SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 1177)

2017 Annual Report

Contents

Corporate Profile

Sino Biopharmaceutical Limited (the "Company"), together with its subsidiaries (the "Group"), is a leading and innovation driven pharmaceutical enterprise in the PRC. Our business encompasses a fully integrated chain which spans from research and developments ("R&D") to manufacture and sales of pharmaceutical products. The Group's products have gained a competitive foothold in various therapeutic categories with promising potentials, covering a vast array of biopharmaceutical, chemical and modernized Chinese medicines for treating liver diseases, tumours, cardio-cerebral diseases, analgesia, respiratory system diseases, orthopedic diseases. In order to enhance our sustainable competitiveness, the Group attaches great importance to R&D breakthrough and is positioned as an industry leader in terms of R&D expenditures and product innovation. The Group also actively establishes and extends co-operations with leading domestic and overseas pharmaceutical institutes and enterprises, with a view to bringing about commercialization of world-frontier R&D efforts for the benefit of mankind. To take advantage of the development in technology and policy changes and capitalize on opportunities arising from extension of our principal business, the Group adopts a comprehensive strategic layout of development in the greater healthcare segment. Meanwhile, the Group actively explores ways to utilize new technologies in Big Data, Artificial Intelligence and Financial Technology to continuously enhance the efficiency of our management, R&D, manufacturing and sales activities.

Principal products:

Hepatitis medicines:	Runzhong (Entecavir) dispersible tablets, Tianqingganmei (Magnesium Isoglycyrrhizinate) injections, Tianqingganping (Diammonium Glycyrrhizinate) enteric capsules, Tianding (Entecavir Maleate) tablets, Mingzheng (Adefovir Dipivoxil) capsules, Ganlixin (Diammonium Glycyrrhizinate) injections and capsules
Cardio-cerebral medicines:	Kaishi (Alprostadil) injections, Yilunping (Irbesartan/Hydrochlorothiazide) tablets, Tuotuo (Rosuvastatin Calcium) tablets, Tianqingning (Hydroxyethylstarch 130) injections, Beraprost Sodium tablets
Oncology medicines:	Saiweijian (Raltitrexed) injections, Zhiruo (Palonosetron Hydrochloride) injections, Tianqingyitai (Zoledronic Acid) injections, Gelike (Imatinib Mesylate) capsules, Qingweike (Decitabine for injections), Shoufu (Capecitabine) tablets, Yinishu (Dasatinib) tablets
Analgesic medicines:	Kaifen (Flurbiprofen Axetil) injections, Zepusi Flurbiprofen Cataplasms
Orthopedic medicines:	New Ossified Triol capsules, Jiuli (Glucosamine Hydrochloride) tablets
Anti-infectious medicines:	Tiance (Biapenem) injections, Tianjie (Tigecycline) tablets
Parenteral nutritious medicines:	Xinhaineng (Carbohydrate and Electrolyte) injections, Fenghaineng fructose injections
Respiratory system medicines:	Tianqingsule (Tiotropium Bromide) inhalation powder, Chia Tai Suke (Cefaclor and Bromhexine Hydrochloride) tablets
Anorectal medicines:	Aisuping (Esomeprazole Sodium) injections, Getai (Diosmin) tablets

"Award for Outstanding Chinese Patented Invention" jointly granted by World Intellectual Property Organization and State Intellectual Property Office of the PRC

Forbes Award

Corporate Profile

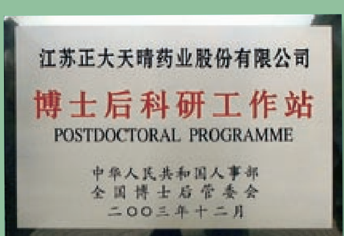
Products with great potential:

Hepatitis medicines:	Tenofovir Disoproxil Fumarate tablets
Cardio-cerebral medicines:	Tianqingganan (Glycerin and Fructose) injections, Yifanli Xylitol injections
Oncology medicines:	Renyi (Pamidronate Disodium) injections
Orthopedic medicines:	Yigu (Zoledronic Acid) injections
Respiratory system medicines:	Zhongchang (Fudosteine) tablets
Diabetic medicines:	Taibai (Metformin Hydrochloride) sustained release tablets

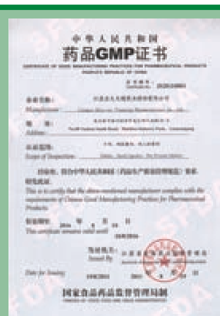
The medicines which have received Good Manufacturing Practice ("GMP") certifications issued by the State Food and Drug Administration of the PRC are in the following dosage forms: large volume injections, small volume injections, PVC-free soft bags for intravenous injections, capsules, tablets, powdered medicines and granulated medicines. The Group also received the GMP certification for health food in capsules from the Department of Health of Jiangsu Province.

Beijing Tide Pharmaceutical Co. Ltd. ("Beijing Tide") has obtained the renewed GMP certification for foreign pharmaceutical company from the Public Welfare and Health Ministry of Japan in December 2012. Thus, the Japanese pharmaceutical enterprises can assign the manufacturing of aseptic pharmaceutical products (products that are under research and products already launched to the domestic market within Japan) to Beijing Tide for export to Japan.

The Group's several principal subsidiaries: Chia Tai – Tianqing Pharmaceutical Holdings Co. Ltd. ("CT Tianqing"), Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu CT Fenghai"), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu CT Qingjiang"), Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. ("Qingdao CT") and Lianyungang Runzhong Pharmaceutical Co., Ltd. ("LYG Runzhong") have been designated "High and New Technology Enterprises". CT Tianqing was designated "2011 Most Valuable Investment Enterprise of the PRC Pharmaceutical Enterprises" from the PRC Pharmaceutical Industry Information Centre. In addition, NJCTT, Jiangsu CT Qingjiang and Jiangsu CT Fenghai have been designated "Engineering Technological Research Centre for treating tumors and cardio-cerebral phytochemistry injections of Jiangsu Province", "Orthopedic Medicines Engineering Technological Research Centre" and "Engineering Technological Research Centre for Parenteral Nutritious Medicines" by The Science and Technology Committee of Jiangsu Province, respectively.



Postdoctoral Scientific Research Workshop



GMP certificate for tablets, hard capsules and dry powder inhalers

GMP certificate for small volume parenteral solutions

Corporate Profile

Named by the Ministry of Personnel of the PRC as a "Postdoctoral Research and Development Institute", the research center of CT Tianqing is also the only "New Hepatitis Medicine Research Center" in the country.

In September 2011, CT Tianqing has received the first certificate of new edition GMP (Certificate No. CN20110001) issued by the State Food and Drug Administration of the PRC for its small volume (injection) dosage.

The Company has been selected as a constituent of Hang Seng Composite Industry Index – Consumer Goods and Hang Seng Composite SmallCap Index with effect from 8 March, 2010.

The Company has become a constituent of the MSCI Global Standard Indices' MSCI China Index with effect from the close of trading on 31 May, 2013.

The Company was ranked as "Top 500 Companies in China" by Fortune China for two consecutive years of 2015 and 2016.

The Company has been included on Forbes Asia's "Fabulous 50" list for 2016 among Asia Pacific's biggest publicly-traded companies on 25 August, 2016.

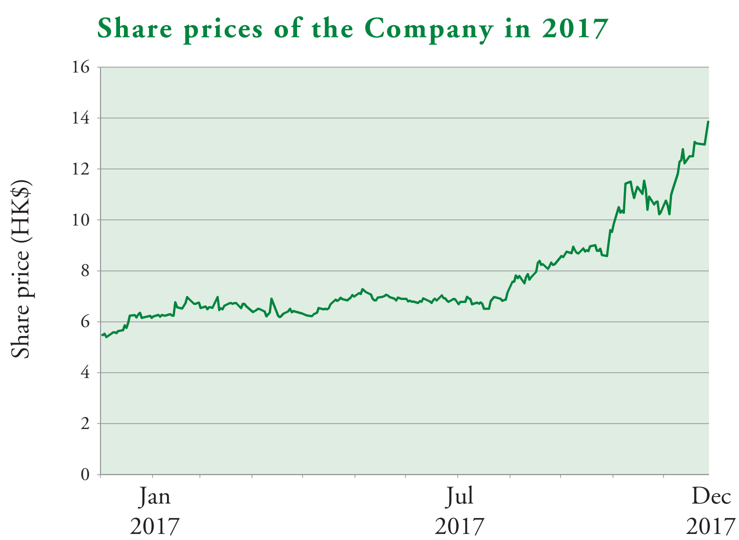
The Company has been ranked as "2017 Asia's Fab 50 Companies" by Forbes Asia on 23 August, 2017.

In December 2017, Tenofovir Disoproxil Fumarate tablet was the first generic drug in the PRC that has completed the bioequivalence study according to the "Consistency of Quality and Efficacy Evaluation for Generic Drugs" ("Consistency Evaluation") standard. The Group became the first enterprise which passed the Consistency Evaluation.

In January 2018, Tuotuo tablet became the only drug that was approved in the Consistency Evaluation among a whole variety of drugs within Jiangsu Province and was the first of the same kind of drugs in the PRC.

The Group's website: http://www.sinobiopharm.com

Fig.1.1



- ✓ Revenue: RMB14.8 billion (2017)
- ✓ Net Profit: RMB3.7 billion (2017)
- ✓ As at the end of 2017, the aggregate amount of cash dividend distribution was over HK$4 billion
- ✓ For the three years from 2015 to 2017, the total amount of taxes paid was over RMB10 billion

GROUP STRUCTURE OF PRINCIPAL SUBSIDIARIES

Fig.1.2

Sino Biopharmaceutical Limited
(Cayman Islands)

Subsidiary	Place	Business	Interest
Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd.	(PRC)	Investment	100%
Jiangsu Runji Investment Co., Ltd.	(PRC)	Investment	60%
Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd.	(PRC)	R&D, Manufacture & Sale	55.588%
Jiangsu Chia Tai Qingjiang Medicines Co., Ltd.	(PRC)	Sale & Distribution	55.588%
China Biotech & Drug Development Limited	(Hong Kong)	R&D	51%
Qingdao Chia Tai Haier Pharmaceutical Co., Ltd.	(PRC)	R&D, Manufacture & Sale	93%
Qingdao Heng Seng Tang Pharmacy Co., Ltd.	(PRC)	Retail	93%
Qingdao Chia Tai Haier Medicines Co., Ltd.	(PRC)	Sale & Distribution	93%
Tianjin Zhenwutang Food Co., Ltd.	(PRC)	Manufacture & Sale	51%
Chia Tai Shaoyang Orthopedic Hospital	(PRC)	Outpatient & Hospitalization	44.2%
Zhejiang Tianqing Zhongwei Medicines Co., Ltd.	(PRC)	Sale & Distribution	33%
Suzhou Tianqing Xingwei Medicines Co., Ltd.	(PRC)	Sale & Distribution	33%
Shanghai Tongyong Pharmaceutical Co., Ltd.	(PRC)	R&D, Manufacture & Sale	81.786%
Shanghai Tongzheng Import Export Co., Ltd.	(PRC)	Sale & Distribution	81.786%
Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd.	(PRC)	R&D, Manufacture & Sale	60.898%
Jiangsu Chia Tai Fenghai Medicines Co., Ltd.	(PRC)	Sale & Distribution	60.898%
Nanjing Chia Tai Fenghai Medicines Technology Co., Ltd.	(PRC)	Sale & Distribution	60.898%
Chia Tai-Tianqing Pharmaceutical Holdings Co., Ltd.	(PRC)	R&D, Manufacture & Sale	60%
Lianyungang Chia Tai Tianqing Medicines Co., Ltd.	(PRC)	Sale & Distribution	60%
Lianyungang Tianrun Pharmacy Ltd.	(PRC)	Retail	60%
Lianyungang Runzhong Pharmaceutical Co., Ltd.	(PRC)	Manufacture & Sale	60%
Nanjing Shunxin Pharmaceutical Co., Ltd.	(PRC)	Manufacture & Sale	60%
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	(PRC)	R&D, Manufacture & Sale	55.6%
Anhui Chia Tai Banlanhua Healthcare Industry Co., Ltd.	(PRC)	Distribution & Retail	38.0619%

