The United Laboratories International Holdings Limited

(A company incorporated in the Cayman Islands with limited liability)
(Stock Code:3933)

2017 ANNUAL REPORT

Our mission is to
make life more valuable


邦得清
盐酸美金刚口服溶液
Memantine Hydrochloride Oral Solution
聯邦制藥
盐酸美金刚片
Memantine Hydrochloride Tablets
聯邦制藥

Contents

CORPORATE CALENDAR OF 2017

JANUARY

The United Laboratories gained the production approval of insulin glargine injection.

The Memantine Hydrochloride Project of The United Laboratories was awarded the "First Prize of the Science and Technology Progress Award of Zhongshan Municipality".

Ten series of products of The United Laboratories were recognized as 2016 high-tech products of Guangdong Province.

FEBRUARY

The United Laboratories was granted the "2016 Top 100 Exporters of Medical Healthcare Products" by China Chamber of Commerce for Import & Export of Medicines & Health Products.

The memantine hydrochloride tablets and oral solution of The United Laboratories were included in the National Basic Medical Insurance, Industrial Injury Insurance and Maternity Insurance Drug List (2017 version).

MARCH

The United Laboratories was listed as one of the "2016 China Top Ten Member Exporters of APIs" by China Chamber of Commerce for Import & Export of Medicines & Health Products.

The United Laboratories won the "2016 Excellent Enterprise for Cultural Construction of Guangdong Province".

APRIL

Four categories of products of The United Laboratories (insulin bulk medicines, memantine hydrochloride, carbapenem preparations and carbapenem bulk medicines) were granted with the certificate of "Catalog of Major Products for Promotion of Zhuhai Strategic Emerging Industry".

MAY

The United Laboratories insulin glargine injection was launched to market officially.

CORPORATE CALENDAR OF 2017

JUNE

The recombinant human insulin of The United Laboratories was awarded the "Second Prize of the 2016 Science and Technology Progress Award of Guangdong Province".

The United Laboratories was granted the "Top 100 International Medical Enterprises of 2017" and "2017 Excellent Supplier and Cooperation Partner in International Market" by China Chamber of Commerce for Import & Export of Medicines & Health Products.

"The United Laboratories Educational Scholarship" was granted at Chongqing Medical University.

JULY

Mr. Tsoi Hoi Shan, Chairman of the Board of The United Laboratories, was honored the "Man of Year of Zhongshan City".

AUGUST

The United Laboratories (Inner Mongolia) successfully passed the on-site inspection and acceptance on veterinary drugs of GMP certification.

SEPTEMBER

Zhuhai United Laboratories was ranked at No. 28 of the "2016 Chinese Top 100 Pharmaceutical Enterprises" published by China National Pharmaceutical Industry Information Center.

NOVEMBER

Zhuhai United Laboratories was honored as "2017 Top 100 Industrial Enterprises in Terms of Comprehensive Strength in the Pharmaceutical Industry of China" and "2017 Excellent Bulk Medicine Export Enterprise Brand in the Pharmaceutical Industry of China".

The United Laboratories (Inner Mongolia) celebrated the tenth anniversary of its establishment.

DECEMBER

The United Laboratories (Inner Mongolia) successfully passed the standardized review of level 2 safety production.

Zhuhai United Laboratories was honored as the "2017 Industry Advanced Company" by Zhuhai Association for Medicine Circulation.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent non-executive directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

NOMINATION COMMITTEE

Prof. Song Ming *(Chairman)*
Mr. Chong Peng Oon
Mr. Huang Bao Guang
Ms. Fu Xiao Nan

RISK MANAGEMENT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Leung Wing Hon
Ms. Choy Siu Chit
Prof. Song Ming

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6 Fuk Wang Street
Yuen Long Industrial Estate
New Territories
Hong Kong

PRINCIPAL BANKERS

China

Industrial and Commercial Bank of China Limited, Zhuhai Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Huaxia Bank Co., Ltd, Zhuhai Branch
Bank of China Limited, Zhuhai Branch
China Resources Bank of Zhuhai Co., Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Hengqin Branch
China Merchants Bank Co., Ltd, Zhuhai Branch

Hong Kong

China Development Bank, Hong Kong Branch
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Taipei Fubon Commercial Bank Co., Limited, Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

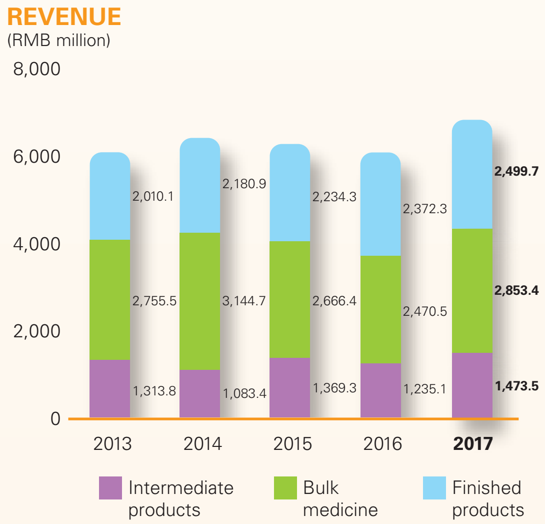
Computershare Hong Kong Investor Services Limited

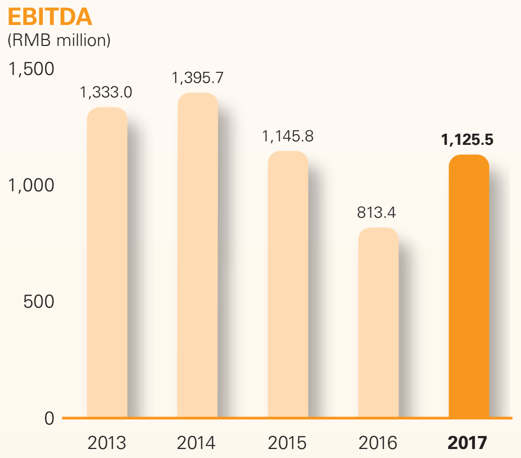
WEBSITE

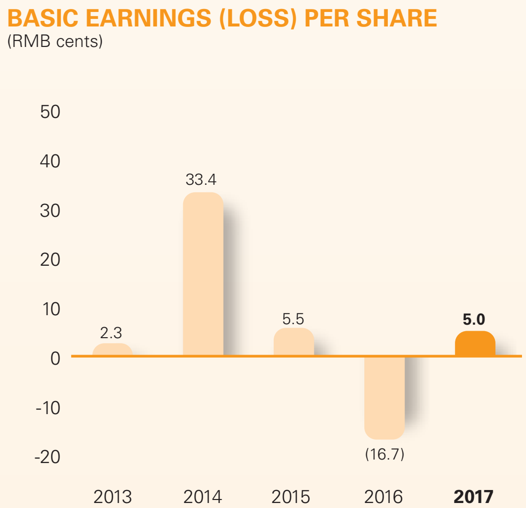
www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

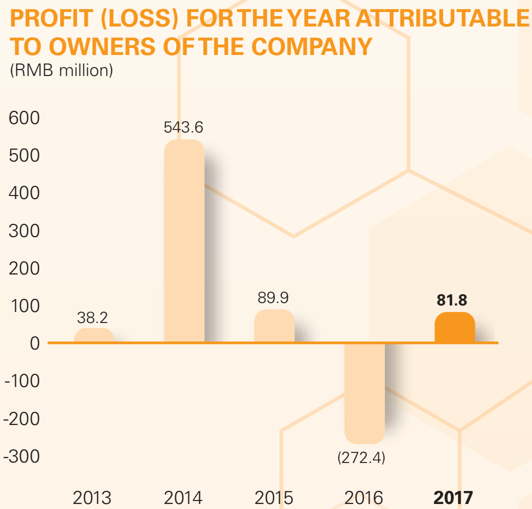
FINANCIAL HIGHLIGHTS

	2017 RMB'000	2016 RMB'000	Increase %
Revenue	**6,826,645**	6,077,944	12.3%
EBITDA	**1,125,470**	813,376	38.4%
Profit (loss) before taxation	**68,951**	(137,472)	N/A
Profit (loss) for the year attributable to owners of the Company	**81,758**	(272,363)	N/A
Earnings (loss) per share			
Basic	**RMB5.03 cents**	RMB(16.74) cents	N/A
Diluted	**RMB5.03 cents**	RMB(16.74) cents	N/A









邦得清®

Memantine Hydrochloride

Treatment for Alzheimer's Disease

Medication of National Reimbursement Drug List

- Memantine Hydrochloride Tablets

- Memantine Hydrochloride Oral Solution

CHAIRMAN'S STATEMENT

Tsoi Hoi Shan
Chairman

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company" or "The United Laboratories"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

In 2017, the world economy rose by 3.6% and gradually entered a new cycle of recovery after stumbling along the bottom for a decade. In particular, China has become an important force stimulating the vitality of world economy. According to the data published by the National Bureau of Statistics, the gross domestic product (GDP) exceeded RMB80 trillion, representing a year-on-year increase of 6.9%, the first turnaround of economic growth of the PRC since 2011, riding on which the Chinese economy picked up amidst stabilisation.

The year 2017 was obviously a "year for policies" in terms of medical policy and drug policy as well as enterprise competition. In the Year, policies on cancelling the mark-up of medicine sales prices, medical representative registration, control of expenses by hospitals and "Two-Invoice System" were successively released. Meanwhile, the acceleration in aspects of evaluation on innovation drugs, consistency evaluation, etc. indicates the State's determination to promote reform at the drug supply side, improve the quality of domestic drugs and align to the international market. In light of the large number of middle and small-sized enterprises existing in the PRC, this round of reform at the supply side is expected to significantly enhance the concentration, resulting in a remarkable increase in the market share of leading enterprises.

CHAIRMAN'S STATEMENT

The Group's revenue amounted to RMB6,826.6 million during the year, representing an increase of approximately 12.3% over 2016. EBITDA was approximately RMB1,125.5 million, representing an increase of 38.4% as compared with last year. Profit attributable to owners of the Company was approximately RMB81.8 million (2016: Loss of RMB272.4 million). Earnings per share amounted to RMB5.03 cents. The Board proposes a final dividend of RMB5 cents per share.

The continuous tightening of national environmental regulation and full launch of supervision over environmental protection by the central government in the Year posed significant pressure and challenges to production enterprises. Upholding the sustainable development idea of "environment priority", the Group constantly increased investment in environmental protection and enhanced environmental protection with the focus placed on the national environmental protection strategy. The continuously tightened national environmental regulation has brought about new development opportunities to a certain extent. During the Year, the Group maintained stable and normal production and the capacity utilisation rate of the intermediate product of 6-APA reached the ideal level. Meanwhile, the price of products represented by 6-APA and amoxicillin went up stably.

During the year, the Group's finished products business maintained stable growth and insulin series continued to be the main driving force of the Group's growth. A total of approximately 12.3 million vials of recombinant human insulin products were sold with sales revenue of RMB503 million. In addition, in early 2017, the Group gained the production approval from China Food and Drug Administration ("CFDA") for "United Laboratories USLEN" insulin glargine injection, which was officially launched to the market in May of the year and recorded a sales revenue of RMB21.9 million throughout the year. Currently, insulin glargine products have won the tender through bidding in Fujian, Chongqing, Heilongjiang, Henan, Hebei, Guangdong, Shanxi and Tibet and the Group will also continue to participate in the bidding in other provinces actively.

The Group's antibiotics products still recorded satisfactory sales. During the year, sales revenue from the piperacillin sodium and tazobactam sodium for injection amounted to RMB408 million, and sales revenue from The United Laboratories amoxicillin branded capsules amounted to RMB405 million. In addition, the high-end carbapenems antibiotics preparations including the imipenem and cilastatin sodium for injection and meropenem for injection continued to see high-speed growth in terms of sales, with a sales revenue of RMB118 million recorded in the year. The Group also actively sought to increase the sales of OTC products at chain drugstores, enrich the offerings of OTC products, as well as strengthen the cross-regional all-round cooperation with domestic large-scale chain drugstores.

The National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2017 version) was promulgated in the Year and 49 finished products of the Group were included in the List. In addition, the World Health Organization ("WHO") issued the newly revised WHO Model List of Essential Medicines in June 2017, which groups antibiotics into three categories: Access, Watch and Reserve. Among antibiotics in the Access group, amoxicillin, the main ingredient used by the Group to manufacture The United Laboratories amoxicillin branded capsules, is selected a widely-used antibiotic to treat infections such as pneumonia. As a well-known product of the Group, its brand and efficacy are highly recognized by the market.

CHAIRMAN'S STATEMENT

The Group has been long committed to research and development. We currently have 39 new products under development. Currently, we have 26 patents which have been successfully registered and 15 patents which are in the process of applying for registration, which is expected to further enrich our reserve of preparations. As for the research and development of biological preparations, we aim to further optimize our offerings of insulin products. The Group has applied for production of insulin aspart injection and insulin aspart 30 injection in November 2017 and applied for clinical trial for liraglutide at the beginning of 2018 in the field of diabetes which are worthy of the wait. With regard to the research and development of chemical pharmaceuticals, the Group has focal coverage over series of products such as antidiabetic drugs, anti-cancer drugs, anti-HBV drugs and high-end antibiotics.

CFDA officially issued the announcement on the consistency of quality and efficacy evaluation for generic drugs (the "Consistency Evaluation") in 2016, which marks the thorough implementation of the Consistency Evaluation in the PRC and signals the new start of the long cycle of pharmaceutical industry of the PRC. Excellent pharmaceutical enterprises with a solid industrial foundation, certain profits and many items, which value the Consistency Evaluation and have achieved smooth progress, will ultimately benefit from the structural opportunities of industrial reform. Therefore, the Group will contribute more resources to the Consistency Evaluation. Currently, the Consistency Evaluation on the Group's products such as amoxicillin is carried out smoothly. Benefiting from the Consistency Evaluation, the United Laboratories is expected to further consolidate and increase its existing market share to achieve breakthrough of this item.

With regard to finance, the Group continued to proactively optimise the financial structure to ensure adequate working capital. Zhuhai United Laboratories Co., Ltd., a wholly-owned subsidiary of the Company, has issued the corporate bonds with principal amount of RMB1.1 billion with a term of three years (extendable to five years) in March 2017. The proceeds from such issuances will be used for repayment of bank loans and as general working capital. In addition, in October 2017, the Company entered into a facility agreement with China Development Bank, Hong Kong Branch for HK$300,000,000 and HK$200,000,000 (equivalent in Euro 21,390,000) term loan facility, the cost of which is relatively low. The loans under the facility shall be repaid in full after the expiry of a 36 months term from the first utilisation date.

As at 31 December 2017, the Group recorded net current assets of approximately RMB975.6 million (as at 31 December 2016: net current liabilities of RMB968.4 million). The current ratio improved continuously from 0.86 at 31 December 2016 to 1.20 at 31 December 2017.

Looking forward, the pharmaceutical industry of the PRC is in rapid development and national economy maintains medium-high speed growth. With the increase in per capita disposable income of residents and upgrade of consumption structure, the construction of a healthy China is advanced stably. The further improvement of medical insurance system, aging of population and overall implementation of the two-child policy will continue to drive the rapid development of pharmaceutical market. As shown in the Research Report on the Prospects and Investment Opportunities of the Pharmaceutical Industry in China (2018-2023) issued by Zhongshang Industry Institute, it is estimated that the market size of pharmaceutical industry in the PRC increased by approximately 10.8% year-on-

CHAIRMAN'S STATEMENT

year in 2017 and will reach RMB3,375.4 billion in 2018. Meanwhile, as China further deepens its reform in the pharmaceutical industry including promotion of consistency of quality and efficacy evaluation for generic drugs, more stringent environmental protection standards, intensified supervision and examination, etc., we believe the pharmaceutical industry will achieve sustainable and healthy development and see a very tremendous room for development in the future.

