with in accordance with the accounting policy set out in note 2(v).

(iii) Statutory reserve

Pursuant to applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory reserve must be made before distribution of dividends to shareholders. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase the registered capital of the subsidiary.

(iv) Merger reserve

The merger reserve represents the difference between the net assets of the subsidiaries acquired in 2005, which were under common control of the Controlling Shareholders, and the cash consideration paid.

(v) Other reserve

The Company's other reserve arose from the transfer of the entire equity interest in NT Group from NT Holdings to the Company and acquisition of non-controlling interests in Suzhou First Pharma.

The Group's other reserve arose from the capitalisation of the amount due to NT Holdings as a result of the reorganisation and represented the difference between the amount due to NT Holdings of RMB383,380,000 and the nominal value of the shares of the Company issued in exchange thereof.

(vi) Capital reserve

The capital reserve represents capital contribution surplus of approximately RMB37,640,000, attributable to the Group, made by non-controlling interests of a subsidiary of the Company in 2015, the portion of the grant date fair value of unexercised share options granted to employees of the Group, that has been recognised in accordance with the accounting policy adopted for share-based payments as set out in note 2(r)(ii), and costs of the Company's shares purchased for the share award scheme (note 30(d)) less the fair value of share-based payments in respect of such shares awarded to the employees which were vested at award date and recognised in accordance with the accounting policy as set out in note 2(r)(iii).

(vii) Property revaluation reserve

Property revaluation reserve represented the difference between the carrying amount and the fair value of certain land and building at the date of transfer from leasehold land, property, plant and equipment to investment property.

(e) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to the equity holders of the Company was RMB865,535,000 (2016: RMB813,925,000), being the net amount of share premium, other reserve and accumulated losses.

32. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt-to-assets ratio. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there is adequate working capital to service its debt obligations. The Group's debt-to-assets ratio, being the Group's total interest-bearing borrowings over its total assets, at 31 December 2017 and 2016 was 34.8% and 18.7% respectively.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

33. CONVERTIBLE PREFERENCE SHARES

On 13 June 2017, the Company issued 294,659,500 non-voting convertible preference shares of HK$1.83 each ("CPSs") with total gross proceeds of HK$539,227,000 (equivalent to approximately RMB474,179,000) to 7 placees according to the placing agreement entered into by the Company with the placing agent on 19 April 2017. The costs of issuing these CPSs amounted to approximately HK$5,000,000 (equivalent to approximately RMB4,304,000).

The CPSs holders shall have no right to attend or vote at general meetings of the Company. Subject to compliance with applicable law and Articles of Association, so long as the Company has resolved to pay dividend, 30% of the audited profit of each financial year would be distributed to holders of CPSs and ordinary shares of the Company as dividends.

Each of the CPSs, without a maturity date, is convertible into one ordinary share of the Company at no additional consideration. Conversion of CPSs into ordinaries shares of the Company, which has no expiry date, can be made at any time after the issuance of the CPSs. The holders of CPSs shall be required to convert all but not part of the CPSs into ordinary shares of the Company provided that the audited profit is not less than RMB160 million, RMB250 million and RMB350 million for the years ended 31 December 2017, 2018 and 2019, respectively ("Compulsory Conversion"). The Company may redeem ("Call Option") and the holders of the CPSs shall have the rights to require the Company to redeem ("Put Option") with cash the outstanding CPSs which the conversion rights have not been exercised in whole or in part by giving 30 business days' prior notice to the other party thereof on or after 36th month upon the placing completion date, with a redemption price calculated based on the annualised IRR 5% for the nominal value of the outstanding CPSs less the corresponding dividends for such CPSs by the Company.

(Expressed in Renminbi unless otherwise indicated)

33. CONVERTIBLE PREFERENCE SHARES (CONTINUED)

The conversion options of the CPSs meet the fixed-for-fixed criteria, that is, will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's ordinary shares, and accordingly, the conversion options of the CPSs are classified as equity component and are not remeasured after initial recognition. At initial recognition, the equity component of the CPSs was separated from the fair value of liability component comprising the Company's obligations under Put Option to redeem and/or obligations to pay dividends, which are designated and presented as "financial liabilities at fair value through profit or loss". The equity component is presented in equity heading "Convertible preference shares". The Call Option at the Company's discretion is classified as a financial asset at fair value through profit or loss.