CT Tianqing Innovative Drugs R&D and Production Facilities

Financial Summary

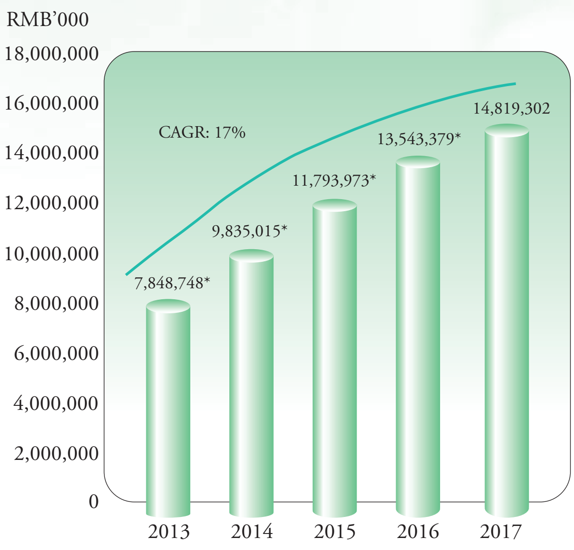
A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	*(Restated)*	*(Restated)*	*(Restated)*
TURNOVER	**14,819,302**	13,543,379	11,793,973	9,835,015	7,848,748
Cost of sales	**(3,090,625)**	(2,816,620)	(2,634,106)	(2,320,460)	(1,766,430)
Gross profit	**11,728,677**	10,726,759	9,159,867	7,514,555	6,082,318
Other income and gains	**642,861**	274,531	317,446	232,943	149,649
Selling and distribution costs	**(5,917,879)**	(5,453,137)	(4,780,162)	(4,244,817)	(3,498,998)
Administrative expenses	**(986,945)**	(1,039,434)	(1,000,281)	(655,463)	(505,994)
Other operating expenses	**(1,602,006)**	(1,526,075)	(1,104,310)	(854,916)	(720,033)
Including: Research and development costs	***(1,595,312)***	*(1,368,192)*	*(1,055,329)*	*(852,788)*	*(696,038)*
Finance costs	**(77,945)**	(76,648)	(64,693)	(34,241)	(1,982)
Share of profits and losses of associates	**409,076**	297,495	263,641	267,592	188,666
PROFIT BEFORE TAX	**4,195,839**	3,203,491	2,791,508	2,225,653	1,693,626
Income tax expenses	**(542,292)**	(474,984)	(431,933)	(349,716)	(281,055)
PROFIT FOR THE YEAR	**3,653,547**	2,728,507	2,359,575	1,875,937	1,412,571
Attributable to:					
Owners of the parent	**2,170,951**	1,637,378	1,441,754	1,202,292	821,850
Non-controlling interests	**1,482,596**	1,091,129	917,821	673,645	590,721
	3,653,547	2,728,507	2,359,575	1,875,937	1,412,571
TOTAL ASSETS	**20,935,339**	18,383,922	13,803,796	11,339,500	7,786,147
TOTAL LIABILITIES	**(8,324,290)**	(7,706,144)	(5,061,660)	(4,279,598)	(2,142,503)
NET ASSETS	**12,611,049**	10,677,778	8,742,136	7,059,902	5,634,644
NON-CONTROLLING INTERESTS	**(3,402,255)**	(2,772,779)	(2,251,614)	(1,752,927)	(1,334,768)

Financial Summary

SALES GROWTH

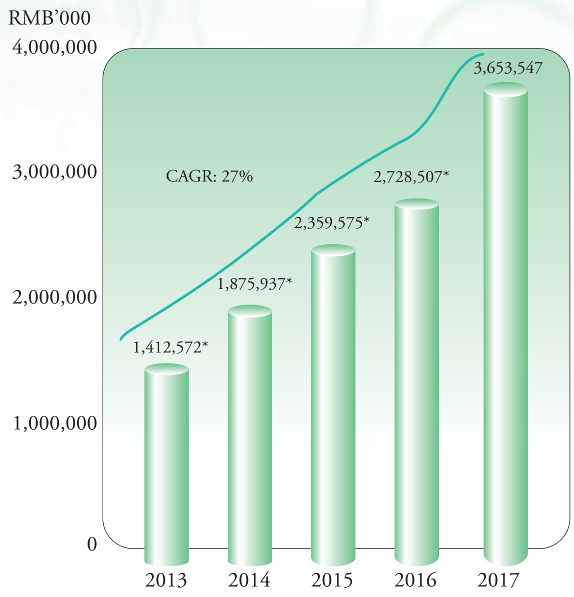
Fig.1.3



* Figures have been restated

GROWTH OF PROFIT

Fig.1.4



SALES NETWORK

Fig.1.5

- Sales networks are distributed over the whole country, Over 11,000 professional sales staff which ranked number one in the Country.
- Cover over 90% hospitals, Market share on hepatitis therapeutic area was about 25%.
- R&D expenditures was over 11% of revenue which ranked number one on the Country.

Financial Summary

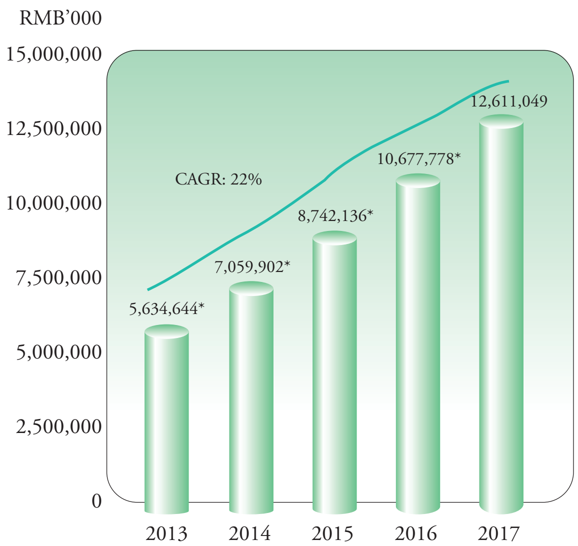
BLOCKBUSTER PRODUCTS

Fig.1.6

Products with sales	Quantity	Products
RMB1-4 Billion	4pcs	润众, 天晴甘美, 凯纷, 凯时
RMB500-1,000 Million	4pcs	天册, 托妥, 依伦平
RMB300-500 Million	9pcs	天晴速乐, 天晴甘平, 艾速平, 阿德福韦酯, 得百安, 赛维健
RMB100-300 Million	15pcs	天丁, 天晴依泰, 首辅, 晴唯可, 凯那, 格尼可, 甘利欣, 天解, 葛泰, 天晴宁, 止若, 九力