As the pharmaceutical enterprise which owns both the second and third generation insulin products in China, the Group will still place the strategic focus on insulin series. In particular, the insulin analogue series represented by insulin glargine will speed up the development of the Group. In the meantime, we are applying for production of insulin aspart and will further optimize our offerings of insulin products of the Group. Moreover, the new finished products production lines of the Group will be put into operation in 2018 and are expected to gradually satisfy the market demands for antibiotics products. At the same time, the Group will keep a close eye on the changes in the landscape of market competition caused by the policy of Consistency Evaluation and quicken the pace of subjecting products to the Consistency Evaluation to gain a head start in the market. Given the continuously strict regulation in respect of environmental protection in the PRC, the market of antibiotic intermediates and bulk medicine will gradually stabilize and the Group keeps an optimistic attitude towards the intermediate products and bulk medicine business in 2018. Furthermore, the Group will improve the capacity utilisation rate to reduce production cost and further improve the profitability.

In 2018, after the National People's Congress and the Chinese Political Consultative Conference, the financial credit standards of banks will be elevated, which, together with the tightening of loan policy and increase in interest rate, will form a new challenge for enterprises in respect of funds. Meanwhile, the pharmaceutical industry will also usher in a "year for reform" in 2018. With continuous efforts to enhance our products' competitiveness, we are confident that we can capitalize on industrial transformation to accelerate the cultivation of innovation ability and scientific research ability and maintain the Group's sustainable growth momentum, hence creating the maximum value for our shareholders, clients and stakeholders.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support in 2017, as well as all staff for their persistent efforts. I hope we can join hands and create a better future together.

Tsoi Hoi Shan
Chairman

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Leung Wing Hon
Vice-Chairman

BUSINESS REVIEW AND FINANCIAL RESULTS

For the year ended 31 December 2017, the Group's revenue was approximately RMB6,826.6 million, an increase of 12.3% as compared with last year. The profit attributable to shareholders was approximately RMB81.8 million for the year ended 31 December 2017 while the loss attributable to shareholders was approximately RMB272.4 million in 2016. The profit for 2017 was mainly attributable to a number of factors as below:

– increase in the sales prices of intermediate and bulk medicine products;

– net foreign exchange gain recorded during current year; and

– the decrease in fair value of investment properties being offset.

During the year, segmental revenue (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 16.8%, 19.5% and 5.4% respectively as compared with last year. Segmental result of intermediate products turned from loss of RMB201.2 million in 2016 to profit of RMB34.4 million in 2017. Segmental result of bulk medicine decreased by 27.9% and finished products increased by 10.5% as compared with last year.

Decrease in fair value of investment properties located in Chengdu is due to new development plan during the year and current market reference.

The Group's operations during the year are summarized as follows:

Intermediate products and bulk medicine

During the year, the sales prices of intermediate products and bulk medicine remained stable and gradually increased thus resulting the increase in sales revenue and gross profit of the intermediate products and bulk medicine segments. The Group has continued to enhance its utilisation rate and reduce production costs to improve the profit. Segment revenue of intermediate products amounted to RMB2,656.8 million representing an increase of 16.8% as compared to 2016. Segment results of intermediate products turned from loss to profit from loss of approximately RMB201.2 million to profit of approximately RMB34.4 million. Bulk medicine segment recorded a segment revenue of approximately RMB3,245.2 million, representing an increase of 19.5% and segment profit of approximately RMB103.3 million for current year.

MANAGEMENT DISCUSSION AND ANALYSIS

Executive directors from left to right, Ms. Zou Xian Hong, Ms. Choy Siu Chit, Mr. Tsoi Hoi Shan, Mr. Leung Wing Hon, Mr. Fang Yu Ping and Ms. Zhu Su Yan

Finished products

During the year, the Group's finished products business maintained stable growth and recorded a segment revenue of approximately RMB2,499.7 million, representing an increase of 5.4% and segment profit of approximately RMB620.7 million. Insulin series continued to be the main driving force of the Group's growth. In early 2017, the Group gained the production approval from China Food and Drug Administration ("CFDA") for "United Laboratories USLEN" insulin glargine injection, which was officially launched to the market in May of the year. Currently, insulin glargine products have won the tender through bidding in Fujian, Chongqing, Heilongjiang, Henan, Hebei, Guangdong, Shanxi and Tibet. Annual sales amounted to RMB21.9 million.

Research and development

The Group has been long committed to research and development. The expenditure in R&D for current year amounted to approximately RMB162.3 million, representing 118.9% increase as compared with last year. We currently have 39 new products under development. Currently, we have 26 patents which have been successfully registered and 15 patents which are in the process of applying for registration. The Group has applied for production of insulin aspart injection and insulin aspart 30 injection in November 2017.

Optimizing financing structure

The Group continued to optimize the financing structure, seek more mid long-term financing so as to ensure adequate working capital during the year. Zhuhai United Laboratories Co., Ltd., a wholly-owned subsidiary of the Company, has issued the corporate bonds with principal amount of RMB1.1 billion with a term of three years (extendable to five years) in March 2017. In addition, in October 2017, the Company entered into a facility agreement with China Development Bank, Hong Kong Branch for a three-years HK$300,000,000 and

MANAGEMENT DISCUSSION AND ANALYSIS

HK$200,000,000 (equivalent in Euro 21,390,000) term loan facility. As at 31 December 2017, net current assets were approximately RMB975.6 million compared with net current liabilities of approximately RMB968.4 million as at 31 December 2016. The Group's financial position substantially improved.

Liquidity and Financial Resources

As at 31 December 2017, the Group had pledged bank deposits and cash and bank balances amounted to approximately RMB2,081.5 million (2016: RMB2,751.9 million).

As at 31 December 2017, the Group had interest-bearing borrowings of approximately RMB3,417.5 million (2016: RMB4,243.6 million), which were denominated in Hong Kong dollars, Renminbi, Euro and United States dollars with maturity within five years. Borrowings of approximately RMB1,837.9 million are fixed rates loans while the remaining balance of approximately RMB1,579.6 million is at floating rates. The directors expect that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2017, current assets of the Group amounted to approximately RMB5,764.9 million (2016: RMB5,757.3 million). The Group's current ratio was approximately 1.20 as at 31 December 2017, as compared with 0.86 as at 31 December 2016. As at 31 December 2017, the Group had total assets of approximately RMB14,111.8 million (2016: RMB14,966.1 million) and total liabilities of approximately RMB8,670.1 million (2016: RMB9,618.6 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less pledged deposit against finance leases, pledged bank deposits and cash and bank balances to total equity) of 49.2% as at 31 December 2017, as compared with 55.7% as at 31 December 2016.

Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly in Renminbi or Hong Kong dollars. The Group's borrowings are denominated in Hong Kong dollars, Renminbi, Euro and United States dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates. The Group may use financial instrument for hedging purpose when considered appropriate.

Contingent Liabilities

As at 31 December 2016 and 2017, the Group had no material contingent liabilities.

Capital Commitment

As at 31 December 2017, the Group had capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements of RMB332,998,000 (2016: RMB385,725,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook for 2018

Looking forward for 2018, the Group has strong confidence on the development of China pharmacy market, the pharmaceutical industry of the PRC is in rapid development. China further deepens its reform in the pharmaceutical industry and the pharmaceutical industry will achieve sustainable and healthy development and see a very tremendous room for development in the future.

As the pharmaceutical enterprise which owns both the second and third generation insulin products in China, the Group will still place the strategic focus on insulin series. In particular, the insulin analogue series represented by insulin glargine will speed up the development of the Group. In the meantime, we are applying for production of insulin aspart and will further optimize our offerings of insulin products of the Group. Moreover, the new finished products production lines of the Group will be put into operation in 2018 and are expected to gradually satisfy the market demands for antibiotics products. The Group keeps an optimistic attitude towards the intermediate products and bulk medicine business as the product prices remain stable and gradually increase.

The Group will continue to commit to research and development, with focal coverage over series of products such as antidiabetic drugs, anti-cancer drugs, anti-HBV drugs and high-end antibiotics. We currently have 39 new products under development. Currently, we have 26 patents which have been successfully registered and 15 patents which are in the process of applying for registration. The Group has applied for clinical trial for liraglutide at the beginning of 2018 to enhance the products of diabetes.

Employees and Remuneration

As at 31 December 2017, the Group had approximately 12,000 (2016: 11,700) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus, other benefits in kind, with reference to industry practice and their individual performance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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.

MANAGEMENT DISCUSSION AND ANALYSIS

AUDIT COMMITTEE REVIEW

The Audit Committee comprises of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. The Audit Committee has reviewed with the management of the Company the consolidated financial statements for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of eligibility to attend and vote at the annual general meeting ("AGM"), the Register of Members of the Company will be closed from Tuesday, 5 June 2018 to Friday, 8 June 2018 during which no transfer of shares will be registered. In order to be entitled to attend and vote at the AGM, all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 4 June 2018.

For the purpose of determination of entitlement to the final dividend, the Register of Members of the Company will be closed on Thursday, 14 June 2018 and Friday, 15 June 2018 on which no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 13 June 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan (蔡海山先生), aged 40, is an executive director and the Chairman of the Company. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible for supervising the production process at the Hong Kong Yuen Long Plant and ensuring that it was in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a Bachelor degree in Medicine and a Bachelor degree in Surgery in 1998. Mr. Tsoi is the brother of Ms. Choy Siu Chit, who is an executive director of the Company.

Mr. Leung Wing Hon (梁永康先生), aged 56, is an executive director, the Vice-Chairman, the Chief Financial Officer and the Company Secretary of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Association of International Accountants and a fellow member of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom. Mr. Leung has over 20 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Ms. Choy Siu Chit (蔡紹哲女士), aged 45, is an executive director of the Company. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She passed the Private Equity Investment Fund Advanced Class organized by the Beijing University with distinction in 2010. Ms. Choy is a director of Mighty Brokerage (Asia) Limited, which principally provides brokerage and securities trading services in Hong Kong. She is the sister of Mr. Tsoi Hoi Shan, an executive director and the Chairman of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Fang Yu Ping (方煜平先生), aged 55, is an executive director of the Company and a vice president of the Group. Mr. Fang graduated from the Medical School of Southeast University in the PRC, with a bachelor's degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for 8 years. Mr. Fang joined the Group in 1995 and was promoted to vice president of the Group in 2008. He is the general manager of China Sales Division.

Ms. Zou Xian Hong (鄒鮮紅女士), aged 53, is an executive director of the Company and a vice president of the Group. Ms. Zou graduated from China Pharmaceutical University in 1984 and obtained her Executive Master of Business Administration from Hunan University in 2005. In June 2010, Ms. Zou obtained a doctorate in management science of Central South University. Ms. Zou has over 20 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group.

Ms. Zhu Su Yan (朱蘇燕女士), aged 53, is an executive director of the Company and a vice president of the Group. Ms. Zhu graduated from Southeast University in the PRC in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University in 2005. Ms. Zhu worked in Nanjing Gulou Hospital as a neurosurgeon from 1988 to 1993, and joined Pfizer in 1994. She joined the Group in early 1995 and has served as regional manager of Jiangsu Province, vice president of national hospital development department and general manager of the PRC sales team etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Independent non-executive directors

Mr. Chong Peng Oon (張品文先生), aged 69, was appointed as an independent non-executive director on 31 March 2009. He is the chairman of the audit committee and remuneration committee and a member of the nomination committee. Mr. Chong qualified as a Chartered Accountant in 1974 and has been in the accounting practice in Hong Kong for over 30 years. He has experience in auditing of companies ranging from small enterprises to large listed groups in the service and manufacturing sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax consulting for companies in Hong Kong and China. He was a member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants before. He was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and has been a Fellow Member of the Institute since 1981.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Huang Bao Guang (黃寶光先生), aged 70, was appointed as an independent non-executive director on 25 May 2007, and is a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Huang has over 30 years' experience in the PRC pharmaceutical industry. Mr. Huang graduated from the PRC Party College in Guangdong Province with tertiary education qualification in July 2002. Mr. Huang was the deputy general manager of Zhuhai Pharmaceutical Corporation since April 1990, and was the general manager of Zhuhai Pharmaceutical Corporation from October 1992 to October 1997. Mr. Huang was the deputy head of the Administration Bureau of Pharmaceuticals of Guangdong Province from October 1997 to June 2001. From June 2001 to October 2004 Mr. Huang was the deputy head of the Zhuhai FDA.

Prof. Song Ming (宋敏教授), aged 56, was appointed as an independent non-executive Director on 25 May 2007. He is the chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company. Prof. Song graduated from the Department of Economics of the Ohio State University in 1991 and obtained a PhD, majoring in financial economics. Prof. Song is currently Dean of Economics and Management School of Wuhan University. He has served as a professor of finance in Faculty of Business and Economics of The University of Hong Kong since 1997. He has been director of HKU-the Centre of China Financial Research since 2002, and vice-chairman of Chinese Financial Association of Hong Kong since 2008. Prof. Song concurrently holds different positions such as a postdoctoral mentor of China Securities Regulatory Commission and Shenzhen Stock Exchange, and a member of the Advisory Committee of Qianhai Shenzhen-Hong Kong Modern Service Cooperation Zone of Shenzhen. He has published a number of monographs on his research fields of financial market, bank, financial regulation and management as well as the financial development of China. He also published dozens of academic articles in top international journals such as Journal of Financial Economics, The Journal of Business, The Economic Journal and well-known Chinese journals such as Social Sciences in China (《中國社會科學》) and Economic Research Journal (《經濟研究》). He also acts as editor in chief or a member of the editorial board of various domestic and international finance and economics journals. He often accepts interviews with domestic and foreign mainstream media. As an economic advisor to the government, he also participates in the advisory work and research on major economic and financial policies. Prof. Song is also an independent non-executive director of Guotai Junan International Holdings Limited (Stock Code: 1788) and Wuzhou International Holdings Limited (Stock Code: 1369), both are listed on the main board of the Stock Exchange of Hong Kong and an independent director of Tande Co., Ltd., a company listed on the Shanghai Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Ms. Fu Xiao Nan (傅小楠女士), aged 47, has been appointed as an independent non-executive director of the Company on 10 December 2012. She is a member of the audit committee, remuneration committee and nomination committee of the Company. Ms. Fu has over ten years of experience in investment banking and financial services. She is a partner of Phoenix Investment Company, which is incorporated in the PRC since March 2016. She joined Huatai United Securities in May 2011 and left in March 2016. Prior to joining Huatai United Securities, Ms. Fu held senior management positions in various investment banks. Ms. Fu is a registered sponsor representative of China Securities Regulatory Commission since 2007. Ms. Fu is an independent non-executive director of V.S. International Group Limited (Stock Code: 1002), a company listed on the main board of the Stock Exchange of Hong Kong. Ms. Fu obtained a bachelor degree in Economics from Minzu University of China（中央民族大學）, a master degree in Accounting from the Central University of Finance and Economics（中央財經大學）and a degree in Executive Master in Business Administration from the Cheung Kong Graduate School of Business.

SENIOR MANAGEMENT

Mr. Wu Shou Ting (吳守廷先生), aged 51, is head of the Group's production plant in Zhongshan. Mr. Wu graduated from Jiangxi College of Chinese Medicine in 1990 and graduated from the Advanced Level Research Class, Selected Course of the MBA for Managers in Office of Zhongshan University in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to factory manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

Mr. Liu Bing Yang (劉炳楊先生), aged 67, is general manager of Guangdong Kaiping Kingly Capsules Limited of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Zhang Wen Yu (張文玉先生), aged 49, is the general manager of United Laboratories (Inner Mongolia) Limited. Mr. Zhang graduated from school of microbiology of Shandong University. Mr. Zhang joined the Group in 2005 and had over 15 years experience in the field of production management and is currently responsible for the management of the Group's Inner Mongolia factory.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Dou Zhen Guo (竇振國先生), aged 42, is the factory manager of the Group's production plant in Zhuhai. Mr. Dou graduated from Shenyang Pharmaceutical University in July 1999, majoring in chemical pharmacy; from Zhongshan University in 2004, with the Advanced Level Research Class of MBA; and then from Jilin University in 2010, with a master in pharmaceutical engineering. From 1999 to 2011, Mr. Dou worked on different positions in the Group's production plant in Zhuhai, such as technician, quality inspector, manager of production department, workshop supervisor and assistant factory manager, and received the Zhuhai Labour Model award in 2007. Since 2012, Mr. Dou has been chairman of the management committee as well as factory manager of the Group's production plant in Zhuhai, primarily responsible for the overall management and operation of the Group's bulk medicine plant in Zhuhai.