At the issue date on 13 June 2017, the fair value of the equity component of approximately HK$160,900,000 (equivalent to approximately RMB141,408,000) and the liability component, designated at fair value through profit or loss, of approximately HK$378,400,000 (equivalent to approximately RMB332,771,000) and fair value of Call Option of Nil of the CPSs, and at 31 December 2017, the fair value of the liability component and Call Option of the CPSs amounted to approximately HK$149,979,000 (equivalent to approximately RMB131,058,000) and Nil, respectively, were determined by JJL using the binomial model with the key assumptions as follows:

	At 31 December 2017	At 13 June 2017
– Closing price the Company's ordinary shares	**HK$1.91**	HK$1.70
– Conversion price of each of the CPSs	**HK$1.83**	HK$1.83
– Dividend payout ratio of the Company	**30%**	30%
– Volatility of the Company's ordinary shares	**42.87%**	47.23%
– Dividend yield of the Company	**2.07%**	Nil
– Probability of compulsory conversion	**46.13%**	37.51%
– Risk free rate with reference to the Hong Kong Sovereign curve yield of Hong Kong Government bonds with maturity due in 2 to 3 years	**1.33%**	0.74%
– Discount rate (note below)	**23.97%**	26.43%

Note: The discount rate of 23.97%, at 31 December 2017, reflected and comprised risk free rate (1.33%), the credit risk (2.61%), liquidity risk (1.5%) and company specific risk (18.53%) as extracted from Bloomberg for comparable companies in the pharmaceutical industry.

The discount rate of 26.43%, at 13 June 2017, reflected and comprised risk free rate (0.74%), the credit risk (5.66%), liquidity risk (1.5%) and company specific risk (18.53%) as extracted from Bloomberg for comparable companies in the pharmaceutical industry.

33. CONVERTIBLE PREFERENCE SHARES (CONTINUED)

Movements of the two components of the CPSs during the year were set out below:

	Financial liabilities at fair value through profit or loss RMB'000	Equity component (Note 32(a)) RMB'000	Call Option at fair value through profit or loss RMB'000	Total RMB'000
Proceeds from issue of convertible preference shares on 13 June 2017	141,408	332,771	–	474,179
Issuing costs	(1,247)	(3,057)	–	(4,304)
Net proceeds	140,161	329,714	–	469,875
Fair value change	(9,050)	–	–	(9,050)
Exchange adjustments	(53)	–	–	(53)
At 31 December 2017	131,058	329,714	–	460,772
Included in consolidated statement of financial position:				
Current liabilities	7,095			
Non-current liabilities	123,963			
	131,058			

34. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, and bank deposits. Management has a credit policy in place and the exposures to credit risk are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 60 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from non-vaccine and vaccine related trade and other receivables are set out in note 23.

At 31 December 2017, the Group had a certain concentration of credit risk as 23% (2016: 47%) of the total trade receivables were due from the Group's largest customer, and 79% (2016: 87%) of the total trade receivables were due from the Group's five largest debtors.

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, if any, to ensure that it maintains sufficient reserves of cash and adequate committed line of funding from major financial institutions to meet its liquidity requirements in the short and long term.

All non-interest bearing financial liabilities of the Group are carried at amounts not materially different from their contractual undiscounted cash flow as these financial liabilities are with maturities within one year or repayable on demand at the end of the reporting period. Bank and other borrowings are repayable within 1~2 years from the end of reporting period.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The following table sets out the remaining contractual maturities at the end of reporting period of the Group's bank loans and other borrowings, bank accepted bills, trade and other payables, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current prevailing rates at the end of reporting period) and the earliest date of the Group would be required to repay.

	2017				
	Scheduled undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Carrying amount as at 31 December RMB'000
Bank and other borrowings (note 27)	690,703	59,451	117,185	867,339	656,055
Trade and other payables (excluding current portion of consideration payable, (note 26))	286,127	–	–	286,127	286,127
Considerations payable (note 28)	223,712	–	–	223,712	223,712
Financial liabilities at fair value through profit or loss	7,095	–	123,963	131,058	131,058
Total	1,207,637	59,451	241,148	1,508,236	1,296,952

	2016				
	Scheduled undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Carrying amount as at 31 December RMB'000
Bank and other borrowings (note 27)	918,797	–	–	918,797	892,449
Trade and other payables (excluding current portion of consideration payable, (note 26))	260,871	–	–	260,871	260,871
Considerations payable (note 28)	188,156	156,138	–	344,294	344,294
Total	1,367,824	156,138	–	1,523,962	1,497,614