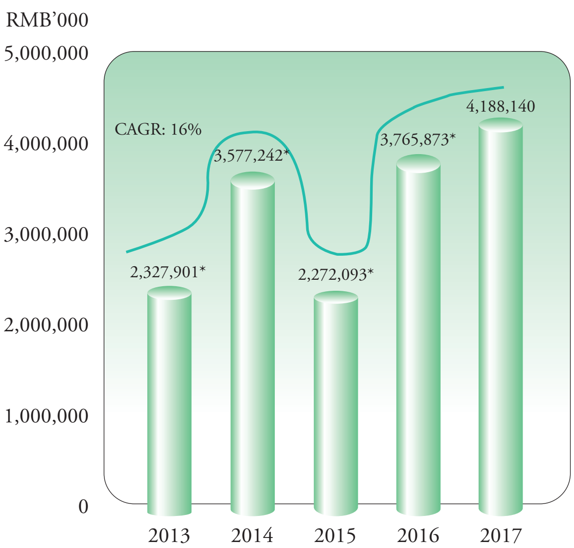
NET ASSETS VALUE

Fig.1.7



CASH AND BANK BALANCES

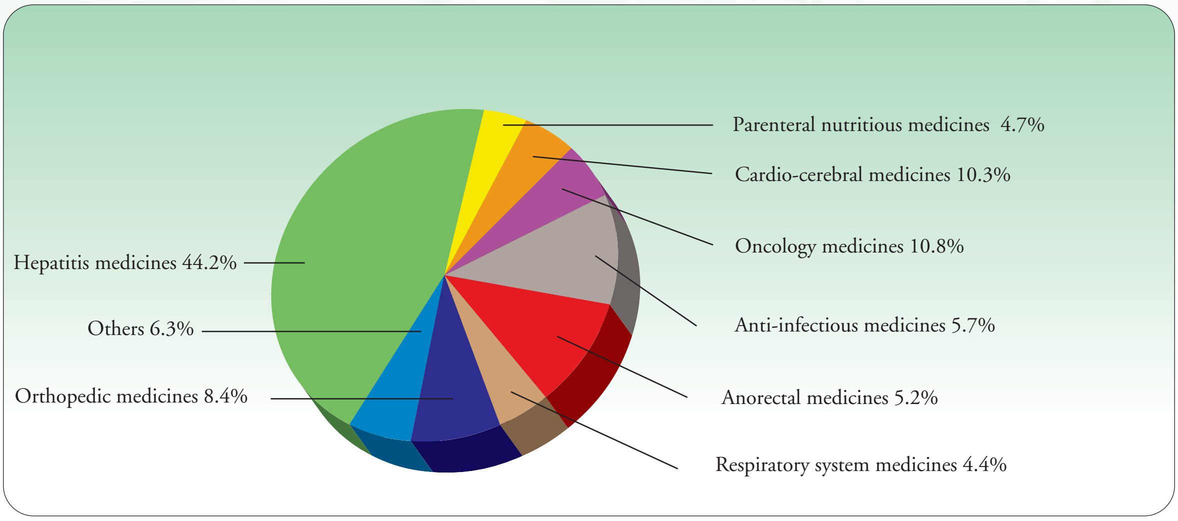
Fig.1.8



* Figures have been restated

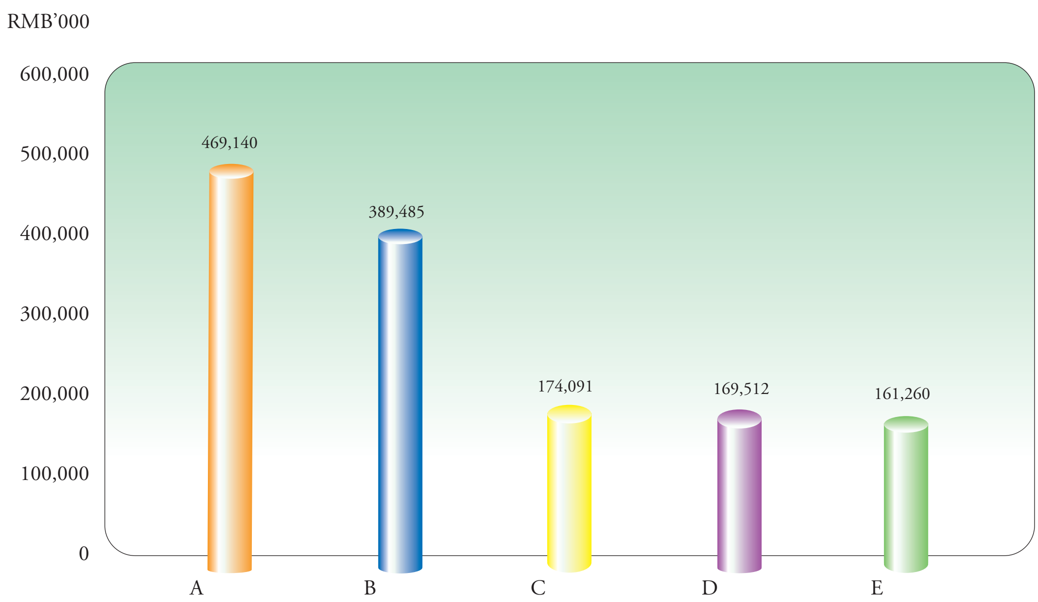
REVENUE BY THERAPEUTIC CATEGORIES (2017)

Fig.1.9



TURNOVER BY NEW PRODUCTS (2017)

Fig.2.0



A	Aisuping Injections (launched in 2016), anorectal medicines
B	Tianding tablets (launched in April, 2014), hepatitis medicines
C	Gelike capsules (launched in August, 2013), oncology medicines
D	Qingweike (Decitabine for injections) (launched in January, 2014), oncology medicines
E	Shufu tablets (launched in February, 2015), oncology medicines

Beijing Tide Yizhuang
Biopharmaceutical Industrial Park

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report the results of the Group for the year ended 31 December, 2017.

INDUSTRY OVERVIEW

During the year under review, the global economy has progressed along a broad-based recovery path with a generally favourable sentiment towards increased investment, the warming up of the manufacturing industry and the steady growth in international trade. For its part, the PRC economy has continued to grow steadily and progressively, achieving a better-than-expected actual GDP growth of 6.9%. Against this favourable macroeconomic backdrop, the medical industry has continued to push forward with reform of the public hospital system. With the implementation of a hierarchical diagnosis and treatment system, the policies of encouraging patients to first visit a community hospital for diagnosis and treatment has presented greater challenges and higher costs for sales of pharmaceutical products. At the same time, the implementation of a "two-invoice" system for procurement of medicines and cancellation of a mark-up on medicines across the country's hospitals have accelerated the adjustment of the medicine circulation system. Additional factors, including the continued control over medical insurance reimbursement, the reduction of medicine prices and the rising prices of Active Pharmaceutical Ingredients (API) as a result of stricter environmental requirements, have further

CT Tianqing's factory

NJCTT's factory

Beijing Tide's factory

CT Tianqing's R&D Centre

reduced the profitability of manufacturers of generic drug products. On the other hand, the adjustment of the lists of medicines approved for coverage under basic medical insurance, work injuries insurance and maternity insurance has been completed by the Ministry of Human Resources and Social Security of the People's Republic of China (MOHRSS). At the same time, the first revisions in eight years were made to the "Medicines List for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance". The subsequent adjustment of the list of medicines approved for medical insurance coverage in all provinces has positively benefitted those companies whose products were included. The government's more favourable standards for subsidising medical insurance and promotion of the new rural cooperative medical scheme, which allows reimbursement of medical expenses in other places across many provinces, represent a significant development in the medicine market. During the year under review, the pharmaceutical industry has generally achieved a steady course of development and the consolidation of enterprises within the industry has become more evident.

BUSINESS REVIEW

With the flexible marketing strategies and strong R&D power, the Group recorded the brilliant results during the year under review despite various challenges in the market:

(a) Before and after accounted for unrealized fair value gains and losses of equity investments and financial assets, profit attributable to owners of the parent was approximately RMB2,073.82 million and approximately RMB2,170.95 million, respectively, approximately 20.8% and approximately 32.6% higher than that of the last year, respectively. Based on the profit attributable to owners of the parent before and after accounted for unrealized fair value gains and losses of equity investments and financial assets, the basic earnings per share were approximately RMB27.98 cents and approximately RMB29.29 cents, respectively, approximately 20.8% and approximately 32.6% higher than that of the last year, respectively;

(b) The Group recorded revenue of approximately RMB14,819.30 million, an increase of approximately 9.4% over the last year, a compound growth rate of 17.2% for years from 2013 to 2017;

(c) As at 31 December, 2017, cash and bank balances totaled approximately RMB4,188.14 million, an increase of approximately RMB422.27 million as compared with the last year;

(d) For the three years ended 31 December, 2017, the total amount of various kinds of taxes paid by the Group was over RMB10 billion;

(e) For the year ended 31 December, 2017, a total of 32 products recorded sales of over RMB100 million each, an increase of 4 products as compared with the last year;

(f) For the year ended 31 December, 2017, the R&D expenditure (which was charged to the statement of profit or loss) of approximately RMB1,595.31 million amounted to approximately 10.8% of the Group's revenue, being the forefront among the PRC pharmaceutical companies;

(g) The Group currently owns 10 R&D bases with over 2,000 R&D staff. Cumulatively, a total of 477 pharmaceutical products had obtained clinical approval, or were under clinical trial or applying for production approval;

Qingdao CT's factory


Jiangsu CT Qingjiang's factory


Factories of Jiangsu CT Fenghai


Shanghai Tongyong's factory


Shaoyang Hospital

Chairman's Statement

(h) Sale networks are distributed over the whole country and cover over 90% hospitals in the PRC with over 11,000 professional sales staff;

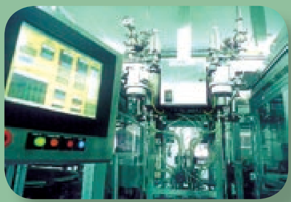
(i) Land resources at Beijing, Qingdao, Lianyungang and Nanjing, including those already in use and those developable, amount to more than 1.33 million square meters, which are sufficient to satisfy the medium to long term needs for the development of production and R&D of the Group; and

(j) Since the listing on the Stock Exchange of Hong Kong Limited in 2000 and taking account of the recommendation of a final dividend for the year under review, the Company has accumulatively distributed the cash dividend of approximately HK$4,000.44 million to its shareholders.

During the year under review, the ongoing strict regulation of medical insurance reimbursement, the lower percentage of the income of medicines to hospitals and the reduction of product prices had an obviously adverse influence on the main products of the Group with a longer market history. To address this issue, the Group has proactively adjusted its marketing strategy and devoted greater efforts to developing the hospital market in order to increase the coverage of products across hospitals. Meanwhile, the Group has also raised the Group's brand awareness across various channels through a variety of means and improved its service quality under the professional chronic disease management model to expand the number of patients for its drugs and to increase the output of its existing hospital network. The Group's main products including Runzhong, Tianqingganmei, Yilunping, Tuotuo, Xinhaineng have maintained reasonable growth. Products for relieving pain including Flurbiprofen Cataplasm injections and Flurbiprofen Cataplasm have also enjoyed substantial growth. After revamping its marketing model for the Gaisanchun (Ossified Triol Capsules), the Group has achieved satisfactory results in this category. Sales of Aisuping, a new injectable anorectal medicine, achieved breakthrough growth after commencing several rigourous evidence-based medicine studies and enhanced promotion efforts in the academic field. In addition, respiratory medicines such as Tianqingsule, hepatitis medicines such as Tianding tablets and Gangze capsules, oncology medicines such as Gelike, Qingweike and Yinishu tablets have all recorded stable growth.

Its subsidiaries CT Tianqing and Beijing Tide were again ranked among the Top 100 Pharmaceutical Manufacturers selected by the Ministry of Industry and Information Technology (MIIT) and were ranked 16th and 50th, respectively for 2016. Moreover the Group has achieved promising results in its R&D activities. Sales of Tenofovir Disoproxil Fumarate raw materials and tablets have been formally approved, which has enriched the anti-virus product range. Tuotuo, a medicine for lowering blood lipid, was among the first batch of drugs and the first generic drug of its kind that passed the Consistency Evaluation in the PRC. Moreover, the subsidiary CT Tianqing has been ranked first among the Top 20 industrial enterprises for medicine pipelines selected by MIIT, a truly noteworthy achievement. Beijing Tide was awarded the 4th place of "Pharmaceutical Industry Enterprises with most investment value in the PRC" in 2017.

During the year under review, the Group has filed 33 clinical applications and 38 production applications. In 2017, 54 applications were granted clinical approval and two were granted production approval. The Group has filed 337 new patent applications, including 308 for inventions. It has also earned 62 patents, including 59 invention patents.



NJCTT's production plant for PVC-free large volume injections

CT Tianqing's capsules production line

Beijing Tide's small volume injections production line

Jiangsu CT Fenghai's R&D Centre

Qingdao CT's production line

PROSPECTS

In 2018, the global economy will encounter more short-term positive factors and at the same time will face risks arising from shifts in trade policies, including rising trade protectionist sentiment, potential volatility in the financial environment and geopolitical tensions. Amidst many challenges, nonetheless, the PRC economy is expected to achieve stable growth while gradually optimizing its overall structure. As for the industry, the continued implementation of the hierarchical diagnosis and treatment system, the "two-invoice" system, the replacement of the business tax with value-added tax, the ongoing situation of zero mark-up of medicines by hospitals and the restrictions on drugs as a percentage of total hospital revenues will combine to significantly affect the circulation system for medicines and the structure of the end market for medicine sales. Influenced by policies including Consistency Evaluation on quality, stringent control over R&D and support for innovation, the R&D of the industry will become more standardised, enhancing the quality of products, and thereby expediting the exit of underperforming enterprises. The Company believes that pharmaceutical industry will remain stable as a whole and will present both challenges and opportunities to the industry players.

With regard to marketing, the Company will keep improving the patients' experience in hepatitis treatment medicines and analgesics under a professional chronic disease management model, continue to update its existing academic knowledge advantage in the latest digestive, oncology and respiratory system medicines and engage in and properly manage rigorous academic research and promotion for the newly approved anti-virus products. Furthermore, the Company has started constructing new industrial park zones at Nanjing Economic and Technology Development Zone, Qingdao Economic and Technology Development Zone (Tuanjie Road) and Beijing Yizhuang Economic and Technology Development Zone in 2013 and 2015, respectively. The new industrial park areas will include engineering technical centers focusing on quality inspection, R&D of freeze-dried powder injections, small-dose injections, gel patches for external use, tablets and soft capsules and more than 10 medicine production line workshops. As the construction of the new industrial park zones are gradually completed and operation commences in 2018, the Company's R&D prowess and production capability in medicines would be greatly bolstered. Moreover, the industrial park at Beijing Yizhuang Economic and Technology Development Zone will become the world's largest production base for gel patches for external use.