Mr. Zheng Shun Teng (鄭順騰先生), aged 41, is the operating general manager of the Group's intermediate and bulk medicine sales department. Mr. Zheng graduated from China Pharmaceutical University in 2002, majoring in Pharmacy. Joining in 1997, he worked successively as the head of the orally-taken solid workshop, the assistant to manager of the production department, the manager of the procurement department, and the director of the powder injection workshop of Zhongshan factory. In July 2006, he was re-designated to the Group's bulk medicine sales department as the manager of the Eastern China region, the manager of the senior region, the sales director of the Eastern China region and the Southern China region, and the sales director of the regions of India, Middle East and Africa. Mr. Zheng has been the operating general manager of the Group's bulk medicine sales department since 2014, primarily responsible for sales and management of the Group's intermediate and bulk medicine products on the Chinese market.

REPORT OF THE DIRECTORS

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the subsidiaries of the Company are set out in note 42 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's revenue and segment information for the year ended 31 December 2017 is set out in note 5 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 40 of this annual report.

The Board recommends the payment of final dividend of RMB5 cents per share for the year ended 31 December 2017.

FINANCIAL SUMMARY

A summary of the Group's results, and of the assets and liabilities for the past five financial years are set out on page 133 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

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

REPORT OF THE DIRECTORS

SHARE PREMIUM AND RESERVES

In accordance with the Companies Law, Chapter 22 (as revised) of the Cayman Islands, and the Company's articles of association, the Company may distribute its share premium to shareholders in the forms of dividend or fully paid bonus shares, provided that immediately following the distribution or payment of dividend, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at the reporting date, the directors were of the opinion that the distributable share premium and reserves of the Company was approximately RMB3,824.6 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on pages 43 and 44 of this annual report.

SHARE OPTION SCHEME

The Company has adopted a Share Option Scheme. The terms of the Share Option Scheme are summarised in note 30 to the consolidated financial statements.

No option has been submitted and/or granted under the Scheme since its adoption. The Scheme has expired in May 2017.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In 2017, the aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

In 2017, the aggregate purchases attributable to the Group's largest and five largest suppliers accounted for 20.7% and 40.9% respectively of the Group's total purchases for the year.

None of the directors or chief executive or any of their associates or any shareholder (which, to the knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year ended 31 December 2017 and up to the date of this report were as follows:

Executive Directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent Non-Executive Directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

In accordance with article 87 of the Company's articles of association, Mr. Leung Wing Hon, Mr. Fang Yu Ping, Mr. Huang Bao Guang and Ms. Fu Xiao Nan will retire by rotation at the forthcoming annual general meeting. Mr. Leung Wing Hon, Mr. Fang Yu Ping and Ms. Fu Xiao Nan, being eligible, offer themselves for re-election.

Biographical details of directors of the Company are set out on pages 16 to 19 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Tsoi Hoi Shan has entered into a service contract with the Company. Mr. Tsoi shall be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Tsoi's basic emolument as an executive director is HK$3,840,000 per annum.

Mr. Leung Wing Hon has entered into a service contract with the Company under which the annual salary payable by the Company to Mr. Leung Wing Hon is HK$3,600,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. He will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

REPORT OF THE DIRECTORS

Ms. Choy Siu Chit has entered into a service contract in November 2016 with the Company for a period of three years. Each party may terminate the service contract by giving not less than three months notice to other party. She is also required to retire by rotation at the annual general meeting of the Company in accordance with the articles of association of the Company. The basic emolument of Ms. Choy Siu Chit as an executive director is HK$3,000,000 per annum and will be entitled to a monthly travelling allowance of HK$50,000. She will also be entitled to a discretionary bonus as decided by the Board.

The basic emolument of Mr. Fang Yu Ping, Ms. Zou Xian Hong and Ms. Zhu Su Yan as an executive director is HK$1,800,000 per annum, and they are also entitled to a monthly performance bonus not exceeding RMB60,000 as determined by the executive directors of the Company with reference to performance of the Group. Their subsequent appointment shall also be subject to their re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company.

The amount of the annual salary increment and the bonus payable under such service contracts for executive directors is at the discretion of the Board and the remuneration committee of the Company, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the Board in relation to him or her.

Each of Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan has entered into a letter of appointment with the Company. The annual director's fee for each of the above independent non-executive directors is HK$240,000.

Save as disclosed in this annual report, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACT

No contracts concerning the management or administration of the whole or any substantial part of the business were entered into or in existence during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

None of the directors have any interests in a business which competes with the business of the Group. Furthermore, no contracts of significance in relation to the Group's business 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	16,306,875	Personal interest	1.00%
Mr. Leung Wing Hon	103,500	Personal interest	0.01%
Ms. Choy Siu Chit	8,523,875	Personal interest	0.52%
Mr. Fang Yu Ping	360,000	Personal interest	0.02%
Ms. Zou Xian Hong	200,000	Personal interest	0.01%
Ms. Zhu Su Yan	434,179	Personal interest	0.03%

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

During the year, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its subsidiaries were not a party to any arrangements to enable the directors to acquire such benefits in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

Long and short positions in the ordinary shares of the Company:

Name	*Notes*	**Number of shares held**	**Percentage of Interest**
Heren Far East Limited ("Heren")		1,006,250,000(L)	61.85%
	(1)	111,450,000(S)	6.85%
Heren Far East #3 Limited	*(2)*	1,006,250,000(L)	61.85%
		111,450,000(S)	6.85%
Heren Far East #4 Limited	*(2)*	1,006,250,000(L)	61.85%
		111,450,000(S)	6.85%
Nautilus Trustees Asia Limited	*(3)*	1,006,250,000(L)	61.85%
		111,450,000(S)	6.85%

L/S: Long position/short position

Notes:

(1) Heren lent a total of 111,450,000 shares to Credit Suisse Group AG, pursuant to a stock borrowing agreement entered into on 21 November 2016.

(2) Each of Heren Far East #3 Limited and Heren Far East #4 Limited is interested in more than one-third of the issued share capital of Heren, and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purposes of Part XV of the SFO.

(3) Nautilus Trustees Asia Limited is the trustee of the respective trusts holding entire interest in each of Heren Far East#2 Limited, Heren Far East #3 Limited and Heren Far East #4 Limited (which together hold the entire issued share capital of Heren), and is deemed to be interested in the 1,006,250,000 shares of the Company for the purposes of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2017.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 28 to 33 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this annual report, there is sufficient public float as required under the Listing Rules.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Tsoi Hoi Shan
Chairman and Executive Director

Hong Kong, 28 March 2018

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2017, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 of the rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, except for certain deviations which are summarized below:

– Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2017, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

– Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. An independent non-executive director was unable to attend the annual general meeting of the Company held on 8 June 2017 due to other important engagement.

THE BOARD

The Board comprises six executive directors and four independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors and Senior Management" on pages 16 to 19. The Board has established four Board committees namely Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. The attendance rates of individual directors at board meetings, annual general meeting and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Executive Directors						
Mr. Tsoi Hoi Shan	4/4	1/1	N/A	N/A	N/A	N/A
Mr. Leung Wing Hon	4/4	1/1	N/A	N/A	N/A	1/1
Ms. Choy Siu Chit	4/4	1/1	N/A	N/A	N/A	0/1
Mr. Fang Yu Ping	4/4	1/1	N/A	N/A	N/A	N/A
Ms. Zou Xian Hong	4/4	1/1	N/A	N/A	N/A	N/A
Ms. Zhu Su Yan	4/4	1/1	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Chong Peng Oon	4/4	1/1	3/3	1/1	1/1	1/1
Mr. Huang Bao Guang	4/4	1/1	3/3	1/1	1/1	N/A
Prof. Song Ming	3/4	0/1	3/3	1/1	1/1	1/1
Ms. Fu Xiao Nan	4/4	1/1	2/3	1/1	1/1	N/A

CORPORATE GOVERNANCE REPORT

The Board is responsible for setting the Group's objectives and strategies as well as to monitor the Group's performance. The Board also approves matters like annual and interim results, major transactions, appointment of directors, dividend and accounting policies and scrutinizes internal control procedures of the Group's operations. The Board has delegated the responsibility and authority of day-to-day operations to the management team.

All directors are provided with updated information in relation to governance and control matters regularly. The directors may seek independent professional advice according to prescribed procedures in order to assist them to discharge their duties at the expenses of the Company.

Four regular board meetings were held by the Board during the year. At least 14 days notices are given to all directors for all regular board meetings. Directors can include matters to be discussed in the agenda if necessary. Agenda of regular board meetings accompanied with board papers are dispatched to all directors within a reasonable time before the date of meeting. All draft minutes of the Board are circulated to all directors within a reasonable time for comments before being confirmed.

Minutes of the Board and Board committees are kept by the secretary duly appointed at such meetings. All directors are entitled to inspect the board papers and relevant information and to access to sufficient information on a timely basis so as to enable the Board to make informed decisions on matters to be brought before meetings.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under code provision A.6.5 of the CG Code, directors of the Company should participate in continuous professional development to develop and refresh their knowledge and skills. Each newly appointed director receives induction on the first occasion of his or her appointment, so as to ensure that he or she has appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Directors are also regularly updated on the Group's business and industry environments where appropriate in the management's monthly reports to the Board as well as briefings and materials circulated to the Board before board meeting.

During the year, the Company has arranged for all directors to undergo continuous trainings designed to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant.

CHAIRMAN

The information of Mr. Tsoi Hoi Shan, the Chairman is set out in the Biographical Details of Directors and Senior Management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board currently has four independent non-executive directors. Among the four independent non-executive directors, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. All the independent non-executive directors of the Company are appointed for a fixed term subject to retirement and re-appointment pursuant to the Company's articles of association.

CORPORATE GOVERNANCE REPORT

Each of the independent non-executive directors has submitted a confirmation of his independence as required by Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors to be independent and that each of them satisfies the guidelines of independence set out in Rule 3.13 of the Listing Rules.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures to follow when determining the remuneration policies of the directors. The members of the Remuneration Committee comprise of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the Chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are consistent with the relevant provisions set out in the CG Code, but with a deviation from the code provision of the Remuneration Committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior executives and that this evaluation process is more effectively carried out by the executive directors;

(ii) the executive directors must be in a position to supervise and control senior management and thus must be able to determine their compensation; and

(iii) there is no reason for executive directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee are posted on the Company's website.

The Remuneration Committee held one meeting during the year. It undertook a review of the remuneration and benefits of the directors. The Remuneration Committee ensures that no director is involved in determining his/ her own emoluments.

AUDIT COMMITTEE

The Audit Committee comprises of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. Mr. Chong Peng Oon is the Chairman of the Audit Committee.

The major duties of the Audit Committee include reviewing and monitoring the financial reporting system and internal control procedures of the Group. The Audit Committee held three meetings during the year. It reviewed the Group's financial reporting matters, and reviewed the internal control systems in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the Audit Committee are consistent with the relevant provisions set out in the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Board has established Nomination Committee to ensure fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee comprises four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. Prof. Song Ming is the Chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year to discuss re-election of directors. During selection and recommendation of candidates for directors, the Committee will consider about experience, qualification and suitability of the candidates. The Board will approve the appointments based on the same criteria. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

RISK MANAGEMENT COMMITTEE

The Company has established a risk management committee in February 2016. The Risk Management Committee comprises of two independent non-executive directors, namely Mr. Chong Peng Oon and Prof. Song Ming, and two executive directors, namely Mr. Leung Wing Hon and Ms. Choy Siu Chit. Mr. Chong Peng Oon is the Chairman of the Risk Management Committee.

The major duties of the Risk Management Committee include overseeing and reviewing the Group's risk management and internal control systems. The Risk Management Committee held one meeting during the year to review the Group's risk management and internal control systems. The terms of reference of the Risk Management Committee are posted on the Company's website.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct for director's securities transactions. Having made specific enquiry, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

To comply with code provision A.6.4 of the CG Code, the Company has adopted standard code for the code of conduct for relevant employees' securities transactions to regulate certain employees of the Group who are deemed to be in possession of unpublished price sensitive information of the Company when dealing in the securities of the Company.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2017, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

In the year under review, the Board considers the systems of internal control of the Company are sufficient and effective, hence the Company has complied with the code provisions relevant to the internal control in the CG Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit services in 2017 amounted to approximately RMB4,571,000 and RMB1,372,000 respectively.

COMPANY SECRETARY

Mr. Leung Wing Hon is the company secretary of the Company. Mr. Leung reports to Mr. Tsoi Hoi Shan, the Chairman of the Board. Mr. Leung Wing Hon was appointed as company secretary of the Company on 25 May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of International Accountants. He undertook no less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by Shareholders

Pursuant to article 58 of the Company's Articles of Association, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CORPORATE GOVERNANCE REPORT

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company and the Stock Exchange.

Making Enquiry to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a range of communication channels between itself, its shareholders and investors, including answering questions through the annual general meeting, the publications of annual and interim reports, notices, announcements and circulars on the website of the Company at www.tul.com.cn and www.irasia.com/listco/hk/unitedlab. During the year, the Board is not aware of any significant changes in the Company's constitutional documents.

With the Company's Vice-Chairman, Mr. Leung Wing Hon, fully on board, the Company is well positioned with an experienced investor relations team supporting the various investor relations initiatives. Ms. Karen Yang joined the team as the Investor Relations Officer in August 2014 and was promoted as Assistant Manager in January 2017. The new team will continue to work towards further enhancing the communication with investors through various platforms such as roadshows, meetings, plant visits, conference calls and other forms of engagement. In addition, the investor relations department will continue to implement various exercises towards building a targeted shareholders base that supports the investment proposition of the company to correctly reflect its valuation.

Effective investor relations communication is an integral part of the Company's management philosophy. In 2018, the Company will continue to maintain effective communication with investors. Through the investor relations department's efforts, the Company aspired to instill further confidence among investors and enhance their understanding of our business.

On behalf of the Board

Leung Wing Hon
Vice-Chairman and Executive Director

Hong Kong, 28 March 2018

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 132, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Valuation of embedded derivative components of convertible bonds

We identified the valuation of the embedded derivative components of the convertible bonds issued by the Group during the year as a key audit matter as the valuation model is sensitive to changes in certain key inputs including credit risk, volatility of share prices and dividend yield that require significant management estimates.

As at 31 December 2017, the carrying value of the embedded derivative components of the convertible bonds was approximately RMB440,719,000, with a loss on fair value change of approximately RMB53,938,000 for the year then ended recorded in the consolidated statement of profit or loss and other comprehensive income.

Details relating to the Group's embedded derivative components of the convertible bonds are set out in Note 27 to the consolidated financial statements.

Our audit procedures in relation to the valuation of the embedded derivative components of the convertible bonds included:

- Reading the terms of the subscription agreements that constitute embedded derivatives;
- Evaluating an independent professional valuer's competence, capabilities and objectivity; and
- Involving our internal valuation experts to review and assess whether the valuation model used by the independent professional valuer was appropriate and whether the key assumptions used in the valuation model including the credit risk, volatility of share prices and dividend yield were reasonable.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter as the valuation model is sensitive to changes in certain key assumptions including expected selling prices, construction costs, construction period, finance costs and developers' profit, that required significant management judgment. As at 31 December 2017, the carrying value of the Group's investment properties was approximately RMB793,297,000, with a fair value loss of approximately RMB326,980,000 for the year then ended recorded in the consolidated statement of profit or loss and other comprehensive income. Details relating to the Group's investment properties are set out in Note 16 to the consolidated financial statements.	Our audit procedures in relation to the valuation of investment properties included: • Conducting a site visit to the investment properties and its surrounding environment in order to obtain an understanding of the recent property market trend; • Discussing with property consultant, who assisted the management to update the development plan of the investment properties based on the prevailing changes in the market conditions, as well as discussing with the management to understand the property market and updates in the development plan; • Making inquiries with the management on the basis of assumptions for the preparation of the valuation model; • Evaluating an independent professional valuer's competence, capabilities and objectivity; • Assessing the reasonableness of the key assumptions used in the valuation model by comparing the estimates made by the management in the past year against the current year and taking into account future development plans of the investment properties; • Checking, on a sampling basis, the reasonableness, appropriateness and relevance of the input data used to market comparable and supporting documents; and • Evaluating the sensitivity analysis performed by the management on the expected selling prices of completed units, construction costs, construction period, finance costs and developers' profit margin to evaluate the extent of impact on the fair value of the investment properties.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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.