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations in the near future when they become due.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank deposits, bank and other borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net interest bearing liabilities (being interest-bearing financial liabilities less pledged bank deposits and cash at banks) at the end of the reporting period:

	2017		2016	
	Effective interest rate	Amount RMB'000	Effective interest rate	Amount RMB'000
Fixed rate instruments:				
Bank and other borrowings (note 27)	4.30% to 5.22%	433,000	4.30% to 8.00%	471,983
Less: Pledged bank deposits (note 24)	0.35%	(65,170)	2.10%	(133,000)
Cash at banks (note 25)	–	–	–	–
		367,830		338,983
Variable rate instruments:				
Bank borrowings (note 27)	2.16% to 2.76%	223,055	1.37% to 3.46%	420,466
Less: Cash at banks (note 25)	0.01% to 1.10%	(146,868)	0.01% to 1.26%	(89,624)
		76,187		330,842
Total net interest-bearing borrowings		444,017		669,825

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and increased/decreased in accumulated losses by approximately RMB3,331,000 (2016: decreased/increased profit after taxation and accumulated losses by RMB5,024,000).

The sensitivity analysis above indicates the annualised impact on the Group's interest expense that would arise assuming that the change in interest rates had occurred at the end of reporting period and had been applied to floating rate instruments which expose the Group to cash flow interest rate risk at that date. The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group does not hold any fixed rate instruments which are measured at fair value. This analysis has been performed on the same basis for 2016.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD"), Pounds Sterling ("GBP") and Hong Kong dollars ("HKD"). In addition, certain bank loans are also denominated in USD and HKD. At present, the Group has no hedging policy with respect to its foreign exchange exposure.

(i) Exposure to currency risk

The following table details the Group's and the Company's major exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of non-PRC group entities into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Renminbi)			
	2017		2016	
	USD	HKD	USD	HKD
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables	11,507	1,586	26,266	1,888
Cash at banks and in hand	39,414	14,925	15,988	1,092
Trade and other payables	(219,203)	(2,059)	(322,860)	(2,856)
Bank and other borrowings	(223,055)	–	(298,361)	(211,088)
	(391,337)	14,452	(578,967)	(210,964)

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit or loss after taxation and accumulated losses that would have arisen if foreign exchange rates to which the Group has significant exposure at the end of reporting period had changed at that date, assuming all other risk variables remained constant.

	2017			2016		
	Increase/ (decrease) In foreign exchange rates	Increase/ (decrease) In profit after taxation RMB'000	(Decrease)/ increase in accumulated losses RMB'000	Increase/ (decrease) In foreign exchange rates	Increase/ (decrease) In profit after taxation RMB'000	(Decrease)/ increase in accumulated losses RMB'000
USD	5%	(16,339)	16,339	5%	(24,172)	24,172
	(5%)	16,339	(16,339)	(5%)	24,172	(24,172)
HKD	5%	603	(603)	5%	(8,808)	8,808
	(5%)	(603)	603	(5%)	8,808	(8,808)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit or loss after taxation measured in the respective functional currencies, translated into Renminbi at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of non-PRC incorporated subsidiaries into the Group's presentation currency. The analysis has been performed on the same basis for 2017.

The Company has no material foreign currency risk exposure.

35. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2017 not provided for in the consolidated financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Contracted for but not provided for		
– intangible assets: Miacalcic Nasal Spray (note 17(a)(i))	–	450,905
– property, plant and equipment	484	474
– investment in an associate (note 20(b))	20,000	28,000
– intangible assets: computer software	1,325	2,300
	21,809	481,679

35. COMMITMENTS (CONTINUED)

(b) At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	14,349	14,001
After 1 year but within 5 years	16,852	29,963
Over 5 years	–	313
	31,201	44,277

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

36. DISPOSAL OF A SUBSIDIARY – 2016

During the year ended 31 December 2016, the Group disposed of the entire equity interest in Shanghai Tai Ling Enterprise Management Consulting Co., Ltd ("Tai Ling") for a cash consideration of RMB500,000 to two independent third parties.

The net assets of Tai Ling at the date of disposal were as follows:

	RMB'000
Other receivables	3,939
Cash and bank balances	65
Net assets disposed of	4,004
Consideration receivable	(500)
Loss on disposal of a subsidiary	(3,504)
Net cash outflow arising on disposal:	
Cash and bank balances disposed of	(65)
Consideration received	500
Net cash inflow on disposal of a subsidiary	435

Tai Ling had insignificant contribution to the Group's results and cash flows in the period to the disposal during the year ended 31 December 2016.

37. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2017, expect those disclose elsewhere in the consolidated financial statements, transactions with the following parties were considered to be related party transactions in the normal ordinary course of business of the Group:

Name of related party	Relationship with the Group
Mr. Ng Tit and Ms. Chin Yu	Directors of the Company, beneficial holders of the Company's 38.92% equity interest
NT Holdings	Holding company of the Group prior to the Reorganisation

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	22,664	20,888
Post-employment benefits	1,306	1,146
Equity-settled share-based payment expenses	6,459	1,062
	30,429	23,096

The above remuneration is included in "staff costs" (note 7(b)).

38. CONTINGENT LIABILITIES

During the current year, a former marketing and promotional agent (the "Plaintiff") instituted legal proceeding against NT Pharma Information Consulting (SH) Co., Ltd (泰凌醫藥信息諮詢(上海)有限公司) ("SH Information"), an indirectly wholly-owned subsidiary of the Company, for claim of loss arising from termination of the relevant promotional and marketing agreement, which was made between SH Information and the Plaintiff in 2015, in relation to third party pharmaceutical promotion and sales which was discontinued in December 2017 as disclosed in Note 9 to the consolidated financial statements.

On 11 October 2017, the People's Court of Shanghai Huangpu District (上海市黃浦區人民法院) issued a judgement against SH Information for a sum of RMB20 million in favour of the Plaintiff (the "Judgement"). Management of the Group considered that SH Information shall have valid grounds to defend in the legal case and to set aside the Judgement. Accordingly, SH Information has engaged its PRC lawyer to file an appeal to the People's Court of Shanghai Huangpu District (上海市黃浦區人民法院) and to set aside the Judgement. However, a full provision has been made for this claim of RMB20 million which has been charged to profit or loss for the year ended 31 December 2017 (Note 9).

Apart from the above, the Group had no other material outstanding litigation or contingent liability at the reporting period end.

39. COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Interests in subsidiaries	19	737,175	693,606
Current assets			
Amount due from subsidiaries		539,277	282,087
Other receivables		1,575	1,679
Cash at banks and in hand		6,109	1,529
		546,961	285,295
Current liabilities			
Other payables and accruals		1,813	2,496
Amounts due to subsidiaries		2,265	–
Convertible preference share – liability portion		7,095	–
Bank borrowings		–	111,047
		11,173	113,543
Net current assets		535,788	171,752
Total assets		1,284,136	978,901
Total assets less current liabilities		1,272,963	865,358
Non-current liabilities			
Financial liabilities at fair value through profit or loss		123,963	–
NET ASSETS		1,149,000	865,358
CAPITAL AND RESERVES	32		
Share capital		1	1
Reserves		1,148,999	865,357
TOTAL EQUITY		1,149,000	865,358

Approved and authorised for issue by the board of the Company on 26 March 2018 and signed on its behalf by:

Ng Tit
Chairman and Chief Executive Officer

Chin Yu
Director

(Expressed in Renminbi unless otherwise indicated)

40. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the Directors recommended a dividend. Further details are disclosed in note 32(b).

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments and new standards which are not yet effective for the year ended 31 December 2017, and which have not been adopted in these financial statements.

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 HKAS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 40	Transfer of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except as mentioned below, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements.

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 9 Financial Instruments

HKFRS 9 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 the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities that are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates of non-substantial modification of financial liabilities with gain/loss being 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.

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 9 Financial Instruments (continued)

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

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as long-term equity investments will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

Impairment

In general, the Directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost and other items that are subject to the impairment provision upon application of HKFRS 9 by the Group. However, the Directors of the Company do not anticipate that the application of the expected credit loss model of HKFRS 9 will have material impact on the operating retained profits balance 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.

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 HKFRS 15 introduces a 5-step approach to revenue recognition:

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

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

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 15 Revenue from Contracts with Customers (continued)

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

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

HKFRS 16 Leases

As disclosed in note 2(k), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lease.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, leasees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lease of leases for properties, plant and equipment which are currently classified as operating leases. The application of new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 35(b), at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to RMB31,201,000, the majority of which is payable either between 1 and 5 years after the reporting period date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

42. COMPARATIVE FIGURES

Certain comparative figures have been restated and/or reclassified due to the presentation for the discontinued operation during the year, as disclosed in note 9 and to conform with current year's presentation.

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