Going forward, the Company will continue to assign high priority to and take advantage of the R&D and product innovation opportunities arising from the national policies to support innovation, step up its efforts in product R&D, and capitalise on the national new Internet, artificial intelligence and Big Data strategies in order to boost its management standards and marketing capabilities.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our shareholders for their trust, support and understanding, as well as to all staff for their dedication and diligence.

Dasatinib tablets | Kaishi injections | Spring PVC-free soft bags for intravenous injections | Spring injections | Tianqinganan injections | Tianqingning injections | Tianding (Maleicacid Entecavir) capsules | Yishenjuanbi pills | Runzhong dispersible tablets | Zoledronic acid injections

Management Discussion and Analysis

The Group continues to focus on developing specialized medicines where its strengths lie so as to build up its brand in specialist therapeutic areas. Leveraging on its existing medicine series for treating hepatitis and cardio-cerebral diseases, the Group also actively develops oncology medicines, analgesic medicines, orthopedic medicines, anti-infectious medicines, parenteral nutritious medicines, respiratory system medicines, anorectal medicines and diabetic medicines, etc.

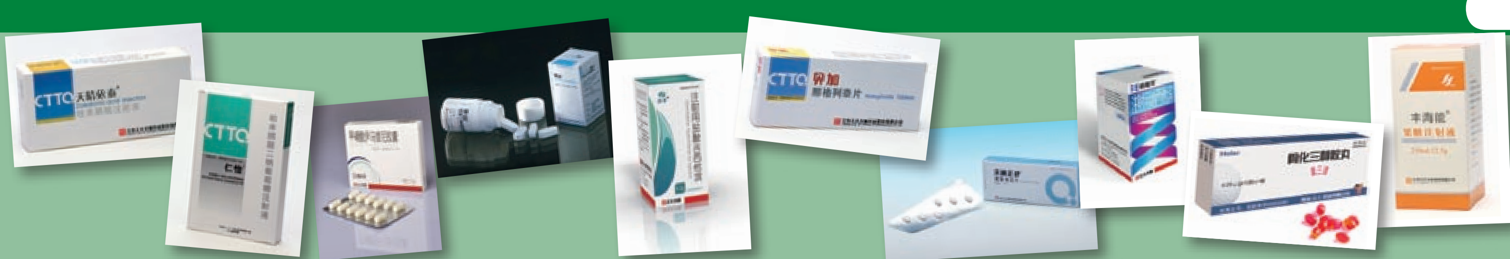
HEPATITIS MEDICINES

For the year ended 31 December, 2017, the sales of hepatitis medicines amounted to approximately RMB6,543.25 million, representing approximately 44.2% of the Group's revenue.

CT Tianqing mainly produces two categories of hepatitis medicines that can protect the liver while lowering enzyme levels and combat hepatitis virus. Ganlixin injections and capsules made with ingredients extracted from Licorice have the dual effects of liver protection and lowering enzyme level. For the year ended 31 December, 2017, its sales amounted to approximately RMB109.61 million. After the expiration of the protection period of the product, many replicas have emerged in the market, resulting in intensified competition. The Group thus developed Tianqingganping enteric capsules with better therapeutic effect than Ganlixin capsules and its intellectual property right being protected. Sales of the medicine amounted to approximately RMB403.75 million in the year under review. In 2005, CT Tianqing launched the patented medicine Tianqingganmei injections, which are made with Isoglycyrrhizinate separated from Licorice and have bright prospects. During the year under review, the product recorded the sales of approximately RMB1,925.28 million, an increase of approximately 4.0% against the same period last year. The Group believes that medicine series made with ingredients extracted from Licorice will help to maintain CT Tianqing's leadership in the market for medicines protecting the liver and lowering enzyme levels.

The Group launched a patented hepatitis medicine called Mingzheng capsules in 2006. As a first-tier synthetic drug for combating hepatitis virus in the international market, the product has been well received by the market since launched with sales increasing rapidly. Mingzheng capsules have become another blockbuster product for combating hepatitis virus. For the year ended 31 December, 2017, its sales amounted to approximately RMB323.55 million.

CT Tianqing's self-developed new medicine for hepatitis B, Runzhong (Entecavir) dispersible tablet, has obtained the new product approval certificate and production approval in February 2010, making CT Tianqing the first pharmaceutical manufacturer to gain the approval for this product in the PRC. The product was launched to the market in March 2010. For the year ended 31 December, 2017, the sales amounted to approximately RMB3,168.68 million, an increase of approximately 4.8% against the same period last year. Runzhong dispersible tablet is the latest generation of guanine nucleoside analogue oral medicine used mainly for the treatment of hepatitis B. It inhibits viral replication and has lower risk of triggering the emergence of medicine-resistant virus. After Entecavir was launched in 2005, the medicine recorded strong sales growth around the world as one of the most efficacious hepatitis B medicines. Another product, Tianding tablets, was launched in April 2013, its sales amounted to approximately RMB389.48 million for the year ended 31 December, 2017, an increase of approximately 65.5% against the same period last year. For the year ended 31 December, 2017, the sales of Ganze (Entecavir) capsules amounted to approximately RMB128.97 million, an increase of approximately 62.3% against the same period last year.



Tianqingyitai injections | Renyi injections | Imatinib Mesylate capsules | Taibai sustained release tablets | Yifei injections | Beijia tablets | Tianqingzhengshu tablets | Qingweike (Decitabine for injections) | Ossified Oestriol capsules | Fenghaineng fructose injections

CARDIO-CEREBRAL MEDICINES

For the year ended 31 December, 2017, after accounted for certain pharmaceutical products not being consolidated but under the management of the Group, the sales of cardio-cerebral medicines amounted to approximately RMB2,980.97 million, representing approximately 16.3% of the adjusted enlarged revenue of the Group. The consolidated sales of cardio-cerebral medicines of the Group amounted to approximately RMB1,525.30 million, representing approximately 10.3% of the Group's revenue.

NJCTT's Tianqingning injections is a plasma-volume expander for patients with blood volume deficiencies. As this product can be used as plasma for all blood types, it has huge market potential. For the year ended 31 December, 2017, the product recorded the sales of approximately RMB172.74 million, an increase of approximately 1.7% against the same period last year. The sales of another pharmaceutical product, Yilunping tablets, amounted to approximately RMB634 million for the year ended 31 December, 2017, a year-on-year increase of approximately 17.9%. For the year ended 31 December, 2017, the sales of Tuotuo calcium tablets amounted to approximately RMB567.39 million, a year-on-year increase of approximately 5.7%.

Kaishi injections works on the Drug Delivery System (DDS) theory to improve cardio-cerebral micro-circulation blockage. It is the first lipo-microsphere targeted sustained release medicine in the PRC. The proprietary pharmaceutical technology used by the Group enhances the product to have more apparent effect than similar products in the market and occupy a large portion of market share. It received many awards from various countries since launched and has obtained the renewed GMP certification for foreign pharmaceutical company from the Public Welfare and Health Ministry of Japan in December 2012. For the year ended 31 December, 2017, the sales of Kaishi injections amounted to approximately RMB1,090.23 million. Applying the technology of micro-solid dispersion with microgram precision, Beraprost Sodium tablets can explicitly improve the ulcer, intermittent claudication, pain and cold symptom from the chronic arterial occlusion. For the year ended 31 December, 2017, the sales of Beraprost sodium tablets amounted to approximately RMB365.45 million, an increase of approximately 25.4% as compared with the same period last year.

ONCOLOGY MEDICINES

For the year ended 31 December, 2017, the sales of oncology medicines amounted to approximately RMB1,597 million, representing approximately 10.8% of the Group's revenue.


Compound Diphenhydramine Liniment


Ganlixin capsules


Ganlixin injections


Tianqingfuxin capsules


Tianqingfuxin injections


Tianqingganping enteric capsules


Tianqingganmei injections


Mingzheng capsules


Saiweijian injections


Flurbiprofen cataplasms

Management Discussion and Analysis

Oncology medicines are mainly manufactured by CT Tianqing and NJCTT. For the year ended 31 December, 2017, sales of Zhiruo injections amounted to approximately RMB242.26 million. The sales of Saiweijian injections amounted to approximately RMB333.87 million during the year under review, an increase of approximately 12.4% as compared with the same period last year. The sales of Tianqingyitai injections amounted to approximately RMB214.83 million during the year under review, an increase of approximately 5.3% as compared with the same period last year. For the year ended 31 December, 2017, the sales of a new product, Qingweike injections, amounted to approximately RMB169.51 million, an increase of 26.9% as compared with the same period last year. Shoufu tablets was launched in February 2014. For the year ended 31 December, 2017, its sales amounted to approximately RMB161.26 million, an increase of approximately 5.1% as compared with the same period last year. Sales of Gelike capsules for the year ended 31 December, 2017 amounted to approximately RMB174.09 million, an increase of approximately 31.2% as compared with the same period last year. Sales of Yinishu tablets for the year ended 31 December, 2017 amounted to approximately RMB108.71 million, an increase of approximately 46.6% as compared with the same period last year.

ANALGESIC MEDICINES

For the year ended 31 December, 2017, after accounted for certain pharmaceutical products not being consolidated but under the management of the Group, the sales of analgesic medicines amounted to approximately RMB2,054.65 million, representing approximately 11.2% of the adjusted enlarged revenue of the Group.

Launched in 2005, the analgesic medicine Kaifen injections is a Flurbiprofen Axetil lipo-microsphere targeted sustained release analgesic injection produced based on the DDS theory and enabled by advanced target technology. The product is developed and manufactured by Beijing Tide and is famous for strong pain relieving effect with minimal side effects. The sales of the product for the year ended 31 December, 2017 amounted to approximately RMB1,572.92 million, approximately 31.6% higher than that of the same period last year. Another product for relieving non-surgical joint soft tissue pain is Flurbiprofen Cataplasm, its sales for the year ended 31 December, 2017 amounted to approximately RMB432.72 million, approximately 59.0% higher than that of the same period last year.

ORTHOPEDIC MEDICINES

For the year ended 31 December, 2017, the sales of orthopedic medicines amounted to approximately RMB1,251.02 million, representing approximately 8.4% of the Group's revenue.

The main product of orthopedic medicines is the New Ossified Triol capsules. For the year ended 31 December, 2017, its sales amounted to approximately RMB847.65 million, rose by approximately 17.1% as compared with the same period last year. For the year ended 31 December, 2017, the sales of another product, Jiuli tablets, amounted to approximately RMB242.68 million, an increase of approximately 35.1% against the same period last year.

ANTI-INFECTIOUS MEDICINES

For the year ended 31 December, 2017, the sales of anti-infectious medicines amounted to approximately RMB846.92 million, representing approximately 5.7% of the Group's revenue.

The main product of anti-infectious medicines is Tiance injections. For the year ended 31 December, 2017, its sales amounted to approximately RMB636.92 million. For the year ended 31 December, 2017, the sales of another product, Tianjie tablets, amounted to approximately RMB155.06 million, an increase of approximately 42.5% against the same period last year.