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	5	**6,826,645**	6,077,944
Cost of sales		**(4,328,428)**	(3,915,320)
Gross profit		**2,498,217**	2,162,624
Other income	6	**133,962**	96,599
Other gains and losses	7a	**8,904**	(112,562)
Selling and distribution expenses		**(1,067,920)**	(1,063,512)
Administrative expenses		**(603,693)**	(608,732)
Other expenses	7b	**(252,866)**	(157,662)
Loss on fair value change on investment properties	16	**(326,980)**	(120,000)
Loss on fair value change of embedded derivative components of convertible bonds	27	**(53,938)**	(99,730)
Finance costs	8	**(266,735)**	(234,497)
Profit (loss) before taxation		**68,951**	(137,472)
Tax credit (expense)	9	**12,807**	(134,891)
Profit (loss) for the year attributable to owners of the Company	10	**81,758**	(272,363)
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of a foreign operation		**12,521**	(5,889)
Total comprehensive income (expense) for the year attributable to owners of the Company		**94,279**	(278,252)
Earnings (loss) per share (RMB cents)	14		
– Basic		**5.03**	(16.74)
– Diluted		**5.03**	(16.74)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

		31 December		1 January
		2017	2016	2016
	NOTES	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	*15*	**6,831,488**	7,350,934	7,765,432
Investment properties	*16b*	**793,297**	1,120,277	1,240,277
Properties held for development	*16a*	**255,723**	255,723	255,723
Prepaid lease payments	*17*	**207,649**	213,267	209,237
Goodwill	*18*	**3,031**	3,031	3,031
Intangible assets	*19*	**150,797**	144,188	80,681
Deposit for land use rights		**7,262**	7,262	6,385
Deposits for acquisition of property, plant and equipment		**36,269**	25,995	45,761
Pledged deposits against finance leases	*25*	**46,737**	75,000	130,000
Available-for-sale investment		**500**	500	500
Deferred tax asset	*28*	**14,167**	12,626	31,655
		8,346,920	9,208,803	9,768,682
Current assets				
Inventories	*20*	**1,173,082**	963,789	1,189,367
Trade and bills receivables, other receivables, deposits and prepayments	*21*	**2,453,675**	1,960,822	1,845,028
Prepaid lease payments	*17*	**4,954**	4,954	5,061
Pledged bank deposits	*23*	**487,738**	969,062	815,529
Pledged deposits against finance leases	*25*	**51,709**	75,745	50,000
Bank balances and cash	*23*	**1,593,768**	1,782,881	936,743
		5,764,926	5,757,253	4,841,728
Current liabilities				
Trade and bills payables, other payables and accrued charges	*24*	**3,268,323**	2,927,919	2,712,289
Derivative financial instruments	*22*	**–**	85,891	171,175
Obligations under finance leases – due within one year	*25*	**285,594**	375,643	587,493
Tax payables		**97,145**	86,489	85,901
Borrowings – due within one year	*26*	**1,138,257**	3,249,684	3,454,287
Convertible bonds	*27*	**–**	–	98,188
		4,789,319	6,725,626	7,109,333
Net current assets (liabilities)		**975,607**	(968,373)	(2,267,605)
Total assets less current liabilities		**9,322,527**	8,240,430	7,501,077

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

		31 December		1 January
		2017	2016	2016
	NOTES	**RMB'000**	RMB'000	RMB'000
Non-current liabilities				
Deferred tax liabilities	*28*	**362,667**	576,580	599,289
Deferred income in respect of government grants	*32*	**84,947**	62,792	82,448
Obligations under finance leases – due after one year	*25*	**115,639**	254,793	426,501
Borrowings – due after one year	*26*	**2,279,286**	993,959	767,101
Convertible bonds	*27*	**1,038,223**	1,004,820	–
		3,880,762	2,892,944	1,875,339
		5,441,765	5,347,486	5,625,738
Capital and reserves				
Share capital	*29*	**15,237**	15,237	15,237
Reserves		**5,426,528**	5,332,249	5,610,501
Equity attributable to owners of the Company		**5,441,765**	5,347,486	5,625,738

The consolidated financial statements on pages 40 to 132 were approved and authorised for issue by the Board of Directors on 28 March 2018 and are signed on its behalf by:

TSOI HOI SHAN
DIRECTOR

LEUNG WING HON
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Revaluation reserve RMB'000	Foreign exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	15,237	2,356,763	277,100	642,191	95,616	(3,973)	2,242,804	5,625,738
Changes in equity during the year:								
Exchange differences arising on translation of a foreign operation	–	–	–	–	–	(5,889)	–	(5,889)
Loss for the year	–	–	–	–	–	–	(272,363)	(272,363)
Total comprehensive expense for the year	–	–	–	–	–	(5,889)	(272,363)	(278,252)
Appropriations	–	–	–	49,054	–	–	(49,054)	–
At 31 December 2016	15,237	2,356,763	277,100	691,245	95,616	(9,862)	1,921,387	5,347,486
Changes in equity during the year:								
Exchange differences arising on translation of a foreign operation	**–**	**–**	**–**	**–**	**–**	**12,521**	**–**	**12,521**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**81,758**	**81,758**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**12,521**	**81,758**	**94,279**
Appropriations	**–**	**–**	**–**	**72,159**	**–**	**–**	**(72,159)**	**–**
At 31 December 2017	**15,237**	**2,356,763**	**277,100**	**763,404**	**95,616**	**2,659**	**1,930,986**	**5,441,765**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided for before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of the respective subsidiaries.

Included in special reserve is an amount of RMB203,263,000 which represents the portion of registered capital of the two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of RMB73,837,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for acquisition of additional interests in subsidiaries in prior years.

Revaluation reserve represents the fair value adjustments of certain land use rights of the Group situated in Chengdu, the PRC, attributable to the change of land use from owner-occupied lands to investment properties upon cessation of production together with associated deferred tax charge arising from the fair value change. The excess of fair value over the carrying value of lands is recognised as a revaluation surplus included in revaluation reserve in equity. Details of which is set out in Note 16.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Operating activities		
Profit (loss) before taxation	**68,951**	(137,472)
Adjustments for:		
Provision of allowances for inventories, net	**19,584**	10,508
Write-down of long-aged deposit and prepayment	**28,445**	23,691
Provision of allowance for doubtful debts, net	**6,947**	24,222
Amortisation of intangible assets	**9,676**	3,014
Amortisation of prepaid lease payments	**5,618**	5,908
Depreciation of property, plant and equipment	**774,490**	707,429
Loss on fair value change on investment properties	**326,980**	120,000
Finance costs	**266,735**	234,497
Release of government grants	**(50,188)**	(34,878)
Interest income	**(26,355)**	(19,872)
Net loss on disposal of property, plant and equipment	**4,808**	31,418
Net loss on disposal of prepaid lease payment	**–**	143
Unrealised gain on change in fair value of derivative financial instruments	**–**	(37,321)
Loss on fair value change of embedded derivative components of convertible bonds	**53,938**	99,730
Unrealised exchange (gain) loss	**(84,821)**	26,975
Operating cash flows before movements in working capital	**1,404,808**	1,057,992
(Increase) decrease in inventories	**(228,877)**	215,070
Increase in trade and bills receivables, other receivables, deposits and prepayments	**(694,387)**	(308,348)
Change in derivative financial instruments	**(80,557)**	(55,122)
Increase in trade and bills payables, other payables and accrued charges	**561,188**	302,855
Cash generated from operations	**962,175**	1,212,447
Income taxes paid	**(192,230)**	(137,983)
Net cash from operating activities	**769,945**	1,074,464

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Investing activities		
Payments for purchase of property, plant and equipment	**(458,116)**	(402,820)
Proceeds on disposal of property, plant and equipment	**5,470**	67,024
Proceeds on disposal of prepaid lease payment	**–**	500
Placement of pledged bank deposits	**(1,180,874)**	(822,688)
Release of pledged bank deposits	**1,661,846**	669,155
Receipts of government grants	**48,939**	8,511
Interest received	**26,355**	19,872
Additions to intangible assets	**(16,285)**	(66,521)
Payment for deposit of land use rights	**–**	(877)
Net cash from (used in) investing activities	**87,335**	(527,844)
Financing activities		
Interest paid	**(223,781)**	(281,281)
Proceeds from finance leases	**200,000**	250,000
Repayments of obligations under finance leases	**(429,203)**	(633,558)
Placement of pledged deposits against finance leases	**(23,446)**	(25,000)
Receipts of pledged deposits against finance leases	**75,745**	54,255
Net new borrowings raised	**2,645,981**	3,323,170
Repayment of borrowings	**(3,289,695)**	(3,186,336)
Repayment of convertible bond	**–**	(97,400)
Proceeds on issue of convertible bond	**–**	882,195
Net cash (used in) from financing activities	**(1,044,399)**	286,045
Net (decrease) increase in cash and cash equivalents	**(187,119)**	832,665
Effect of foreign exchange rate changes	**(1,994)**	13,473
Cash and cash equivalents at beginning of the year	**1,782,881**	936,743
Cash and cash equivalents at end of the year	**1,593,768**	1,782,881
Analysis of the balances of cash and cash equivalents, represented by Bank balances and cash	**1,593,768**	1,782,881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

The United Laboratories International Holdings Limited (the "Company") is a limited company incorporated in the Cayman Islands. The Company's parent company and ultimate holding company are Heren Far East Limited and Gesell Holdings Limited, respectively, both are companies incorporated in the British Virgin Islands and are ultimately controlled by The Choy's Family Trust. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 42.

The functional currency of the Company and most of its subsidiaries (the "Group") is Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operates.

In prior years, the presentation currency of the consolidated financial statements of the Group was Hong Kong Dollars ("HK$"). Starting from 1 January 2017, the directors of the Company re-assessed the presentation currency for the preparation of its consolidated financial statements and considered that it is more appropriate to present the consolidated financial statements using RMB since investors of the Company based in the PRC have been increasing and the Group raised more funds in recent years in RMB, in particular the Group issued fixed rate bonds of RMB1,100,000,000 in March 2017 which was listed on The Shanghai Stock Exchange and most of those bondholders are also based in the PRC.

The effects of the change in the presentation currency have been accounted for retrospectively with comparative figures restated. The comparative amounts in the consolidated financial statements are presented as if RMB had always been the presentation currency of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to Hong Kong Accounting Standards ("HKAS") 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

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

Amendments to HKAS 7 *Disclosure Initiative*

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

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

A reconciliation between the opening and closing balances of these items is provided in Note 39. 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 39, the application of these amendments has had no impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and revised HKFRSs in issue but not yet effective

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

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

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 *Financial Instruments*

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

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

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

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

Based on the Group's financial instruments as at 31 December 2017, the directors of the Company consider the following potential impact on initial application of HKFRS 9:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 *Financial Instruments* *(Continued)*

Classification and measurement:

- Equity securities classified as available-for-sale investments carried at cost less impairment: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, fair value gains related to these securities, if any, representing the differences between cost less impairment and fair value would be adjusted to retained profits as at 1 January 2018; and

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

Impairment

In general, the directors of the Company consider 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 costs and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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 Standard introduces a 5-step approach to revenue recognition:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 *Leases*

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

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

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

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

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

In relation to the Group's sale and leaseback arrangements, under HKFRS 16, the Group has to apply the requirements for determining when a performance obligation is satisfied in HKFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset. If the transfer of an asset by the seller-lessee satisfies the requirements of HKFRS 15 to be accounted for as a sale of the asset, the seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Otherwise, the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds which is accounted for by applying HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 *Leases* *(Continued)*

The Group has retained the control of the transferred property, plant and equipment under the sale and leaseback arrangement (details are set out in Note 25) and therefore the Group (as seller-lessee) will not derecognise the transferred asset and will account for the cash received as a financial liability upon application of HKFRS 16, which follows the current treatment.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group had non-cancellable operating lease commitments of RMB429,000 as disclosed in Note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

Except as set out above, the directors of the Company expect that there is no impact on the consolidated financial statements in the foreseeable future upon application of the other new and revised HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments that are measured at fair values at the end of reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

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

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

Revenue recognition

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the lease term or the operation period of the relevant company of 50 years
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 25%
Motor vehicles	20% – 25%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the leased term, assets are depreciated over the shorter of the lease term and their useful lives.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

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

Sale and leaseback resulting in a finance lease

For a sale and leaseback transaction resulted in a finance lease, the present value of minimum lease payments is credited to a liability account representing the initial net obligation under finance lease. Transferred asset is continuously recognised at its previous carrying amount as if the sale and leaseback transaction had not occurred. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, no adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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

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

Leasehold land and building

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

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Internally-generated intangible assets – research and development expenditure

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

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any). Amortisation for internally-generated intangible assets is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to the present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Properties held for development

Properties held for development are stated at the lower of cost and net realisable value. Cost comprises the costs of land use rights or the fair value of investment properties upon the date of transfer and other directly attributable costs.

Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

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

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

Loans and receivables

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

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated its investment in unlisted equity security as an available-for-sale financial asset. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 – 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into 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 the group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

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 paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Other financial liabilities including trade and bills payable, other payables and borrowings are subsequently measured at amortised cost using the effective interest method.

Convertible bonds contains liability component, conversion option and early redemption option derivative components

Convertible bonds issued by the Group that contain the liability, conversion option and early redemption option components (which are not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments and that gives the Company a choice over how it is settled is a conversion option derivative. Early redemption option that results in redemption other than by an amount which approximates the amortised cost of the liability on each exercise date is a redemption option derivative. At the date of issue, the liability, conversion option and early redemption option derivatives are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option and early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, conversion option and early redemption option derivatives in proportion to their relative fair values. Transaction costs relating to the conversion option and redemption option derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses as the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign exchange reserve.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme or state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

As a result, the Group recognised deferred taxes relating to Land Appreciation Tax ("LAT") and Enterprise Income Tax ("EIT") on changes in fair value of such investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Key sources of estimation uncertainty

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

Valuation of investment properties situated in the PRC

As described in Note 16, investment properties situated in the PRC are stated at fair value by reference to valuations performed by an independent professional valuer. The valuation model is sensitive to changes in certain key assumptions including expected selling prices, construction costs, construction period, finance costs and developers' profit, that require significant management judgement. Any changes in the market conditions will affect the fair value measurement of the investment properties of the Group.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to experience of the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimates due to changes in the commercial and technological environment, such differences will impact the timing of the depreciation charge in profit or loss and the carrying amount of property, plant and equipment. The carrying amount of property, plant and equipment is disclosed in Note 15.

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. The management is satisfied that no impairment loss is required to be recognised during both years.

The carrying amounts of property, plant and equipment and intangible assets are set out in Notes 15 and 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Estimated allowance for write-down of inventories to net realisable value

The Group makes allowance for the write-down of inventories based on assessments of the net realisable value of existing inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value of certain items is lower than the costs of those items. The identification of obsolete inventories requires the use of estimation of the net realisable value of items of inventory and estimates on the conditions and usefulness of items of inventories. Where the expectation on the net realisable value is lower than the cost for certain items, an impairment may arise. During the year ended 31 December 2017, allowance of inventories of RMB19,584,000 (2016: RMB10,508,000) has been recognised. The carrying amount of inventories is disclosed in Note 20.

Estimated allowance for doubtful receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and bills receivables, and other receivables. Allowances are applied to trade and bills receivables, and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade and bills receivables, and other receivables is different from the original estimate, such difference will impact the carrying value of trade and bills receivables, and other receivables and allowance for doubtful debts in the year in which such estimate has changed. During the year ended 31 December 2017, allowance of RMB6,947,000 (2016: RMB24,222,000) has been recognised and an amount of RMB5,007,000 (2016: RMB7,824,000) has been written off as uncollectible. The carrying amounts of trade and bills receivables, and other receivables and change of the allowance for doubtful receivables are disclosed in Note 21.

Valuation of the embedded derivatives in convertible bonds

The fair values for the embedded derivatives in convertible bonds are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the personnel that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. The valuation model is sensitive to changes in certain key inputs including credit risk, volatility of share prices and dividend yield that require significant management estimates. Any changes in the estimates and assumptions will affect the fair values of the embedded derivatives in convertible bonds. The carrying amount of embedded derivatives is disclosed in Note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts and sales related taxes.

	2017	2016
	RMB'000	RMB'000
Sales of pharmaceutical products	**6,826,645**	6,077,944

Segment information

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") (i.e. Executive directors of the Company) for the purpose of allocating resources to segments and assessing their performance.

The Group is currently organised into three revenue streams – (i) sale of intermediate products ("Intermediate products"); (ii) sale of bulk medicine ("Bulk medicine"); and (iii) sale of antibiotics finished products, non-antibiotics finished products and capsule casings (together "Finished products"). These three revenue streams are the operating and reportable segments of the Group on which the Group reports its primary segment information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results:

Year ended 31 December 2017

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	1,473,511	2,853,437	2,499,697	6,826,645	–	6,826,645
Inter-segment sales	1,183,311	391,812	–	1,575,123	(1,575,123)	–
TOTAL REVENUE	2,656,822	3,245,249	2,499,697	8,401,768	(1,575,123)	6,826,645
Segment profit	34,433	103,293	620,727			758,453
Unallocated other income						110,615
Unallocated corporate expenses						(161,368)
Other gains and losses, net						8,904
Loss on fair value change of embedded derivative components of convertible bonds						(53,938)
Loss on fair value change on investment properties						(326,980)
Finance costs						(266,735)
Profit before taxation						68,951

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results: *(Continued)*

Year ended 31 December 2016

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segment total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	1,235,107	2,470,497	2,372,340	6,077,944	–	6,077,944
Inter-segment sales	1,038,656	244,541	–	1,283,197	(1,283,197)	–
TOTAL REVENUE	2,273,763	2,715,038	2,372,340	7,361,141	(1,283,197)	6,077,944
Segment (loss) profit	(201,181)	143,360	561,732			503,911
Unallocated other income						55,654
Unallocated corporate expenses						(130,248)
Other gains and losses, net						(112,562)
Loss on fair value change of embedded derivative components of convertible bonds						(99,730)
Loss on fair value change on investment properties						(120,000)
Finance costs						(234,497)
Loss before taxation						(137,472)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results: *(Continued)*

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Performance is measured based on segment results that is used by the CODM for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

Other than the segment revenue and segment results analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is presented.

Inter-segment revenue is charged at prevailing market rates.

Reportable segment results represent the profit earned or loss incurred by each segment without allocation of certain other income, corporate expenses, other gains and losses, gain or loss on fair value change of embedded derivative components of convertible bonds, loss on fair value change on investment properties and finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2017

	Intermediate products RMB'000	**Bulk medicine RMB'000**	**Finished products RMB'000**	**Unallocated expenses RMB'000**	**Consolidated RMB'000**
Amortisation of prepaid lease payment	**4,264**	**1,047**	**307**	**–**	**5,618**
Amortisation of intangible assets	**–**	**–**	**9,676**	**–**	**9,676**
Depreciation of property, plant and equipment	**605,551**	**126,496**	**40,350**	**2,093**	**774,490**
(Gain) loss on disposal of property, plant and equipment	**(6,449)**	**11,244**	**13**	**–**	**4,808**
Write-down of long aged deposit and prepayment	**–**	**–**	**–**	**28,445**	**28,445**

For the year ended 31 December 2016

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Unallocated expenses RMB'000	Consolidated RMB'000
Amortisation of prepaid lease payment	4,553	1,047	308	–	5,908
Amortisation of intangible assets	–	–	3,014	–	3,014
Depreciation of property, plant and equipment	571,944	88,933	43,217	3,335	707,429
Loss on disposal of property, plant and equipment	22,736	8,682	–	–	31,418
Write-down of long aged deposit and prepayment	23,691	–	–	–	23,691

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information

The revenue by geographical market (irrespective of the origin of the goods) based on the location of the customers are presented below:

	Revenue from external customers	
	2017	2016
	RMB'000	RMB'000
PRC (country of domicile)	**4,754,285**	4,439,402
Europe	**484,135**	430,762
India	**783,367**	514,853
Hong Kong	**21,654**	43,366
Middle East	**35,406**	32,926
South America	**209,084**	75,605
Other Asian regions	**385,997**	389,093
Other regions	**152,717**	151,937
	6,826,645	6,077,944

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information *(Continued)*

The information about its non-current assets is presented based on the geographical location of the assets, as below:

	Non-current assets	
	2017	2016
	RMB'000	RMB'000
PRC (country of domicile)	**8,192,894**	9,028,024
Hong Kong	**92,622**	92,653
	8,285,516	9,120,677

Note: Non-current assets exclude pledged deposits against finance leases, available-for-sale investment and deferred tax asset.

(d) Information about major customers

There is no customer who represents more than 10% of the total sales of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Bank interest income	**26,355**	19,872
Sales of scrap materials	**7,176**	9,318
Other subsidy income *(Note 32)*	**89,068**	58,826
Sundry income	**11,363**	8,583
	133,962	96,599

7. OTHER GAINS AND LOSSES/OTHER EXPENSES

	2017 RMB'000	2016 RMB'000
(a) Other gains and losses, net		
Loss on derivative financial instrument	**24,646**	1,868
Net loss on disposal of property, plant and equipment	**4,808**	31,418
Net foreign exchange (gain) loss	**(38,352)**	78,008
Others	**(6)**	1,268
	(8,904)	112,562
(b) Other expenses		
Research and development costs	**162,298**	74,157
Temporary production suspension costs	**43,781**	50,802
Write-down of long aged deposits and prepayments	**28,445**	23,691
Demolition expense *(Note)*	**7,760**	–
Tax penalty	**6,575**	–
Others	**4,007**	9,012
	252,866	157,662

Note: The demolition expense represents the cost for destruction and removal of the property, plant and equipment in site of Chengdu after entering into an agreement with the local government of Pengzhou in 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on borrowings	**156,313**	189,299
Interest on convertible bonds *(Note 27)*	**84,490**	22,146
Interest on finance leases	**40,553**	39,556
	281,356	251,001
Less: amounts capitalised in property, plant and equipment	**(14,621)**	(16,504)
	266,735	234,497

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.33% (2016: 5.10%) per annum to expenditure on qualifying assets.

9. TAX (CREDIT) EXPENSE

	2017 RMB'000	2016 RMB'000
The tax (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax	**–**	719
PRC Enterprise Income Tax	**147,734**	116,435
PRC withholding tax on distributed profits of PRC subsidiaries	**54,913**	20,762
	202,647	137,916
Underprovision in prior years		
Hong Kong Profits Tax	**–**	655
Deferred tax credit *(Note 28)*	**(215,454)**	(3,680)
	(12,807)	134,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

9. TAX (CREDIT) EXPENSE *(Continued)*

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

The PRC EIT is calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the PRC Enterprise Income Tax law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007, respectively, the tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law), the subsidiaries are entitled a reduced rate of 15% and such qualification is subject to renew for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2017 and 2016.

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by a PRC entity to a non-PRC tax resident shall be subject to the PRC EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. The withholding tax rate applicable to the Group is 5%. As at 31 December 2017 and 31 December 2016, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

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

	2017	2016
	RMB'000	RMB'000
Profit (loss) before taxation	**68,951**	(137,472)
Tax at the PRC EIT rate of 25% (2016: 25%)	**17,238**	(34,368)
Tax effect of expenses not deductible for tax purpose	**148,437**	115,233
Tax effect of income not taxable for tax purpose	**(31,110)**	(26,593)
Underprovision in prior years	**–**	655
Tax effect of land appreciation tax ("LAT") and other associated tax arising on fair value change of investment properties	**(119,773)**	(8,895)
Tax effect of tax losses not recognised	**42,160**	144,824
Utilisation of tax losses previously not recognised	**(23,176)**	(7,982)
Tax effect of deductible temporary difference not recognised	**(851)**	14,605
PRC withholding tax on distributable profits of the PRC subsidiaries	**39,881**	37,192
Effect of tax concessionary rates granted to the PRC subsidiaries	**(86,518)**	(99,479)
Others	**905**	(301)
Income tax (credit) expense for the year	**(12,807)**	134,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. PROFIT (LOSS) FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**4,571**	4,880
Depreciation and amortisation		
Depreciation of property, plant and equipment	**774,490**	707,429
Less: amount included in temporary production suspension costs in other expenses	**(25,444)**	(39,310)
Less: amount included in research and development expenditures	**(25,206)**	(6,221)
	723,840	661,898
Amortisation		
– intangible assets (included in cost of sales)	**9,676**	3,014
– prepaid lease payments	**5,618**	5,908
	15,294	8,922
Minimum lease payments in respect of rented premises	**1,665**	1,948
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**892,141**	815,931
Retirement benefit costs	**90,922**	83,458
	983,063	899,389
Less: amount included in research and development expenditures	**(34,450)**	(19,683)
Less: amount included in temporary production suspension costs in other expenses	**(3,515)**	(1,476)
	945,098	878,230
Provision of allowances for inventories, net (included in cost of sales)	**19,584**	10,508
Provision of allowance for doubtful debts, net	**6,947**	24,222
Cost of inventories recognised as expenses	**4,328,428**	3,915,320

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

2017

(a) Executive directors

	Tsoi Hoi Shan RMB'000	Leung Wing Hon RMB'000	Choy Siu Chit RMB'000	Fang Yu Ping RMB'000	Zou Xian Hong RMB'000	Zhu Su Yan RMB'000	Total RMB'000
Fees							
Other emoluments							
Salaries and other benefits	3,333	3,229	3,125	1,563	1,563	1,563	14,376
Bonus *(Note)*	–	–	–	720	720	720	2,160
Contributions to retirement benefit schemes	16	16	16	32	14	32	126
Sub-total	3,349	3,245	3,141	2,315	2,297	2,315	16,662

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

(b) Independent non-executive directors

	Chong Peng Oon RMB'000	Huang Bao Guang RMB'000	Song Ming RMB'000	Fu Xiao Nan RMB'000	Total RMB'000
Fees	208	208	208	208	832

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

Total	17,494

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

2016

(a) Executive directors

	Tsoi Hoi Shan RMB'000	Leung Wing Hon RMB'000	Choy Siu Chit RMB'000	Fang Yu Ping RMB'000	Zou Xian Hong RMB'000	Zhu Su Yan RMB'000	Total RMB'000
Fees							
Other emoluments							
Salaries and other benefits	3,305	3,201	1,807	1,549	1,549	1,549	12,960
Bonus *(Note)*	–	–	–	720	720	720	2,160
Contributions to retirement benefit schemes	15	15	15	23	15	33	116
Sub-total	3,320	3,216	1,822	2,292	2,284	2,302	15,236

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

(b) Independent non-executive directors

	Chong Peng Oon RMB'000	Huang Bao Guang RMB'000	Song Ming RMB'000	Fu Xiao Nan RMB'000	Total RMB'000
Fees	207	207	207	207	828

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

Total	16,064

Note: The bonus is recommended by the remuneration committee of the Group and is approved by the board of directors, having regard to the individual's contribution to the Group.

During the years ended 31 December 2017 and 2016, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2017 and 2016, all the five highest paid individuals of the Group are directors of the Company, details of which are included in Note 11.

13. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of RMB5 cents (2016: Nil) per ordinary share, in an aggregate amount of RMB81,343,000 (2016: Nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

14. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

Earnings (loss)

	2017 **RMB'000**	2016 RMB'000
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share being profit (loss) for the year attributable to owners of the Company	**81,758**	(272,363)

Number of shares

	2017 **'000**	2016 '000
Basic and diluted		
Number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	**1,626,875**	1,626,875

The computation of diluted earnings (loss) per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share for the year ended 31 December 2017 and a decrease in loss per share for the year ended 31 December 2016, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2016	4,071,283	7,317,369	128,529	55,289	406,040	11,978,510
Additions	111,722	118,579	4,470	277	156,325	391,373
Disposals/write off	(134,412)	(131,310)	(4,768)	(8,767)	–	(279,257)
Reclassification	218,053	172,250	8,253	–	(398,556)	–
At 31 December 2016	**4,266,646**	**7,476,888**	**136,484**	**46,799**	**163,809**	**12,090,626**
Additions	**21,960**	**85,483**	**5,837**	**1,669**	**150,373**	**265,322**
Disposals/write off	**(7,802)**	**(95,119)**	**(13,575)**	**(128)**	**–**	**(116,624)**
Reclassification	**50,619**	**162,163**	**1,050**	**–**	**(213,832)**	**–**
At 31 December 2017	**4,331,423**	**7,629,415**	**129,796**	**48,340**	**100,350**	**12,239,324**
DEPRECIATION						
At 1 January 2016	676,242	2,800,934	101,726	49,143	–	3,628,045
Charge for the year	141,358	552,201	10,385	3,485	–	707,429
Eliminated on disposals/write off	(34,577)	(72,439)	(4,340)	(7,919)	–	(119,275)
At 31 December 2016	**783,023**	**3,280,696**	**107,771**	**44,709**	**–**	**4,216,199**
Charge for the year	**152,334**	**608,323**	**11,044**	**2,789**	**–**	**774,490**
Eliminated on disposals/write off	**(6,507)**	**(81,024)**	**(12,048)**	**(121)**	**–**	**(99,700)**
At 31 December 2017	**928,850**	**3,807,995**	**106,767**	**47,377**	**–**	**4,890,989**
IMPAIRMENT						
At 1 January 2016	**274,388**	**309,192**	**375**	**619**	**459**	**585,033**
Eliminated on disposals/write off	**(52,117)**	**(8,932)**	**(11)**	**(21)**	**(459)**	**(61,540)**
At 31 December 2016	**222,271**	**300,260**	**364**	**598**	**–**	**523,493**
Eliminated on disposals/write off	**–**	**(6,282)**	**(364)**	**–**	**–**	**(6,646)**
At 31 December 2017	**222,271**	**293,978**	**–**	**598**	**–**	**516,847**
CARRYING AMOUNTS						
At 31 December 2017	**3,180,302**	**3,527,442**	**23,029**	**365**	**100,350**	**6,831,488**
At 31 December 2016	3,261,352	3,895,932	28,349	1,492	163,809	7,350,934

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying amount of land and buildings shown above comprises properties situated on:

	2017	2016
	RMB'000	RMB'000
Leasehold land and buildings in Hong Kong	**75,592**	77,417
Buildings located on the leasehold land in the PRC	**3,104,710**	3,183,935
	3,180,302	3,261,352

Note: At 31 December 2017, the Group was in the process of obtaining the real estate ownership certificate for building in the PRC with an aggregate carrying amount of RMB1,496,362,000 (2016: RMB1,683,943,000).

At 31 December 2017, the carrying value of plant and machinery included an amount of RMB800,198,000 (2016: RMB1,350,220,000) in respect of assets held under finance leases.

16. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT

a) Properties held for development:

	RMB'000
At 1 January 2016, 31 December 2016, and 31 December 2017	255,723

During the year ended 31 December 2014, the Group made the full land premium payment of RMB484,050,000 to respective authority and obtained all land use right certificates, of a land located in Chengdu, Pengzhou ("Chengdu Lands"). The land use right certificate indicated that the period for which the lands could be used for commercial and residential purposes would expire on 27 December 2053 and 2083, respectively.