ANORECTAL MEDICINES

For the year ended 31 December, 2017, the sales of anorectal medicines amounted to approximately RMB763.22 million, representing approximately 5.2% of the Group's revenue.

The main product of anorectal medicines is Getai tablets. For the year ended 31 December, 2017, its sales amounted to approximately RMB217.99 million, an increase by approximately 12.8% as compared with the same period last year. A new product, Aisuping (Esomeprazole Sodium) injection was launched in May 2016. Its sales amounted to approximately RMB469.14 million for the year ended 31 December, 2017, a significant increase by approximately 1205.5% as compared with the same period last year.

PARENTERAL NUTRITIOUS MEDICINES

For the year ended 31 December, 2017, the sales of parenteral medicines amounted to approximately RMB703.32 million, representing approximately 4.7% of the Group's revenue.

The main product of parenteral nutritious medicines is Xinhaineng injections. For the year ended 31 December, 2017, its sales amounted to approximately RMB492.33 million. For the year ended 31 December, 2017, the sales of Fenghaineng fructose injections amounted to approximately RMB202.66 million.

RESPIRATORY SYSTEM MEDICINES

For the year ended 31 December, 2017, the sales of respiratory medicines amounted to approximately RMB657.18 million, representing approximately 4.4% of the Group's revenue.

The main product of respiratory system medicines is Tianqingsule inhalation powder. For the year ended 31 December, 2017, its sales amounted to approximately RMB413.29 million, an increase by approximately 30.7% as compared with the same period last year. For the year ended 31 December, 2017, the sales of another pharmaceutical product, Chia Tai Suke tablets, amounted to approximately RMB172.31 million, an increase by approximately 6.7% as compared with the same period last year.

DIABETIC MEDICINES

For the year ended 31 December, 2017, the sales of diabetic medicines amounted to approximately RMB107.85 million, representing approximately 0.7% of the Group's revenue.

The main diabetic medicine of the Group, Taibai sustained release tablets, which is used for lowering blood sugar level, was developed and manufactured by CT Tianqing. There are more than 100 million diabetics in the PRC and the Metformin Hydrochloride has been identified as a first-tier medicine for lowering blood sugar level. As Taibai sustained release tablets has sustained release capability, it can stabilize a patient's blood sugar level. For the year ended 31 December, 2017, the sales of the product amounted to approximately RMB89.39 million, an increase by approximately 20.6% as compared with the same period last year.

AVAILABLE-FOR-SALE INVESTMENTS

As at 31 December, 2017, the Group had the non-current available-of-sale ("AFS") investment of approximately RMB540.14 million (31 December, 2016: approximately RMB369.45 million (restated)) and current AFS investment of approximately RMB2,647.43 million (31 December, 2016: approximately RMB2,122.36 million (restated)). Non-current AFS investments are certain unlisted equity investments and current AFS investments are the wealth management products and trust funds. For wealth management products and trust funds, the Group has entered into the investment contracts with several PRC institutions, including Ping An Bank (approximately RMB480 million), Xiamen International Bank (approximately RMB390 million), Jiangsu Bank (approximately RMB370 million), Bank of Communication (approximately RMB215 million), Ningbo Bank (approximately RMB190 million), Xingye Bank (approximately RMB182 million) and other banks and trusts (approximately RMB820.43 million) during the year. Current AFS investments, representing approximately 12.6% of the total assets of the Group, mainly consisted of the principal-guaranteed with floating return products with relatively lower risk of default. All principal and interests will be paid together on the maturity date. The Board believes that the investment in wealth management products and trust funds can strengthen the financial position of the Group and bring the fruitful contribution to the profit of the Group.

Management Discussion and Analysis

FINANCIAL ASSETS/EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December, 2017, the Group had (i) non-current financial assets designated as at fair value through profit or loss of approximately RMB190.42 million (31 December, 2016: approximately RMB147.93 million (restated)) which are the convertible bonds of Karolinska Development AB with an aggregate nominal value of SEK272,858,294 and 8% interest per annum; and (ii) current equity investments at fair value through profit or loss of approximately RMB943.73 million (31 December, 2016: approximately RMB408.56 million (restated)) which were investments in various listed shares. The Group recorded the realized gain on the disposal of the equity investments of approximately RMB88.73 million and unrealized fair value gain on the financial assets and equity investments of approximately RMB97.13 million for the year ended 31 December, 2017. The Board believes that the investment in financial assets and equity investments can diversify the investment portfolio of the Group and achieve a better return to the Group in future.

R&D

The Group has continued to focus its R&D efforts on new cardio-cerebral, hepatitis, oncology, analgesic and respiratory system medicines. During the fourth quarter, the Group was granted 3 clinical approvals, 9 new clinical applications and 15 production applications. Cumulatively, a total of 477 pharmaceutical products had obtained clinical approval, or were under clinical trial or applying for production approval. Out of these, 54 were for cardio-cerebral medicines, 37 for hepatitis medicines, 202 for oncology medicines, 22 for respiratory system medicines, 26 for diabetic medicines and 136 for other medicines.

Over the years, the Group has been placing high importance on R&D and innovation, as well as through collaboration and imitation, to raise both R&D standards and efficiency. In light of the fact that R&D continues to be the lifeblood of the Group's development, the Group continues to devote into more resources. For the year ended 31 December, 2017, the R&D expenditure of approximately RMB1,595.31 million, which accounted for approximately 10.8% of the Group's revenue, was charged to the statement of profit or loss.

The Group also places major emphasis on the protection of intellectual property rights. It encourages its enterprises to apply for patent applications as a means to enhance the Group's core competitiveness. During the fourth quarter, the Group has received 17 authorized patent notices (16 invention patents and 1 apparel design patents) and filed 64 new patent applications (51 invention patents, 6 utility model patents and 7 apparel design patent). Cumulatively, the Group has obtained 591 invention patent approvals, 13 utility model patents and 58 apparel design patents.

INVESTOR RELATIONS

The Group has a long-standing commitment to maintaining high standards of corporate governance so as to ensure its sustainable long-term development. During the year under review, the Group has maintained effective communications with investors via various channels. These communications have deepened local and overseas investors' understanding towards the Group's business and its latest business developments. The Group also understands the importance of good investor relations to corporate management, therefore, efforts have also been undertaken to solicit opinions and to obtain pertinent information through regular investor meetings in order to further upgrade its corporate governance standards.

During the year under review, the Group has proactively lobbied with a number of initiatives to deliver the latest business information to investors in a timely manner. It has participated in a number of large scale investor conferences and roadshows held in Europe, the United States and Asia, including "The 35th Annual J.P. Morgan Healthcare Conference", "Credit Suisse 20th Annual Asian Investment Conference", "Deutsche Bank 8th Annual dbAccess Asia Conference 2017", "Morgan Stanley Third Annual China Summit", "J.P. Morgan 13th Global China Summit", "Citi China Investor Conference 2017, Macau", "Bank of America Merrill Lynch 2017 China Conference", "Morgan Stanley Sixteenth Annual Asia Pacific Summit" and "Citi Greater China Corporate Day 2017 (Theme: Healthcare)". Moreover, the Group has arranged factory site visits, teleconferences and one-on-one meetings with international and local institutional investors. Altogether, these investor relations events have helped more than 330 potential investors to increase their knowledge about the Group's latest development and operations, thereby solidifying the confidence of shareholders, investors and customers in the Group's business.

Management Discussion and Analysis

In addition, the Group posts its annual and interim reports, and issues quarterly, interim and annual results announcements, disclosures and circulars on its corporate website as well as on the website of Hong Kong Exchanges and Clearing Limited. The Group also issues corporate announcements in a timely manner to inform shareholders and investors about its latest developments, further facilitating a high degree of transparency.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year under review, the Group's primary sources of funds were cash derived from operating activities and bank borrowings. As at 31 December, 2017, the Group's cash and bank balances were approximately RMB4,188.14 million (31 December, 2016: approximately RMB3,765.87 million (restated)).

CAPITAL STRUCTURE

As at 31 December, 2017, the Group had short term loans of approximately RMB741.31 million (31 December, 2016: approximately RMB1,369.47 million (restated)) and had long term loans of approximately RMB2,209.90 million (31 December, 2016: approximately RMB1,678.97 million (restated)).

CHARGE ON ASSETS

As at 31 December, 2017, the Group had the charge on assets of approximately RMB401.76 million (31 December, 2016: approximately RMB464.24 million (restated)).

CONTINGENT LIABILITIES

As at 31 December, 2017, the Group and the Company had no material contingent liabilities (31 December, 2016: Nil).

ASSETS AND GEARING RATIO

As at 31 December, 2017, the total assets of the Group amounted to approximately RMB20,935.34 million (31 December, 2016: approximately RMB18,383.92 million (restated)) whereas the total liabilities amounted to approximately RMB8,324.29 million (31 December, 2016: approximately RMB7,706.14 million (restated)). The gearing ratio (total liabilities over total assets) was approximately 39.8% (31 December, 2016: approximately 41.9% (restated)).

EMPLOYEE AND REMUNERATION POLICIES

The Group had 18,649 employees as at 31 December, 2017 and remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as a share option scheme. Total staff cost (including Directors' remuneration) for the year was approximately RMB1,474.97 million (2016: approximately RMB1,282.46 million (restated)).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and HK dollars. In the PRC, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The exchange rate of HK dollars and US dollars is pegged under the fixed linked system over a long period of time. The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

EVENTS AFTER THE REPORTING PERIOD

On 5 January, 2018, the Company entered into two agreements with France Investment (China 1) Group Limited ("Vendor") in relation to the acquisition of equity interests in Beijing Tide, which constituted a major and connected transaction under Chapters 14 and 14A of the Listing Rules. The consideration for the acquisition was HK$12,895,516,937 in total which was satisfied by the Company by the issuance of 1,013,002,116 shares of the Company at the issue price of HK$12.73 per share to the Vendor upon completion. The acquisition was completed on 1 March, 2018, and the Company's interests in Beijing Tide has been increased from 33.6% to 57.6% and Beijing Tide has become an indirect non-wholly owned subsidiary of the Company. For details, please refer to the announcements of the Company dated 5 January, 2018 and 1 March, 2018, respectively, and the circular of the Company dated 26 January, 2018.

NJCTT New Pharmaceutical Park Industrial

Corporate Governance Report

Sino Biopharmaceutical Limited (the "Company") is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of corporate governance that properly protects and promotes the interests of all shareholders and enhances corporate value and accountability.

For the year ended 31 December, 2017, the Company has applied the principles of and complied with all the Code Provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from Code Provision A.6.7 in relation to attendance of the annual general meeting of the Company (the "AGM") by Independent Non-executive Director ("INED"). An INED was unable to attend the AGM held on 22 June, 2017 due to other business engagements.

Despite the removal of the requirement for qualified accountant on 1 January, 2009, the Company continues to engage a qualified accountant to oversee its finance, accounting and financial reporting functions.

This report describes our corporate governance code and explains the application of the CG Code and any deviation from the CG Code, if any.