Pursuant to the Group's development plan of the Chengdu Lands as at 31 December 2014, certain lands will be developed into residential properties for sale. Accordingly, the amount of lands of approximately RMB255,723,000 based on the proportion of lands to be developed as properties for sale had been reclassified from "Investment Properties" to "Properties held for development" representing the deemed costs equivalent to the fair value measured at 31 December 2014 immediately prior to its reclassification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

b) Investment properties:

	RMB'000
At 1 January 2016	1,240,277
Fair value change	(120,000)
At 31 December 2016	1,120,277
Fair value change	(326,980)
At 31 December 2017	793,297

In 2014, the Group applied to local authority in Pengzhou for extension of the commencement date of property development which was approved by respective government authority in February 2015, with an extended period to no later than 31 December 2017 (the "Extension Document").

Pursuant to Article 26 of Chapter II of the Urban Real Estate Administration Law of the PRC (the "UREAL") and the Extension Document, when the development has not started in one year from the date required to start the development as prescribed by the Extension Document, an idle land fee not more than 20 percent of the lease fees for land use ("Idle Land Fee") may be imposed, i.e. if the real estate development work is not commenced on or before 31 December 2018. Furthermore, the land will be taken back by the government without compensation if the real estate development work is not commenced on or before 31 December 2019.

In September 2017, the Group entered into an agreement with the local government of Pengzhou to facilitate the development of the Chengdu Lands for five years (the "Cooperative Agreement"). Pursuant to the Cooperative Agreement, the Group will contribute approximately 40 acre of the lands and existing structures erected on the lands (including office buildings and 102 workshops) to Pengzhou local government, whilst the Pengzhou local government will fund the construction of an administrative centre which is regarded as the first phase development of the Chengdu Lands (the "First Phase Development"). The Group will also be responsible to construct the administrative centre. Such administrative centre will be entirely owned by Pengzhou local government after five years from September 2017. To compensate the 40 acre lands contributed by the Group, the local government of Pengzhou has agreed to adjust the plot ratio of the remaining area of the lands to the original gross floor area. Meanwhile, a supplementary agreement has been entered into between the Pengzhou local government and the Group on 15 March 2018 (the "Supplementary Agreement") that the First Phase Development will commence upon the submission of the construction plan and the related documents. The directors of the Company expected that the construction plan and related documents will be submitted and approved in 2018. The directors of the Company have obtained a legal opinion in respect of the Cooperative Agreement and the Supplementary Agreement, and as advised by the legal counsel of the Group that upon the commencement of the First Phase Development in 2018, there will be no Idle Land Fee to be imposed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

b) Investment properties: *(Continued)*

In addition to the cooperative arrangement with the Pengzhou local Government, the directors of the Company after considering the prevailing market condition as advised by property consultant, has revisited the overall development plan of the Chengdu Lands and has updated the plan based on the recent market study.

c) Fair value measurement of investment properties

As at 31 December 2017, a fair value loss of the Chengdu Lands determined by the directors of the Company by reference to a valuation performed by Ravia Global Appraisal Advisory Limited ("Ravia") was approximately RMB326,980,000 (2016: RMB120,000,000). Ravia, a member of the Hong Kong Institute of Surveyors, is an independent qualified professional valuer which is not connected with the Group and has appropriate qualifications. The carrying amounts of investment properties represent land held for development for investment purposes.

In determining the fair value of the investment properties, the management of the Group determines the appropriate valuation techniques and inputs for fair value measurements. The Group engages and works closely with an independent qualified professional valuer to perform the valuation and establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the board of directors of the Company on a regular basis to explain the cause of fluctuations in the fair value of the investment properties.

There was no comparable recent sale transaction of land with similar size available in the relevant markets and accordingly the valuation of the Chengdu Lands was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom, inter alia, the estimated development costs to be incurred to arrive at the residual value.

The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance cost, construction cost and developer's profit margin, which would expose the Group to fair value measurement risks.

The expected selling price per square meter upon completion of construction and the construction periods have been revisited by the directors of the Company taking into account the market conditions and construction complexity as at the valuation date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT *(Continued)*

c) Fair value measurement of investment properties *(Continued)*

During the year ended 31 December 2017, the management revisited the expected average selling price and adjusted the input to the model from an average of RMB8,986 per square meter for the year ended 31 December 2016 to RMB7,647 per square meter for the year ended 31 December 2017 resulting in a decrease of RMB326,980,000 (2016: RMB120,000,000) in fair value of the investment properties.

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Leasehold land in Chengdu, the PRC	Level 3	Residual Method	– Expected selling price of completed units: at an average of RMB7,647 per square meter (2016: RMB8,986 per square meter)	– A slight increase in the expected selling price of properties in similar locality would result in a significant increase in fair value, and vice versa.
			– Average construction period: 3-7 years (2016: 4-7 years)	– An increase in the construction period would result in a decrease in the fair value at the same extent.
			– Finance cost: 4.75-4.90% per annum (2016: 4.75-4.90% per annum)	
			– Average construction cost: RMB4,155 per square meter (2016: RMB5,215 per square meter)	– An increase in the average construction costs would result in a decrease in the fair value at the same extent.
			– Developer's profit margin: 40% (2016: 40%)	– An increase in the developer's profit margin would result in a decrease in the fair value at the same extent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

17. PREPAID LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
The Group's prepaid lease payments comprise:		
Land use rights in the PRC	**212,603**	218,221
Analysed for reporting purposes as:		
Non-current asset	**207,649**	213,267
Current asset	**4,954**	4,954
	212,603	218,221

18. GOODWILL

	RMB'000
COST	
At 1 January 2016, 31 December 2016 and 31 December 2017	**3,031**

Goodwill with indefinite useful life has been allocated to two individual cash-generating units (CGUs), including one subsidiary which operates in the bulk medicine segment and one subsidiary which operates in the finished products segment. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2017 RMB'000	2016 RMB'000
Bulk medicine	**774**	774
Finished products	**2,257**	2,257
	3,031	3,031

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

19. INTANGIBLE ASSETS

	RMB'000
COST	
At 1 January 2016	109,065
Additions	66,521
At 31 December 2016	175,586
Additions	16,285
At 31 December 2017 *(Note)*	**191,871**
AMORTISATION	
At 1 January 2016	28,384
Charge for the year	3,014
At 31 December 2016	31,398
Charge for the year	9,676
At 31 December 2017	**41,074**
CARRYING AMOUNTS	
At 31 December 2017	**150,797**
At 31 December 2016	144,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

19. INTANGIBLE ASSETS *(Continued)*

Note: As at 31 December 2017, cost of intangible assets comprise of:

i. An amount of RMB20,237,000 (2016: RMB20,237,000), representing development costs incurred in obtaining licences for manufacturing finished products granted by the relevant PRC authorities. The licenses granted allow the Group to apply for the relevant technical know-how to manufacture finished products for five years from the date of granting relevant licenses. The costs of these intangible assets are therefore amortised over the useful lives of five years and were fully amortised in prior years.

ii. An amount of RMB47,100,000 (2016: RMB47,100,000), representing externally acquired technical know-how ("Know-how") in identifying processes for manufacturing finished products and protocols for fermentation/purification methodology. During the year ended 31 December 2015, two of the Know-how at a total cost of RMB29,140,000 had commenced amortisation starting from the date when they were put into production process. It is amortised over 10 years which is the expected period for which they will bring future economic benefits to the Group. The remaining has not commenced amortisation as its technology is in registration process as at 31 December 2016 and 2017.

iii. A total amount of RMB124,534,000 (2016: RMB108,249,000), representing the capitalised development costs incurred in clinical trial process stage and in obtaining licenses for manufacturing finished products including insulin glargine and insulin. During the year ended 31 December 2017, the capitalised development cost of insulin glargine of RMB69,408,000, has started to amortise from the date when it was put into production process. It is amortised over 10 years which is the expected period for which it will bring future economic benefits to the Group. There has been no amortisation for the remaining development cost of another insulin as the related products are in clinical trial process stage.

20. INVENTORIES

	2017 **RMB'000**	2016 RMB'000
Raw materials	**361,254**	318,891
Work in progress	**101,260**	125,844
Finished goods	**710,568**	519,054
	1,173,082	963,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017	2016
	RMB'000	RMB'000
Trade and bills receivables	**2,322,072**	1,807,444
Value added tax receivables	**56,245**	46,029
Other receivables, deposits and prepayments	**126,558**	156,609
Less: allowances for doubtful receivables		
– trade	**(19,212)**	(9,378)
– non-trade	**(31,988)**	(39,882)
	2,453,675	1,960,822

The Group normally allows a credit period of between 30 days and 120 days (2016: between 30 days and 120 days) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

The following is an analysis of trade and bills receivables by age, net of allowances for doubtful receivables, presented based on the invoice date, net of allowance for doubtful receivables, at the end of the reporting period which approximate the respective revenue recognition dates:

	2017	2016
	RMB'000	RMB'000
Trade receivables		
0 to 30 days	**628,482**	489,590
31 to 60 days	**300,223**	234,049
61 to 90 days	**71,975**	108,482
91 to 120 days	**21,440**	32,474
121 to 180 days	**14,479**	12,162
Over 180 days	**11,024**	23,943
	1,047,623	900,700

	2017	2016
	RMB'000	RMB'000
Bills receivables		
0 to 30 days	**329,005**	210,634
31 to 60 days	**245,459**	205,312
61 to 90 days	**202,961**	131,041
91 to 120 days	**199,464**	159,389
121 to 180 days	**267,709**	189,128
Over 180 days	**10,639**	1,862
	1,255,237	897,366

95% (2016: 91%) of the trade and bills receivables balances as at 31 December 2017 that are neither past due nor impaired have either been subsequently settled or there have not been a significant change in credit quality and the amounts are still recoverable based on historical experience.

Included in the Group's trade and bills receivable are debtors with a carrying amount of RMB116,254,000 (2016: RMB162,961,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. As there has not been a significant change in credit quality and subsequently, these receivables have been substantially settled, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Ageing of trade and bills receivables which are past due but not impaired

	2017 RMB'000	2016 RMB'000
Overdue by:		
61 – 90 days	**69,311**	92,517
91 – 120 days	**21,440**	32,474
121 – 180 days	**14,479**	12,162
Over 180 days	**11,024**	25,808
	116,254	162,961

In determining the recoverability of trade and bills receivables and other receivables, the Group considers any change in the credit quality of the trade and bills receivables, and other receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited as the customer base is large and unrelated. The directors of the Company believe that there is no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

Movement in the allowance for doubtful debts

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	**49,260**	32,862
Impairment losses recognised on receivables, net	**6,947**	24,222
Amounts written off as uncollectible	**(5,007)**	(7,824)
Balance at end of the year	**51,200**	49,260

At 31 December 2017, trade and other receivables balance totalling RMB51,200,000 (2016: RMB49,260,000) were individually determined to be impaired, which related to customers that were in financial difficulties or the management considered the recoverability is highly unlikely based on historical payment pattern. The management assessed that the full amount of these trade and other receivables is not expected to be recovered. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Transfer of financial assets

The following were the Group's financial assets as at 31 December 2017 and 2016 that were transferred to banks or suppliers by discounting or endorsing those bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards of ownership relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 26) for discounted bills receivables or it continues to recognise the full carrying amount of the bills receivables and the full carrying amount of the trade payables for endorsed bills receivables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2017

	Bills receivables discounted to banks with full recourse RMB'000	**Bills receivables endorsed to suppliers with full recourse RMB'000**	**Total RMB'000**
Carrying amount of transferred assets	**25,317**	**177,573**	**202,890**
Carrying amount of associated liabilities	**(25,317)**	**(177,573)**	**(202,890)**

As at 31 December 2016

	Bills receivables discounted to banks with full recourse RMB'000	Bills receivables endorsed to suppliers with full recourse RMB'000	Total RMB'000
Carrying amount of transferred assets	669,399	297,918	967,317
Carrying amount of associated liabilities	(669,399)	(297,918)	(967,317)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

22. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 RMB'000	2016 RMB'000
Foreign currency forward contracts – liabilities	–	(85,891)

The Group had entered into several United States Dollar ("USD") foreign currency forward contracts (sell USD for RMB) with banks and financial institutions to reduce its exposure to currency fluctuation risk of settlement from trade receivables that are denominated in USD. These derivatives were not accounted for under hedge accounting. At 31 December 2017, the Group had outstanding foreign currency forward contracts with notional amount in aggregate of Nil (2016: USD98,500,000 (equivalent to RMB685,068,000) which were all matured during the year ended 31 December 2017. The contracts are subject to net settlement at each maturity date and were measured at fair value at the end of the reporting period. The major terms of these foreign currency forward contracts were as follows:

31 December 2016

Notional amount	**Maturity date**	**Exchange rate**
USD98,500,000	Settlement between 18 January 2017 to 14 August 2017	RMB6.15/USD to RMB6.31/USD

The fair value of derivative financial instruments represented values quoted by relevant banks and financial institutions at 31 December 2016.

23. PLEDGED BANK DEPOSITS AND BANK BALANCES

Pledged deposits amounting to RMB487,738,000 (2016: RMB969,062,000) have been placed in designated banks as part of the security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets (see Note 35). The range of effective interest rates of the pledged deposits at 31 December 2017 was 0.35% to 2.75% (2016: 0.35% to 2.75%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The range of effective interest rates of the bank balances at 31 December 2017 was 0.001% to 0.35% (2016: 0.001% to 1.50%) per annum.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	2017 RMB'000	2016 RMB'000
Pledged bank deposits and bank balances		
– HK$	**58,482**	21,270
– USD	**121,041**	1,006,969
– Euro	**278,153**	9,774

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

24. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of up to 120 days and 180 days of trade payables and bills payables, respectively, from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of the reporting period:

	2017	2016
	RMB'000	RMB'000
Trade payables		
0 to 90 days	**852,136**	631,916
91 to 180 days	**251,858**	230,941
Over 180 days	**41,737**	113,576
	1,145,731	976,433
Bills payables		
0 to 90 days	**305,609**	144,870
91 to 180 days	**389,541**	404,344
	695,150	549,214
Other payables and accruals	**984,477**	738,762
Deferred income in respect of government grants *(Note 32)*	**130,758**	132,007
Payables in respect of the acquisition of property, plant and equipment	**397,154**	594,295
	3,353,270	2,990,711
Less: Amount due within one year shown under current liabilities	**(3,268,323)**	(2,927,919)
Amount shown under non-current liabilities	**84,947**	62,792

Included in the trade payables and other payables above are RMB105,433,000 and RMB72,140,000 (2016: RMB199,487,000 and RMB98,431,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of the reporting period (see Note 21).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	**305,564**	412,588	**285,594**	375,643
In more than one year but not more than two years	**111,609**	226,832	**108,216**	211,590
In more than two years but not more than five years	**7,496**	44,952	**7,423**	43,203
	424,669	684,372	**401,233**	630,436
Less: future finance charges	**(15,221)**	(32,147)	**N/A**	N/A
Present value of lease obligations	**409,448**	652,225	**401,233**	630,436
Less: Amount due for settlement within one year (shown under current liabilities)			**(285,594)**	(375,643)
Amount due for settlement after one year			**115,639**	254,793

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For the year ended 31 December 2017

25. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 3.93% to 6.66% (2016: 3.95% to 6.66%) per annum. These leases have no terms of renewal or purchase options and escalation clauses.

Deposits of RMB98,446,000 (2016: RMB150,745,000), which is interest free, were pledged to respective lessors against finance leases. The deposits will be released upon expiry of respective leases.

Pledged deposits against finance lease of RMB51,709,000 (2016: RMB75,745,000) will be released in the coming year upon the expiry of respective leases in 2018 and are therefore classified as current assets while the remaining balance of RMB46,737,000 (2016: RMB75,000,000) is included in non-current asset as the deposits will be released after one year from the end of the reporting period.