A. BOARD OF DIRECTORS

THE BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and annual budget should be retained for the Board's approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board has delegated its responsibilities to senior management to deal with day-to-day operations and reviewed those arrangements on a periodic basis. Management then reports back to the Board and obtains prior approval before making decisions for key matters or entering into any material commitments on behalf of the Company. The Board has conducted regular review on the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time performing them.

To maximise the efficiency of the Board and to encourage active participation and contribution by Board members, the Board has established an Executive Board Committee (the "EBC"), the Audit Committee (the "AC"), the Remuneration Committee (the "RC") and the Nomination Committee (the "NC") with specific terms of reference, which are on terms no less exacting than those set out in the CG Code, to assist in the execution of their duties. The written terms of reference of each of the committees are reviewed and amended, if necessary, from time to time on the committees' structure, duties and memberships, and have been posted on the websites of the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company Secretary and the Qualified Accountant shall, where appropriate and necessary, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Company's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

All directors are given opportunities to include matters to be discussed in the agenda of the Board/committees meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Directors are encouraged to participate actively either in person or through electronic means of communications. Ad-hoc meetings are convened when they are considered necessary. During the year ended 31 December, 2017, the Board held four regular meetings for discussion of the Company's financial results. Notices of regular Board/committees meetings were given at least 14 days before the date of meeting. For all other Board/committees meetings, reasonable notices were given.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least 3 days before the date of the scheduled meeting. Where queries are raised by directors, response should be given as promptly and fully as possible within a reasonable time.

Minutes of the Board/committees meetings are recorded in details for the matters considered by the participants of such meetings and the decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or Secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete and adequate explanation and information on a timely basis to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities. The directors, in order to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

If a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a physical Board meeting and the interested director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. INEDs who have no interests in the transaction shall be present at that Board meeting.

Corporate Governance Report

BOARD COMPOSITION

As of the date of this report (i.e. 22 March, 2018), the Board consisted of a total of seven executive directors, including the Chairman and the Chief Executive Officer ("CEO"), and four INEDs.

Position		Name
Chairman	:	Miss Tse, Theresa Y Y
Executive directors	:	Mr. Tse Ping (CEO)
	:	Ms. Cheng Cheung Ling
	:	Mr. Tse Hsin
	:	Mr. Wang Shanchun
	:	Mr. Tian Zhoushan
	:	Ms. Li Mingqin
INEDs	:	Mr. Lu Zhengfei
	:	Mr. Li Dakui
	:	Ms. Lu Hong
	:	Mr. Zhang Lu Fu

The attributes, skills and expertise among the Board members have a balanced mix of core competencies in areas such as pharmaceutical, accounting and finance, business and management and marketing strategies.

The INEDs meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgements. The Board considers that all of the INEDs are independent and has received from each of them a confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and actively participating in committees, if invited;
- attending general meetings of the Company, where appropriate, and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of results.

CORPORATE GOVERNANCE FUNCTIONS

The Board shall be responsible for the following functions:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring training and continuous professional development of directors and senior management;
- reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements;
- reviewing the Company's compliance with the CG Code, including disclosure in the Corporate Governance Report;
- developing and reviewing the code of conduct and compliance manual, if any, applicable to employees and directors;
- doing any such things to enable the Board committees to discharge their duties and functions;
- conforming to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation; and
- considering and making recommendations on any other corporate governance issues.

CHAIRMAN AND CHIEF EXECUTIVE

The CG Code Provision A.2.1 stipulates that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. Miss Tse, Theresa Y Y acts as the Chairman and Mr. Tse Ping serves as CEO of the Company.

The Chairman is responsible for overseeing the operations of the Board and formulating overall strategies and policies of the Company. The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

The CEO is responsible for managing the Group's business and operations.

Miss Tse, Theresa Y Y and Mr. Tse Ping are daughter and father. The respective relationship of Miss Tse, Theresa Y Y and Mr. Tse Ping with other members of the Board is provided in the Directors and Senior Management Profile section on pages 49 to 57 of this annual report.

APPOINTMENT, RE-ELECTION AND REMOVAL

The Company has formal and proper procedure for consideration of the appointment of new directors to the Board and the resignation of any director.

The Executive Directors have not been appointed for a specific term while each of the INEDs has been appointed for a term of two years. All Directors shall be subject to retirement by rotation and re-election at the AGM in accordance with the Articles of Association of the Company (the "Articles"), the laws of the Cayman Islands and the Listing Rules so far as the same may be applicable. The Articles provide that (i) one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third shall be subject to retirement by rotation provided that every director shall be subject to retirement by rotation at least once every three years; and (ii) the directors to retire by rotation shall include any director who wishes to retire and not to offer himself/herself for re-election. The retiring directors shall be those who have been longest in office since their last re-election or appointment.

The name and biographical details of the directors who will offer themselves for re-election at the forthcoming AGM are set out in a circular accompanying the notice of meeting, which will be despatched together with the annual report, to assist shareholders in making an informed decision on their elections.

TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, in order to make sure that he/she has appropriate understanding of the business and operations of the Company and is fully aware of his/her responsibilities and obligations under the Listing Rules and other relevant regulatory requirements.

Pursuant to CG Code Provision A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year under review, all Directors have participated in continuous professional development by reading relevant materials on the topics related to corporate governance and regulations.

Company Secretary

The Company Secretary is responsible for facilitating the Board process, as well as communications among the Board members, shareholders and management. Mr. Chan Oi Nin Derek serves as the Company Secretary. He is a full time employee of the Company and possesses the professional qualifications as required under Rule 3.28 of the Listing Rules. He has taken no less than 15 hours of relevant professional training by attending seminars to update his knowledge and skills in compliance with Rule 3.29 of the Listing Rules.

COMMITTEES

The AC was established on 19 September, 2000. The EBC and the RC were established in October, 2005, and the NC was set up on 30 March, 2012.

Executive Board Committee

During the year ended 31 December, 2017, the EBC consisted of Miss Tse, Theresa Y Y as chairman and Mr. Tse Ping, Ms. Cheng Cheung Ling, and Mr. Tse Hsin as members.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restrictions.

Remuneration Committee

During the year ended 31 December, 2017, Mr. Zhang Lu Fu served as the chairman and Mr. Lu Zhengfei and Ms. Lu Hong served as members of the committee.

The principal functions of the RC include:

- recommending to the Board on the policies and structure of the remuneration of directors of the Company and senior management of the Group;
- recommending the basis of the remuneration packages of all executive directors and senior management;
- reviewing and approving their performance-based remuneration;
- reviewing the compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring no director or any of his/her associates are involved in deciding his/her own remuneration.

The RC held one meeting during the year, with full attendance of its members, to discuss and review the basis of the remuneration policies and packages of the directors of the Company and senior management of the Group. The emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions.

Information relating to the remuneration of each Director for the year under review is set out in note 8 to the financial statements of this annual report.

Corporate Governance Report

Audit Committee

During the year under review, the AC consisted of Mr. Lu Zhengfei as chairman, and Mr. Li Dakui and Ms. Lu Hong as members. The members together have sufficient accounting and financial management expertise and legal and business experience to discharge their duties.

The major duties and responsibilities of the AC are set out clearly in its terms of reference, which include:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors;
- discussing with external auditors the independence and reporting obligations of auditors and the nature and scope of audit before the audit commences;
- monitoring integrity of financial statements and reviewing the quarterly, interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations for internal control matters as delegated by the Board or on its own initiative and management's response;
- reviewing external auditors' management letter or any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response, and ensuring that the Board will provide a timely response to the issues raised; and
- discussing with management to ensure that management has reviewed if there is adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions.

The AC performed the following work during the year under review:

- reviewed and discussed with management and external auditors regarding the financial statements for the year ended 31 December, 2017 and auditors' management letter;
- reviewed with management the unaudited financial statements for the three months ended 31 March, 2017, the six months ended 30 June, 2017, and the nine months ended 30 September, 2017, respectively;
- reviewed the findings and recommendations of the internal audit department on the operations and performance of the Group;
- reviewed the risk management and internal control systems of the Group and the effectiveness of the Group's internal audit function;
- reviewed the external auditors' plan for statutory audit and engagement letter;
- recommended to the Board, for the approval by shareholders, of the re-appointment of auditors; and
- discussed with management to ensure that the Board had conducted an annual review such that there was adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions.

Nomination Committee

During the year under review, the NC consisted of Miss Tse, Theresa Y Y as chairman and Mr. Tse Ping, Mr. Lu Zhengfei, Ms. Lu Hong, and Mr. Zhang Lu Fu as members.

The NC has set out in its terms of reference the major duties and responsibilities as follows:

- formulating a formal and transparent procedure for developing nomination policies for approval by the Board, which shall take into consideration factors such as skills, knowledge, experiences, length of service, description of the role and capabilities required for a particular appointment;
- reviewing the structure, size and composition (including the mix of skills, knowledge, experience and length of service and diversity needed) of the Board at least annually; and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- reviewing the board diversity policy of the Company from time to time to ensure its continuous effectiveness;
- establishing guidelines for the recruitment of the chief executive and senior management and identifying leadership needs of and succession planning for the Company in relation to both directors and other senior executives;
- assessing the independence of the INED and reviewing the INEDs' annual confirmations on their independence;
- making recommendations to the Board on the re-appointment of any INED at the conclusion of his/her specified term of office; and
- making recommendations to the Board on matters relating to any actual or potential conflict of interests of directors (including prohibition of voting by the interested director).

During the year under review, no meeting of the NC was held. However, in the Board meeting held on 10 April, 2017, the Board had reviewed the structure, size and composition of the Board in accordance with the Company's board diversity policy and the procedures and criteria for nomination and resignation of directors.

BOARD DIVERSITY POLICY

The board diversity policy of the Company sets out the approach for achieving diversity of the Board, including but not limited to the appropriate balance of skills, experience and diversity of perspectives that are required to support the attainment of the Company's strategic objectives and the sustainable development of the Company. It has been established in light of the fact that there is increasing emphasis on diversity as a component for wider and more comprehensive corporate governance framework.

The NC of the Company may make recommendations to the Board for identifying the necessary criteria when considering appointment of new directors of the Company. Selection of appropriate candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the anticipated merit and contribution that the selected candidate will bring to the Board.

The NC of the Company shall monitor the board diversity policy from time to time and make necessary adjustments such that it best suits the needs of the Company. It will also monitor the implementation of the policy to ensure its continuous effectiveness.

BOARD AND COMMITTEE MEETINGS ATTENDANCE

The Board held four regular meetings and one ad-hoc meeting in 2017. Details of the attendance of individual director at the Board meetings, committee meetings and general meeting during the year under review are set out below:

	Number of meetings attended/held			
Directors	**The Board**	**Audit Committee**	**Remuneration Committee**	**General Meeting**
Executive Directors				
Miss Tse, Theresa Y Y	3/5	N/A	N/A	1/1
Mr. Tse Ping	5/5	N/A	N/A	0/1
Ms. Cheng Cheung Ling (appointed on 10 April, 2017)	4/4	N/A	N/A	1/1
Mr. Tse Hsin	5/5	N/A	N/A	1/1
Mr. Wang Shanchun	2/5	N/A	N/A	0/1
Mr. Tian Zhoushan	4/5	N/A	N/A	0/1
Ms. Li Mingqin	5/5	N/A	N/A	1/1
Independent Non-Executive Directors				
Mr. Lu Zhengfei	5/5	4/4	1/1	1/1
Mr. Li Dakui	5/5	4/4	N/A	0/1
Ms. Lu Hong	5/5	4/4	1/1	1/1
Mr. Zhang Lu Fu	4/5	N/A	1/1	1/1
Number of meeting(s)	5	4	1	1

SECURITIES TRANSACTIONS BY DIRECTORS AND OFFICERS

The Company has adopted a code of conduct regarding securities transactions by directors and senior management/employees (the “Code”) on terms no less exacting than the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules (the “Model Code”).