During the year ended 31 December 2017, the Group entered into certain sale and leaseback arrangements of property, plant and equipment with a carrying value amounting to RMB239,952,000 (2016: RMB251,550,000), to financial institutions for a consideration of RMB200,000,000 (2016: RMB250,000,000). The titles of the property, plant and equipment have been transferred to the financial institutions upon signing of the lease agreements. However, the Group is liable for the maintenance and insurance of the property, plant and equipment. At the end of the lease term for each arrangement, the risks and rewards of the titles related property, plant and equipment will be transferred back to the Group without incurring additional costs. Accordingly, the Group continues to bear all risks and rewards of these property, plant and equipment and such leases are classified as finance lease.

As at 31 December 2017, property, plant and equipment with carrying value amounting to RMB800,198,000 (2016: RMB1,350,221,000) is under sales and leaseback arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. BORROWINGS

	2017 RMB'000	2016 RMB'000
Bank loans	**2,109,291**	3,367,978
Discounted bills with recourse (Note 21)	**25,317**	669,399
Bonds	**1,282,935**	206,266
	3,417,543	4,243,643
Analysed as:		
Secured	**1,639,347**	2,762,509
Unsecured	**1,778,196**	1,481,134
	3,417,543	4,243,643
The carrying amount of the above borrowings are repayable:		
– Within one year	**1,039,199**	3,076,290
– Within a period of more than one year, but not exceeding two years	**752,252**	228,825
– Within a period of more than two years but not more than five years	**1,527,034**	765,134
The carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable*:		
– Within one year	**60,395**	66,862
– Within a period of more than one year but not exceeding two years	**38,663**	66,862
– Within a period of more than two years but not exceeding five years	**–**	39,670
	3,417,543	4,243,643
Less: Amount due within one year shown under current liabilities	**(1,138,257)**	(3,249,684)
Amount shown under non-current liabilities	**2,279,286**	993,959

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are analysed as follows:

Interest rate

	2017 **RMB'000**	2016 RMB'000
Fixed rate	**1,837,918**	2,596,894
Hong Kong Interbank Offered Rate ("HIBOR") plus 1.85% to 3.00% (2016: HIBOR plus 2.20% to 3.00%)	**846,982**	1,238,469
US dollar London Interbank Offered Rate ("LIBOR") plus 3.60% (2016: LIBOR plus 3.60%)	**64,753**	138,121
EURO LIBOR plus 0.65% to 1.75% (2016: LIBOR plus 0.70%)	**667,890**	270,159
	3,417,543	4,243,643

The range of effective interest rates of the floating rate borrowings at 31 December 2017 is 0.65% to 5.39% (2016: 0.70% to 4.02%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2017 is 1.00% to 6.81% (2016: 1.00% to 6.81%) per annum.

On 12 January 2015, the Group established a bond issue programme for issuance of bonds from time to time, with a term of three years. As at the year ended 31 December 2016, the outstanding balance of the fixed rate bonds amounting to RMB206,266,000 are unsecured, carry a fixed coupon rate of 6% per annum and are repayable in instalments semi-annually in arrears on 31 May and 30 November. The bonds issued at par, carry interest at an effective interest rate of 6.81% per annum. These bonds were fully redeemed during the year ended 31 December 2017.

In March 2017, the Group issued fixed rate bonds of RMB1,100,000,000 carrying a fixed coupon rate of 5.5% per annum with a maturity of three years (extendable to five years) (the "Corporate Bonds"). The Company has the right to adjust the interest rate after the expiration of 3 years of maturity period, and the interest adjustment notice will be issued on the 30th trading day prior to the 3rd years' interest payment date. The bondholders have the option to extend two more years after the issuance of the interest adjustment notice. The Corporate Bonds are issued at par, carries at an effective interest rate of 5.72% per annum. The Corporate Bonds were issued to the PRC domestic independent and qualified investors in accordance with the laws and regulations of the PRC, and listed and traded on The Shanghai Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

26. BORROWINGS *(Continued)*

Other than borrowings of RMB64,753,000 (2016: RMB159,167,000), RMB1,038,661,000 (2016: RMB1,444,735,000) and RMB942,556,000 (2016: RMB1,096,389,000) are denominated in USD, HK$ and EUR, respectively, the remaining borrowings are all in RMB.

27. CONVERTIBLE BONDS

As disclosed in the Company's 2011 – 2016 Annual Reports, the Company issued RMB denominated USD settled 7.5% unsecured convertible bonds at par with the aggregate principal amount of RMB790,000,000 with initial conversion price of HK$7.2 (subject to adjustments) per share at a fixed exchange rate of HK$1.00 to RMB0.8137 (the "RMB denominated Convertible Bonds") on 14 November 2011. The RMB denominated Convertible Bonds were matured on 14 November 2016 (the "Maturity Date") and were redeemed by the Company at par on the Maturity Date.

On 5 December 2016, the Company issued another USD denominated HKD settled 4.5% unsecured convertible bonds at par with the aggregate principal amount of USD130,000,000 with initial conversion price of HK$5.35 (subject to adjustments) per share at a fixed exchange rate of HK$7.7563 to USD1.00 (the "USD denominated Convertible Bonds", together with the RMB denominated Bonds referred to as Convertible Bonds). An adjustment has been made to the conversion price from HK$5.35 to HK$4.86 on a one-time basis on 13 December 2016 pursuant to the terms and conditions as prescribed in the subscription agreement dated 21 November 2016. The USD denominated Convertible Bonds are listed on the Stock Exchange.

The USD denominated Convertible Bonds bear interest from (and including) the issue date at the rate of 4.5% per annum calculated by reference to the principal amount thereof and payable semi-annually in arrears on 5 June and 5 December of each year, commencing with the first interest payment date falling on 5 June 2017. The USD denominated Convertible Bonds will mature on 5 December 2021 and shall be redeemed by the Company at par, together with accrued interest thereon, on 5 December 2021.

Conversion at the option of the bondholder may occur at any time between 15 January 2017 and 27 November 2021. The Company will, at the option of the bondholder, redeem all or some of the USD denominated Convertible Bonds on 5 December 2019 at their principal amount, with accrued but unpaid interest excluding the date fixed for redemption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

27. CONVERTIBLE BONDS *(Continued)*

The Company may at any time after 5 December 2019 and prior to 5 December 2021, the date of maturity, redeem the USD denominated Convertible Bonds in whole, but not in part, at their principal amount, together with interest accrued but unpaid up to the day before the date fixed for redemption, provided that the closing price of the shares of the Company, translated into US dollars at the prevailing rate applicable to the relevant trading day, for 30 consecutive trading days prior to the date upon which notice of such redemption is published is at least 130% of the conversion price then in effect, translated into US dollars at the fixed exchange rate of HK$7.7563 to USD1.00.

The Company may at any time redeem the outstanding Convertible Bonds in whole, but not in part, at their principal amount together with interest accrued but unpaid up to the day before the date fixed for redemption if, immediately prior to the date of notice, at least 90% of principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Convertible Bonds contain liability component, conversion option and early redemption option derivatives. The Company's and the holder's early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option and the Company's and the bond holder's early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

At the date of issue, the debt component was recognised at fair value, calculated based on the present value of the redemption amount at maturity. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component is 14.6% (2016: 14.6%).

The derivatives components of the Convertible Bonds are measured at fair values at the date of issue and in subsequent periods with changes in fair value recognised in profit or loss.

As at 31 December 2017, the USD denominated Convertible Bonds in an aggregate principal amount of USD130,000,000 (equivalent to approximately RMB847,171,000) remain outstanding with a maturity date of 5 December 2021, subject to bondholders' redemption right exercisable on 5 December 2019, and is classified as a non-current liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

27. CONVERTIBLE BONDS *(Continued)*

The fair value of the Convertible Bonds with embedded derivatives were determined by the directors with reference to a valuation report carried out by an independent valuer on 31 December 2016 and 2017. The movement of debt component and embedded derivatives of the Convertible Bonds for the year is set out as below:

	Debt component RMB'000	**Derivative components RMB'000**
At 1 January 2016	88,557	9,631
Issuance of USD denominated Convertible Bonds	579,763	302,432
Redemption of RMB denominated Convertible Bonds	(97,400)	–
Interest charged	22,146	–
Interest paid	(7,305)	–
Exchange loss	4,284	2,982
Loss arising on changes of fair value	–	99,730
At 31 December 2016	590,045	414,775
Interest charged	84,490	–
Interest paid	(38,940)	–
Exchange gain	(38,091)	(27,994)
Loss arising on changes of fair value	–	53,938
At 31 December 2017	**597,504**	**440,719**

Binomial model is used for valuation of the derivative components of the Convertible Bonds. Details of the inputs and assumptions of the model are as follows:

	31 December 2017	31 December 2016	5 December 2016
Share price of the Company	**HK$6.35**	HK$5.28	HK$4.27
Exercise price	**HK$4.86**	HK$4.86	HK$5.35
Remaining life	**3.93 years**	4.93 years	5.00 years
Risk-free rate	**1.516%**	1.549%	0.953%
Expected volatility	**48.48%**	48.87%	49.57%
Expected dividend yield	**0%**	0%	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

27. CONVERTIBLE BONDS *(Continued)*

Risk-free rate was determined by using the average of 3-year yield and 5-year yield of HK$ Hong Kong Sovereign bonds on 5 December 2016 and on each of the end of the reporting period.

Expected volatility was determined by using the annualised standard deviation of the continuously compounded rate of return on the daily average adjusted share price of the Company over periods that are commensurate with the time to maturity at the respective valuation date.

Expected dividend yield was determined by the sustainability of the Company's dividend policy.

28. DEFERRED TAXATION

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

	Fair value change on investment properties RMB'000	Accelerated (tax) accounting depreciation RMB'000	Unrealised profit on inventories RMB'000	Withholding tax on undistributed profits of the PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2016	(515,839)	11,899	19,756	(83,450)	(567,634)
Credit (charge) to profit or loss for the year	39,139	(6,271)	(12,758)	(16,430)	3,680
At 31 December 2016	(476,700)	5,628	6,998	(99,880)	(563,954)
Credit (charge) to profit or loss for the year	201,279	(8,026)	7,169	15,032	215,454
At 31 December 2017	**(275,421)**	**(2,398)**	**14,167**	**(84,848)**	**(348,500)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

28. DEFERRED TAXATION *(Continued)*

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2017	2016
	RMB'000	RMB'000
Deferred tax assets	**14,167**	12,626
Deferred tax liabilities	**(362,667)**	(576,580)
	(348,500)	(563,954)

The Group's unrecognised deductible temporary differences are as follows:

	2017	2016
	RMB'000	RMB'000
Tax loss carry forwards	**1,156,231**	1,080,297
Other deductible temporary differences	**723,424**	726,826

During the year ended 31 December 2017, a tax loss of RMB38,614,000 (2016: Nil) expired by respective local tax authorities. Included in unrecognised tax losses are losses of RMB768,724,000 (2016: RMB707,036,000) that will expire within five years. Other losses may be carried forward indefinitely. No deferred tax asset in respect of tax losses has been recognised because the amount of future taxable profit that will be available to realise such assets is uncertain.

The unused tax losses will be expired as follow:

	2017	2016
	RMB'000	RMB'000
2017	**–**	38,614
2018	**21,146**	21,146
2019	**31,089**	31,089
2020	**88,134**	88,134
2021	**528,053**	528,053
2022	**100,302**	–
	768,724	707,036

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

28. DEFERRED TAXATION *(Continued)*

Other deductible temporary differences primarily comprise of various impairment losses on receivables and other intangible assets, and unrealised profit on unsold inventories.

29. SHARE CAPITAL

	Number of shares	Amount RMB'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	3,800,000,000	36,994
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 31 December 2017	1,626,875,000	15,237

30. SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted pursuant to the written resolutions of the sole shareholder of the Company passed on 25 May 2007 and will expire at the close of business on the day immediately preceding the tenth anniversary thereof. Under the scheme, the board of directors of the Company may, at their discretion, grant options to employees, including executive or non-executive directors of the Company or any of its subsidiaries business or joint venture partner, contractor, agent or representation, investor, vendor, supplier, etc. to subscribe for shares in the Company at a price not less than the highest of (i) HK$2.75; (ii) the closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the relevant option, which must be a business day; and (iii) 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 the date of grant of the relevant option.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes shall not exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period shall not exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

No option has been granted or agreed to be granted under the Scheme since the Scheme was set up.

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For the year ended 31 December 2017

31. EMPLOYEE RETIREMENT BENEFITS

The Group participates in Mandatory Provident Fund Schemes ("MPF Schemes") for all employees in Hong Kong. The MPF Schemes are registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Schemes, the employer and its employees are each required to make contributions to the MPF Schemes at 5% of the employee's basic salary with the maximum contribution of HK$1,500 per month. The obligation of the Group with respect of MPF Schemes is to make the required contributions under the MPF Schemes. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of RMB453,000 (2016: RMB689,000) are charged to profit or loss.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of RMB90,469,000 (2016: RMB82,769,000) are charged to profit or loss.

32. GOVERNMENT GRANTS

Incentive subsidies of RMB38,880,000 (2016: RMB23,948,000) have been received in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. Full amounts are recognised as income in profit or loss as there were no specific conditions attached to the grants and, therefore, the Group recognised the grants to profit or loss upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

Certain subsidies related to the development of pharmaceutical products or improvement of production efficiency amounting to RMB45,811,000 (2016: RMB69,215,000) as at 31 December 2017 are included as payables. The amounts are recognised as income when the Group has fulfilled the relevant conditions attaching to the grants, including but not limited to obtaining the medical licenses of the pharmaceutical products or the starting of commercial sales of the pharmaceutical products. During the year, the Group has recongised the government grant of approximately RMB37,630,000 (2016: RMB10,921,000) as income in profit or loss.

For the year ended 31 December 2017, RMB15,647,000 government subsidies were granted to the Group (2016: RMB4,761,000) to subsidise the acquisition of property, plant and equipment. The amount has been treated as deferred income and is transferred to income over the useful lives of the relevant assets. As at 31 December 2017, an amount of RMB84,947,000 (2016: RMB62,792,000) were included in non-current liabilities. During the year ended 31 December 2017, RMB12,558,000 (2016: RMB23,957,000) was released to the profit or loss.

The aggregate subsidy income recognised to the profit or loss during the year ended 31 December 2017 amounted to RMB89,068,000 (2016: RMB58,826,000) (Note 6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. OPERATING LEASES

The Group as lessee

	2017 RMB'000	2016 RMB'000
Aggregate outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:		
Within one year	**429**	2,291

Operating lease payments represent rentals payable by the Group for certain items of its production plant, dormitory, offices and shuttle buses.

Lease are negotiated for terms of one to three years and rentals are fixed throughout the lease term.

34. CAPITAL COMMITMENTS

	2017 RMB'000	2016 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**332,998**	385,725

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35. PLEDGE OF ASSETS

Other than deposits made to financing leasing companies disclosed in Note 25 of the consolidated financial statements and the property, plant and equipment under finance leases disclosed in Note 15 to the consolidated financial statements, the Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	2017	2016
	RMB'000	RMB'000
Property, plant and equipment	**170,007**	171,798
Land use rights	**24,142**	24,450
Bills receivables	**25,317**	669,399
Pledged bank deposits	**487,738**	969,062

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of funding of cash flows from operating activities and the flexibility through the use of the finance from banks. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The capital structure of the Group consists of debt, which includes the obligations under finance leases (Note 25), borrowings (Note 26) and convertible bonds (Note 27), and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the associated risk, and takes appropriate actions to adjust the Group's capital structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables	**4,482,812**	4,700,755
Available-for-sale investment	**500**	500
Financial liabilities		
Amortised cost	**6,414,432**	7,375,889
Derivative financial instruments	**440,719**	500,666

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, pledged deposits against finance leases, bank balances and cash, available-for-sale investment, derivative financial instruments, trade and bills payables, convertible bonds and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The risk arising from the Group's financial instruments are mainly market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The directors review policies for managing each of these risks, details of which are summarised below.