Having made specific enquiry of all directors, it was confirmed that for the year under review all directors had fully complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

Management/employees as defined in the Code who because of their employment possess any inside information at any time are prohibited from dealing in securities of the Company to the same extent as directors.

INSURANCE COVER FOR DIRECTORS’ LIABILITIES

The Company has arranged directors’ and officers’ liability insurance for all directors and senior officers against legal liability arising from their performance of duties. The insurance coverage is reviewed on an annual basis.

REMUNERATION OF SENIOR MANAGEMENT

There were 38 employees classified as senior management for the year ended 31 December, 2017. The details of the remuneration of senior management were disclosed as below:

	Amount of remuneration for the year				
	Below HK$500,000	HK$500,000 – HK$1,000,000	HK$1,000,001 – HK$1,500,000	Above HK$1,500,000	Total number
Number of senior management	–	6	14	18	38

B. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group, with supporting assumptions or qualifications as necessary. The directors also ensure the timely publication of the financial statements of the Company.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Company's position and prospects when the Company extends financial reports and other information to general public and regulators pursuant to the Listing Rules and other statutory requirements.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board continues to prepare the financial statements on a going concern basis.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the Group's assets.

An internal audit department has been established to review major operational and financial systems of the Group on a continuing basis and it aims to cover all significant functions within the Group on a rotational basis. The scope of the internal audit department's review and the audit programmes have been approved by the Audit Committee. The department reports directly to the Audit Committee and the Chief Executive Officer, and submits regular reports for their review in accordance with the approved programmes. For the year ended 31 December, 2017, the directors had conducted an annual review of the effectiveness of the Group's systems of risk management and internal control covering all material functions, including finance, operations, and compliance. Based on the results of the review, the directors considered that such systems were effective and adequate.

The Group maintains a centralised cash management system to oversee the Group's investment and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business unit with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment by the directors are required for unbudgeted expenditures.

The Board had also conducted a review of and was satisfied with the findings on the adequacy of resources, qualifications and experience, training programmes and budget of staff of the Group's accounting and financial reporting functions for the year under review.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Group's external auditors is set out as follows:

	Fee paid/payable for the year (RMB'000)
Services rendered	
Audit services	4,400
Non-audit services	20

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, quarterly results announcements, other announcements and circulars made through the Company's and Stock Exchange's websites.

The Company has established a comprehensive communication policy with shareholders and shall modify the same from time to time, to best safeguard the interests of shareholders.

AGM or other general meetings of the Company provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the chairmen of the AC and/or RC, or in their absence, members of the committees or senior management of the Company shall be available to answer shareholders' questions. The chairman of the independent board committee shall also attend the general meetings for approving a connected transaction or any transaction that is subject to independent shareholders' approval.

During the year under review, at the 2017 AGM, directors including Miss Tse, Theresa Y Y, Ms. Cheng Cheung Ling, Mr. Tse Hsin, Ms. Li Mingqin, Mr. Lu Zhengfei (the chairman of the AC), Ms. Lu Hong and Mr. Zhang Lu Fu (the chairman of the RC) were present at the meeting and answered questions raised by shareholders. A representative from the external auditors, Messrs. Ernst & Young, also attended the 2017 AGM and was available to answer shareholders' questions about the conduct of the audit and the preparation and content of the auditors' report. All resolutions at the 2017 AGM were passed by way of poll and the notice of the AGM was sent to shareholders at least 20 clear business days before the meeting.

SHAREHOLDERS' RIGHT

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

Pursuant to article 58 of the Articles of Association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members of the Company 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 months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (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.

ENQUIRIES TO THE BOARD

Enquiries may be put forward to the Board through the Company's registered office at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The Company regularly releases latest corporate news of the Group on its website at http://www.sinobiopharm.com. The public are welcome to give comments and make enquiries through the Company's website.

Report of Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December, 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December, 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 65 to 154.

Together with the quarterly dividend of HK1.5 cents per share paid for the first quarter, HK2 cents for the second quarter and HK2 cents for the third quarter, the total amount of RMB354,814,000 has been paid in 2017.

The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year ended 31 December, 2017 to shareholders on Monday, 25 June, 2018.

The proposal for the distribution of the final dividend above is subject to the consideration and approval of the shareholder at the forthcoming annual general meeting of the Company ("AGM").

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed for the following periods:–

(a) For the purpose of determining shareholders who are entitled to attend and vote at the annual general meeting, the register of members of the Company will be closed from Thursday, 24 May, 2018 to Tuesday, 29 May, 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Wednesday, 23 May, 2018.

(b) For the purpose of determining shareholders who are qualified for the final dividend, the register of members of the Company will be closed from Wednesday, 6 June, 2018 to Monday, 11 June, 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Tuesday, 5 June, 2018.

BUSINESS REVIEW

A review of the business of the Group and analysis of the Group's performance during the year, including a description of the principal risk and uncertainties facing the Group and financial key performance indicators, is provided in the Chairman's Statement and Management Discussion and Analysis section on pages 14 to 23 of this annual report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2017 **RMB'000**	2016 RMB'000 *(Restated)*	2015 RMB'000 *(Restated)*	2014 RMB'000 *(Restated)*	2013 RMB'000 *(Restated)*
TURNOVER	**14,819,302**	13,543,379	11,793,973	9,835,015	7,848,748
Cost of sales	**(3,090,625)**	(2,816,620)	(2,634,106)	(2,320,460)	(1,766,430)
Gross profit	**11,728,677**	10,726,759	9,159,867	7,514,555	6,082,318
Other income and gains	**642,861**	274,531	317,446	232,943	149,649
Selling and distribution costs	**(5,917,879)**	(5,453,137)	(4,780,162)	(4,244,817)	(3,498,998)
Administrative expenses	**(986,945)**	(1,039,434)	(1,000,281)	(655,463)	(505,994)
Other operating expenses	**(1,602,006)**	(1,526,075)	(1,104,310)	(854,916)	(720,033)
Including: Research and development costs	***(1,595,312)***	*(1,368,192)*	*(1,055,329)*	*(852,788)*	*(696,038)*
Finance costs	**(77,945)**	(76,648)	(64,693)	(34,241)	(1,982)
Share of profits and losses of associates	**409,076**	297,495	263,641	267,592	188,666
PROFIT BEFORE TAX	**4,195,839**	3,203,491	2,791,508	2,225,653	1,693,626
Income tax expenses	**(542,292)**	(474,984)	(431,933)	(349,716)	(281,055)
PROFIT FOR THE YEAR	**3,653,547**	2,728,507	2,359,575	1,875,937	1,412,571
Attributable to:					
Owners of the parent	**2,170,951**	1,637,378	1,441,754	1,202,292	821,850
Non-controlling interests	**1,482,596**	1,091,129	917,821	673,645	590,721
	3,653,547	2,728,507	2,359,575	1,875,937	1,412,571
TOTAL ASSETS	**20,935,339**	18,383,922	13,803,796	11,339,500	7,786,147
TOTAL LIABILITIES	**(8,324,290)**	(7,706,144)	(5,061,660)	(4,279,598)	(2,142,503)
NET ASSETS	**12,611,049**	10,677,778	8,742,136	7,059,902	5,634,644
NON-CONTROLLING INTERESTS	**(3,402,255)**	(2,772,779)	(2,251,614)	(1,752,927)	(1,334,768)

Report of Directors

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital and share options (if any) during the year, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements.

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, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in notes 33 and 41 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December, 2017, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and after taking into account for the proposed final dividend of approximately RMB146,131,000 (2016: approximately RMB95,150,000), amounted to approximately RMB3,601,303,000 (2016: approximately RMB2,676,456,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group strives to implement its environment friendly policies through efficient use of resources and active adoption of measures to reduce environmental impacts. An environmental, health and safety management system has been established to conduct environmental impact assessment of new production facilities at the major subsidiaries of the Company. During the production process, the Group has implemented procedures on energy conservation, emission reduction, waste water and solid waste disposal for environmental protection. The Group has also encouraged staff to be environmental friendly by consuming electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. Through such policies and compliance with applicable environmental laws and regulations, the Group continues to improve its environmental performance to achieve sustainable development.

The Company will publish an Environmental, Social and Governance Report in accordance with Rule 13.91 and the reporting guide contained in Appendix 27 to the Listing Rules no later than 3 months from the publication of this Annual Report.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that stakeholder interests play a key role in its sustainable business operation and has maintained effective communications with its key stakeholders, including customers, suppliers and employees to strengthen relationships and co-operations for the long-term development of the Group.

The customers of the Group comprises distributors and hospitals. The Group actively promotes and obtain feedbacks on its products by organizing seminars and new product launching conferences. After-sale services are provided through telephone consultation and complaint handling. The Group is devoted to provide quality products and services to promote long-term co-operation with its customers so as to increase market share and improve market competitiveness.

The Group adopts a scientific approach in managing its suppliers through a standardized supplier management system with improved procurement tender mechanism. Annual evaluation on suppliers are conducted to ensure that services and products procured meet the requirements of the Group.

Employees are considered to be the most important and valuable assets of the Group. The objective of the Group's human resources management is to reward and recognize employees by providing competitive remuneration packages and implementing a sound performance evaluation system, and to promote career development and progression within the Group by providing adequate training and opportunities. A healthy, safe and happy working environment is also provided through the safety management system, cultural and sports activities and health examinations.

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

The Group operates its business through its subsidiaries in the PRC and accordingly, relevant laws and regulations in the PRC applicable for the research, development, manufacturing, sales and distribution of pharmaceutical products, including but not limited to the laws and regulations on quality, safety, production, environmental protection, intellectual property and labour, shall be complied with. In addition, as a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange, the Company is governed by the Companies Law of the Cayman Islands, as well as the Listing Rules and the Securities and Futures Ordinance.

During the year ended 31 December 2017, to the best knowledge of the Board, the Group does not have any incidence of non-compliance with the relevant laws and regulations that would have a significant impact on the Group's business and operations.

Report of Directors

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Miss Tse, Theresa Y Y
Mr. Tse Ping
Ms. Cheng Cheung Ling
Mr. Tse Hsin
Mr. Wang Shanchun
Mr. Tian Zhoushan
Ms. Li Mingqin

Independent non-executive directors:
Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Lu Hong
Mr. Zhang Lu Fu

In accordance with article 87 of the Company's articles of association, Mr. Tse Ping and Ms. Li Mingqin will retire by rotation and, being eligible, offer themselves for re-election at the AGM.

Each of the independent non-executive directors is appointed for a term of two years subject to retirement by rotation and re-election at the AGM, in accordance with the Company's articles of association. Thus, Mr. Lu Zhengfei and Mr. Li Dakui will retire by rotation and, being eligible, offer themselves for re-election at the AGM.