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For the year ended 31 December 2017

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Foreign currency risk

The Group has foreign currency sales and purchases, and also convertible bonds, certain bank balances and bank borrowings denominated in USD, Euro and HK$ other than the functional currency of respective group entities, which expose the Group to foreign currency risks. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and using foreign exchange forward contracts to eliminate the currency exposures.

The carrying amounts of the Group's net monetary assets and liabilities denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities, at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**368,778**	1,040,561	**1,052,797**	1,164,854
Euro	**282,011**	10,960	**942,556**	1,096,394
HK$	**58,498**	21,270	**1,039,866**	1,449,662

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk (Continued)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in RMB, against USD, Euro and HK$. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit for the year where RMB strengthens 5% against USD, Euro and HK$. For a 5% weakening of RMB against USD, Euro and HK$, there would be an equal but opposite impact on the profit for the year.

	2017	2016
	RMB'000	RMB'000
USD	**29,989**	6,680
Euro	**27,594**	45,353
HK$	**41,097**	59,730

The Group had entered into foreign currency forward contracts with banks to reduce its exposure to currency fluctuation risk of settlements from trade receivables which were denominated in USD in 2016. The derivatives were not accounted for under hedge accounting. The Group measures the foreign currency forward contracts at fair value at the end of the reporting period, which therefore exposed the Group to other price risk.

The sensitivity analyses below had been determined based on the exposure to the Group's forward buying rate risk at the end of the reporting period. If the forward buying rate of RMB strengthen/weaken 5% against USD while all other input variables of the valuation models were held constant, the Group's profit for the year would be increased/decreased by Nil while the loss for the year ended 31 December 2016 would be decreased/increased by RMB27,966,000 during the year ended 31 December 2016.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Fair value and cash flow interest rate risks

The Group has significant borrowings which bear interest-rate risk. Floating rate borrowings, bank deposits and bank balances expose the Group to cash flow interest-rate risk. Borrowings, obligations under finance leases and convertible bonds issued at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk. The directors of the Company consider the Group's exposure to fair value interest rate risk on bank deposits is not significant as most deposits bear variable interest rates.

Interest rate sensitivity analysis

No sensitivity analysis was prepared for pledged bank deposits and bank balances as the financial impact arising on changes in interest rates was minimal due to limited changes in interest rate. The sensitivity analysis below has been determined based on the exposure to interest rates for the floating rate borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase and decrease is used which represents management's assessment of the reasonably possible change in interest rate.

At the end of the reporting period, if interest rates of HIBOR and LIBOR had been increased/decreased by 50 basis points, respectively and all other variable remained constant, the Group's post-tax profit for the year ended 31 December 2017 would have increased/decreased by RMB3,350,000 and RMB2,898,000 respectively (2016: post-tax loss decrease/increase by RMB5,925,000 and RMB1,954,000).

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Other price risk

The conversion option and early redemption option derivatives of the Company's convertible bonds carried at fair value exposed the Group to equity price risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Equity price risk sensitivity analysis

If the share price of the Company input to the valuation model for assessing the fair value of the conversion option and early redemption option derivatives of the Company's convertible bonds had been 10% (2016: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2017 would have decreased/increased by approximately RMB83,616,000/RMB78,618,000, whilst the loss for the year ended 31 December 2016 would have increased/decreased by approximately RMB62,313,000/RMB58,648,000.

If the expected volatility of share price of the Company input to the valuation model for assessing the fair value of such derivatives had been 10% (2016: 10%) higher/lower while all other variables were held constant, the profit for the year ended 31 December 2017 would have decreased/increased by approximately RMB40,543,000/RMB38,915,000 , whilst the loss for the year ended 31 December 2016 would have increased/decreased by approximately RMB47,775,000/RMB48,345,000.

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Before accepting any new customers, the Group carries out research on the credit risk of the new customers and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed when necessary.

In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The credit risk on bank deposits and pledged bank deposits is limited because the directors of the Company consider that counterparties are financially sound.

Other than concentration of credit risk on bank deposits and pledged bank deposits in which the counterparties are financially sound, the Group has no significant concentration of credit risk on trade and bills receivables, with exposure spread over a number of counterparties. There is no customer who represents more than 5% of the total balance of trade receivables at the end of the reporting period.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial obligations as and when they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures its compliance with loan covenants.

The Group relies on bank and other borrowings as a significant source of liquidity. As at the date of these consolidated financial statements, the Group has available unutilised banking facilities of RMB6,944,947,000 (2016: RMB2,515,996,000). The Directors are of the view that the banking facilities could be renewed based on historical experience that the Group has not encountered any difficulties to obtain banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates as at the reporting date) of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate %	On demand RMB'000	0 – 60 days RMB'000	61 – 90 days RMB'000	91 – 180 days RMB'000	181 – 365 days RMB'000	1 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2017									
Non-interest bearing									
Trade, bills and other payables	–	–	1,716,252	641,399	41,734	–	–	2,399,385	2,399,385
Interest bearing									
Obligations under finance leases	4.22	–	42,143	47,962	90,116	125,343	119,105	424,669	401,233
Borrowings									
– fixed rate	5.10	–	57,875	34,759	94,710	374,872	1,612,999	2,175,215	1,837,918
– variable rate	2.14	107,868	184,853	149,187	189,608	81,632	950,743	1,663,891	1,579,625
Convertible bonds	14.6	–	–	–	19,741	19,741	995,819	1,035,301	1,038,223
		107,868	2,001,123	873,307	435,909	601,588	3,678,666	7,698,461	7,256,384

	Weighted average interest rate %	On demand RMB'000	0 – 60 days RMB'000	61 – 90 days RMB'000	91 – 180 days RMB'000	181 – 365 days RMB'000	1 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2016									
Non-interest bearing									
Trade, bills and other payables	–	–	1,906,916	635,285	–	–	–	2,542,201	2,542,201
Interest bearing									
Obligations under finance leases	4.72	–	44,058	102,977	97,558	167,995	271,784	684,372	630,436
Borrowings									
– fixed rate	3.55	–	602,616	329,872	480,214	840,672	412,102	2,665,476	2,596,894
– variable rate	2.72	184,815	6,696	4,482	140,492	771,433	637,814	1,745,732	1,646,749
Convertible bonds	14.6	–	–	–	20,344	20,374	1,066,897	1,107,615	1,004,820
		184,815	2,560,286	1,072,616	738,608	1,800,474	2,388,597	8,745,396	8,421,100
Derivative – net settlement		–	85,891	–	–	–	–	85,891	85,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The table below summarises the maturity analysis of term loans of RMB99,058,000 (2016: RMB173,394,000) with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using the specified fixed rates or variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the banks will exercise its discretion to demand immediate repayment. The directors of the Company believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments						
	0 – 60 days RMB'000	61 – 90 days RMB'000	91 – 180 days RMB'000	181 – 365 days RMB'000	1 – 2 years RMB'000	2 – 5 years RMB'000	Total undiscounted cash flows RMB'000
31 December 2017	**9,355**	**7,212**	**16,567**	**33,134**	**41,600**	**–**	**107,868**
31 December 2016	6,925	11,685	18,442	36,377	70,731	40,655	184,815

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can assess at the measurement date;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. at prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

Financial assets/ financial (liabilities)	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 December 2017 RMB'000	31 December 2016 RMB'000				
Foreign currency forward contracts classified as financial instruments accounted for as FVTPL in the consolidated statement of financial position	**Liabilities – Nil**	Liabilities – RMB85,891	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the consolidated statement of financial position	**RMB440,719**	RMB414,775	Level 3	Binomial Pricing Model Binomial Pricing Model is employed in deriving the fair value of the Convertible Bonds. The value of the embedded derivatives component is the difference between the value of the Convertible Bonds and the fair value of the straight note, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component. The main inputs include term to maturity, dividend yield, risk-free rate, spot price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield – volatility of 48.48% (2016: 48.87%) is applied in the Convertible Bonds by reference to the Company's historical volatility	– A significant increase in the dividend yield would result in a significant decrease in the fair value – A slight increase in the volatility in share price would result in a significant increase in the change in fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(Continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

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

There is no transfer between the different levels of the fair value hierarchy for the period.

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuer to perform the valuation on the embedded derivative component of the Convertible Bonds at the end of each reporting period. Regarding the foreign currency forward contracts, the Group determines the fair value by reference to the valuation carried out by banks and financial institutions at the end of each reporting period. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The external valuers' findings are reported to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Interest payables included in other payables (Note 24) RMB'000	Borrowings (Note 26) RMB'000	Convertible bonds (Note 27) RMB'000	Obligations under finance leases (Note 25) RMB'000	Total RMB'000
At 1 January 2017	46,235	4,243,643	1,004,820	630,436	5,925,134
Financing cash flows	(184,841)	(643,714)	(38,940)	(229,203)	(1,096,698)
Derecognition of bills receivables	–	(166,142)	–	–	(166,142)
Fair value adjustments	–	–	53,938	–	53,938
Foreign exchange translation	–	(9,274)	–	–	(9,274)
Interest expenses	184,841	12,025	84,490	–	281,356
Exchange gain	5,264	(18,995)	(66,085)	–	(79,816)
At 31 December 2017	**51,499**	**3,417,543**	**1,038,223**	**401,233**	**4,908,498**

40. MAJOR NON-CASH TRANSACTIONS

During the year, short term borrowings drawn on discounted bills with recourse with an aggregate amount of RMB166,142,000 (2016: RMB132,667,000) have been repaid through bills receivables discounted to banks.

41. RELATED PARTY DISCLOSURES

Compensation to key management personnel representing directors' remuneration has been disclosed in Note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. LIST OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of subsidiary	**Place of incorporation/ establishment**	**Issued and fully paid share capital/ registered capital**	**Attributable equity interest held by the Company** *(Note a)* **2017**	2016	**Principal activities and place of operation**
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holding in Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holding in Hong Kong
Bowden Trading Limited	Samoa	USD1,000	**100%**	100%	Trademark holding in Hong Kong
The United Laboratories Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holding and manufacturing and sale of pharmaceutical products in Hong Kong
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products in Hong Kong
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding in Hong Kong
Team Profit Management Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
Lynbond International Limited	Hong Kong	HK$10,000	**100%**	100%	Inactive
聯邦制藥(成都)有限公司 *(Note b)*	The PRC	RMB400,000,000	**100%**	100%	Investment holding in the PRC
珠海聯邦康知樂實業有限公司 *(Note c)*	The PRC	RMB250,000,000	**100%**	100%	Investment holding in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note a)* 2017	2016	Principal activities and place of operation
珠海聯邦制藥股份有限公司 *(Notes d and f)*	The PRC	RMB1,678,396,000	**100%**	100%	Manufacturing and sale of pharmaceutical products in the PRC
珠海樂邦制藥有限公司 *(Note b)*	The PRC	RMB12,825,000	**100%**	100%	Investment holdings in the PRC
珠海市萬邦藥業有限公司 *(Note c)*	The PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in the PRC
珠海聯邦制藥銷售有限公司 *(Note c)*	The PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in the PRC
廣東開平金億膠囊有限公司 *(Note b)*	The PRC	RMB31,250,000	**100%**	100%	Manufacturing and sale of soft capsules casings in the PRC
中山金億食品有限公司 *(Note b)*	The PRC	RMB8,014,500	**100%**	100%	Investment holding in the PRC
珠海市金德福企業策劃有限公司 *(Note c)*	The PRC	RMB15,000,000	**100%**	100%	Investment holding in the PRC
聯邦制藥(內蒙古)有限公司 *(Note b)*	The PRC	2017: RMB2,655,000,000 2016: RMB2,470,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products in the PRC
內蒙古光大聯豐生物科技有限公司 *(Note c)*	The PRC	RMB6,000,000	**100%**	100%	Production and sale of organic fertilizer in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. LIST OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note a)* 2017	2016	Principal activities and place of operation
內蒙古聯邦動保藥品有限公司 *(Note c)*	The PRC	2017: RMB35,200,000 2016: RMB8,700,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products in the PRC
聯邦制藥(中國)有限公司 *(Note b)*	The PRC	RMB160,080,000	**100%**	100%	Investment holding in the PRC
Zhuhai United Laboratories (India) Private Limited	India	RUPEE100,000	**100%**	100%	Inactive
珠海聯邦金龍行銷策劃有限公司 *(Note e)*	The PRC	RMB12,700,000	**100%**	N/A	Providing management services in the PRC

Notes:

(a) Other than The United Laboratories (Hong Kong) Holding Limited and 聯邦制藥(中國)有限公司, all subsidiaries are indirectly held by the Company.

(b) A wholly foreign-owned enterprise established in the PRC.

(c) A company established in the PRC with limited liability.

(d) A joint stock limited liability company established in the PRC.

(e) A company established in the PRC during the year ended 31 December 2017.

(f) 珠海聯邦制藥股份有限公司 issued unsecured corporate bonds which are listed on the Shanghai Stock Exchange as at 31 December 2017. Details are set out in Note 26.

As at 31 December 2017, none of the subsidiaries had issued any debt securities except for 珠海聯邦制藥股份有限公司 which has issued RMB1,100,000,000 (2016: Nil) of bonds, in which the Group has no interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Statement of financial position of the Company

	31 December	
	2017	2016
	RMB'000	RMB'000
Non-current assets		
Interests in a subsidiary	**5,016,707**	3,946,139
Current assets		
Other receivables and prepayment	**1,118**	415
Loan to a subsidiary	**232,110**	200,512
Amounts due from subsidiaries	**1,223,951**	2,426,118
Pledged bank deposit	**7,580**	–
Bank balances and cash	**339,493**	11,804
	1,804,252	2,638,849
Current liabilities		
Other payables and accrued charges	**4,162**	15,672
Amount due to a subsidiary	**–**	6,059
Derivative financial instruments	**–**	2,998
Borrowings – due within one year	**975,259**	1,234,800
Convertible bonds	**–**	–
	979,421	1,259,529
Net current assets	**824,831**	1,379,320
Total assets less current liabilities	**5,841,538**	5,325,459
Non-current liabilities		
Borrowings – due after one year	**963,502**	803,959
Convertible bonds	**1,038,223**	1,004,820
	2,001,725	1,808,779

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(a) Statement of financial position of the Company at the end of the reporting period: *(Continued)*

	31 December 2017 RMB'000	31 December 2016 RMB'000
Net assets	**3,839,813**	3,516,680
Capital and reserves		
Share capital	**15,237**	15,237
Reserves	**3,824,576**	3,501,443
	3,839,813	3,516,680

(b) Reserves

	Share premium RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	2,356,763	1,166,260	3,523,023
Loss and total comprehensive expense for the year	–	(21,580)	(21,580)
At 31 December 2016	2,356,763	1,144,680	3,501,443
Profit and total comprehensive income for the year	–	323,133	323,133
At 31 December 2017	**2,356,763**	**1,467,813**	**3,824,576**

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2013	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	6,079,360	6,408,999	6,270,015	6,077,944	**6,826,645**
Profit (loss) before taxation	716,436	529,608	191,837	(137,472)	**68,951**
Tax credit (expense)	(678,254)	13,992	(101,910)	(134,891)	**12,807**
Profit (loss) for the year attributable to owners of the Company	38,182	543,600	89,927	(272,363)	**81,758**

ASSETS AND LIABILITIES

	As at 31 December				
	2013	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	15,365,488	14,830,814	14,610,410	14,966,056	**14,111,846**
Total liabilities	(10,284,091)	(9,367,411)	(8,984,672)	(9,618,570)	**(8,670,081)**
Equity attributable to owners of the Company	5,081,397	5,463,403	5,625,738	5,347,486	**5,441,765**

SUMMARY OF INVESTMENT PROPERTIES

Address	Tenure	Existing use
South Portion of No.8 Mu Dan Main Road, Pengzhou City, Chengdu City, Sichuan Province, The PRC	The land use rights of the property have been granted for respective terms of 70 years for residential use and 40 years for commercial use	To be re-developed