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to the independence guidelines under the Listing Rules and that the Company considers such directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 49 to 57 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

At 31 December, 2017, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company

		Number of shares held, capacity and nature of interest				
Name of Director	Notes	Capacity/ Nature of interest	Directly beneficially owned	Through controlled corporations	Total	Approximate percentage of the Company's issued share capital
Mr. Tse Ping	(1)	Beneficial owner	140,400,000	1,082,126,722	1,222,526,722	16.49%
Ms. Cheng Cheung Ling	(2)	Beneficial owner	63,371,000	1,800,000,000	1,863,371,000	25.14%
Mr. Tse Hsin		Beneficial owner	61,257,000	–	61,257,000	0.83%

Notes:

(1) Mr. Tse Ping held 1,082,126,722 shares through Validated Profits Limited, the entire issued share capital of which is owned by Mr. Tse Ping.

(2) Ms. Cheng Cheung Ling held 1,050,000,000 shares and 750,000,000 shares of the Company through Chia Tai Bainian Holdings Limited and Remarkable Industries Limited, respectively. The entire issued share capital of each of the companies is owned by Ms. Cheng Cheung Ling.

Long position in shares of associated corporations of the Company

Name of Director	Name of associated corporation	Note	Capacity	Number of shares	Approximate percentage of shareholding
Miss Tse, Theresa Y Y	Beijing Tide	(1)	Interest in controlled corporation	288,000,000	57.6%
Mr. Tse Hsin	CT Tianqing		Beneficial owner	229,250	0.18%
	NJCTT		Beneficial owner	26,583	0.53%

Note:

(1) Miss Tse, Theresa Y Y held interests in France Investment (China 1) Group Limited which indirectly held interests in Beijing Tide.

Saved as disclosed above, as at 31 December, 2017, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

PERSONS WHO HAVE AN INTEREST AND/OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2017, the following persons (not being a Director or chief executive of the Company) had the following interests and/or short positions in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under to Section 336 of the SFO were as follows:

Interests in shares and/or underlying shares

Name	Notes	Capacity/ Nature of Interest	Number of shares and/or underlying shares of the Company	Approximate percentage of issued share capital of the Company
Validated Profits Limited	(1)	Beneficial owner	1,082,126,722 (L)	14.60%
Chia Tai Bainian Holdings Limited	(2)	Beneficial owner	1,050,000,000 (L)	14.17%
Remarkable Industries Limited	(2)	Beneficial owner	750,000,000 (L)	10.11%

Notes:

(1) Validated Profits Limited is an investment holding company wholly-owned by Mr. Tse Ping.

(2) Each of Chia Tai Bainian Holdings Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Ms. Cheng Cheung Ling.

(3) The letter "L" indicates a long position in shares of the Company.

Save as disclosed above, as at 31 December, 2017, no person (not being a Director or chief executive of the Company) had an interest and/or short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the heading "Directors and Chief Executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CONTINUING CONNECTED TRANSACTIONS

During the year, some members of the Group had entered into certain transactions in the ordinary and usual course of business that were previously classified as continuing connected transactions (the "Previous CCTs") in the 2016 annual report of the Company. One or more of the contracting party(ies) of each of the Previous CCTs (the "Counterparty(ies)") is/are subsidiaries of CT Tianqing, which is in turn owned as to 60% indirectly by the Company and 33.5% by Jiangsu State Agribusiness Group Corporation Limited ("Jiangsu Agribusiness"). The Previous CCTs were regarded as connected transactions as the Counterparties were associates of Jiangsu Agribusiness. Nonetheless, pursuant to the application of Rule 14A.18(2)(b) of the Listing Rules, each of the Counterparties no longer falls under the definition of connected person of the Company because Jiangsu Agribusiness is only a connected person at the subsidiary level of the Company and the Previous CCTs are therefore not required to be disclosed in this annual report.

The related party transactions as set out in note 37 to the financial statements are fully-exempt from annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

Save as disclosed below, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December, 2017.

The Company has entered into facility agreement (the "Facility Agreement) on 27 September, 2016 with Bank of China (Hong Kong) Limited (as agent), Hang Seng Bank Limited, Bank of Communications Co., Ltd. Hong Kong Branch, Taipei Fubon Commercial Bank Co., Ltd. and CTBC Bank Co., Ltd. for a three-year unsecured loan in the principal sum of USD300,000,000. As at 31 December, 2017, the outstanding principal owed by the Company under Facility Agreement was USD300,000,000.

Pursuant to the terms of the Facility Agreement, the Company has undertaken, among others, to ensure that there will not be a change of control, being:

(i) a change in the ownership of the Company such that Mr. Tse Ping and his family members, Ms. Cheng Cheung Ling and her family members and Miss Tse, Theresa Y Y and her family members collectively cease to own (directly or indirectly) at least 35% of the issued share capital of the Company; or

(ii) if Mr. Tse Ping ceases to be a member of the Board; or

(iii) if the role of the Chairman of the Company is not taken by a family member of Mr. Tse Ping.

Failure to comply with any of the above undertakings will constitute as an Event of Default (as defined under the Facility Agreement) under the Facility Agreement. If an Event of Default is continuing, the Agent may, and shall if so directed by the Majority Lenders (as defined under the Facility Agreement), by notice to the Company: (a) cancel all or any part of Commitment (as defined under the Facility Agreement); and/or (b) declare that all or part of the Loan Facility, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents (as defined under the Facility Agreement) be immediately due and payable; and/or (c) declare that all or part of the Loan Facility be payable on demand.

Report of Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December, 2017.

UNDERTAKING

Mr. Tse has executed a deed of undertaking (the "Undertaking") in favour of the Company on 9 September, 2003 which has become effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange.

Pursuant to the Undertaking, Mr. Tse has undertaken to the Company that, conditional upon the commencement of trading in the shares on the Main Board, for so long as (i) Mr. Tse, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30 per cent. of the voting rights of the Company (from time to time), and (ii) the shares shall remain traded on the Main Board, neither Mr. Tse nor any of Mr. Tse's Companies (excluding for this purpose the Group) will, within the Territory (as defined below), carry on, become engaged or otherwise become interested (saved through Mr. Tse's interest in the Company) directly or indirectly in, any business which falls within the Restricted Business (as defined below); and

For the purpose of the Undertaking:–

"Mr. Tse's Company(ies)" refers to any of the companies or other entities of which more than 50 per cent. of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse or regarding which companies or entities Mr. Tse is entitled to control the board of directors or management body of similar nature;

"Restricted Business" refers to:–

(i) the R&D, production and sale of biopharmaceutical products for the medical treatment of ophthalmia and osteoarthritis, biopharmaceutical products for external use for the medical treatment of skin diseases, modernized Chinese medicines, chemical medicines and modern health-care products for the medical treatment of hepatitis and angiopathy of cardio-cerebral; and

(ii) the research and development of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory diseases.

"Territory" refers to the PRC (including Hong Kong). The Undertaking does not apply to the following:–

(i) the holding of shares or other securities issued by the Company or any of its subsidiaries from time to time;

(ii) the holding of shares or other securities in any company which carries on, or is engaged or interested directly or indirectly in, any business which falls within the Restricted Business in the Territory, provided that such securities are listed on a stock exchange with regular trading and the total securities held by Mr. Tse and/or his associates do not amount to more than 20 per cent. of the issued shares or other securities of the company in question; and

(iii) the investment by Mr. Tse and/or Mr. Tse's Company in a business in the Territory which falls within the Restricted Business if the opportunity to invest in such business had been offered to and was either rejected by the Company or accepted in part by the Company on the basis of the investment in the balance being taken up by Mr. Tse or Mr. Tse's company, in either case in accordance with paragraph below.

UNDERTAKING (continued)

In the event that Mr. Tse or any Mr. Tse's Company has identified an opportunity to invest (whether by way of the establishment of a new enterprise or the acquisition of existing interests in, or the injection of new capital into, an existing enterprise) in a business in the Territory which falls within the Restricted Business or any pharmaceutical related business in the Territory in which the Group is principally engaged from time to time (excluding any business in which Xian C.P. Pharmaceutical Co., Ltd. and/or Hainan Tigerlily Pharmaceutical Co., Ltd is/are engaged as at the date of the Undertaking) (the "Proposed Business"), Mr. Tse will undertake that he will procure that the said opportunity be first offered to the Company and that all relevant information relating to the Proposed Business in the possession of Mr. Tse and/or any Mr. Tse's Company shall be provided to the Company. The independent non-executive Directors shall have the right on behalf of the Company to determine whether the Group should:–

(i) reject the said opportunity in its entirety; or

(ii) accept the said opportunity in full and proceed with the participation in the Proposed Business; or

(iii) accept the said opportunity in part only on condition that, subject to compliance with any applicable requirements of the Listing Rules, Mr. Tse (including through a Mr. Tse's Company) takes up the balance of the investment upon terms approved by the independent non-executive Directors.

EMOLUMENT POLICY

Including the Directors, the Group had 18,649 employees as at 31 December, 2017. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as share option scheme.

In order to properly reflect the public accountability and time and effort spent on the Board and various committees and meetings, the determination of emoluments of the directors of the Company has taken into consideration of their expertise and job specifications.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company had complied with all the Code Provisions set out in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the year ended 31 December, 2017 except for the deviation from the Code Provision A.6.7 in relation to the attendance of the AGM by the independent non-executive director ("INED"). An INED was unable to attend the AGM held on 22 June, 2017 due to other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the Model Code. Having made specific enquiry of all Directors, it was confirmed that for the year ended 31 December, 2017 all Directors had complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

Report of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Group has complied with Rules 3.10 and 3.10(A) of the Listing Rules relating to appointment of a sufficient number of the INEDs and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed four INEDs including two with financial management expertise. Details of the biographies of the four INEDs have been set out on page 52 of this annual report.

AUDIT COMMITTEE

The Audit Committee is comprised of three INEDs, namely Mr. Lu Zhengfei as the chairman and Mr. Li Dakui and Ms. Lu Hong as the members. It has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the consolidated financial statements of the Company for the year ended 31 December, 2017.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with written terms of reference in accordance with requirement of the Corporate Governance Code. Its primary duty is to make recommendations to the Board in formulating policies on remuneration packages of directors and senior management. The Remuneration Committee has three members comprising Mr. Zhang Lu Fu as the chairman and Mr. Lu Zhengfei and Ms. Lu Hong as the members.

NOMINATION COMMITTEE

The Company has established the Nomination Committee comprising Miss Tse, Theresa Y Y as the chairman and Mr. Tse Ping, Mr. Lu Zhengfei, Ms. Lu Hong and Mr. Zhang Lu Fu as the members with written terms of reference in accordance with the requirement of the Corporate Governance Code. Its primary duty is to formulate nomination polices for Board and recruitment polices of senior management.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tse, Theresa Y Y
Chairlady

Hong Kong
22 March, 2018

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Miss Tse, Theresa Y Y（謝其潤小姐）, aged 25, is the Chairlady of the Board, an Executive Director, and the Chairman of the Executive Board Committee and the Nomination Committee, respectively, of the Company. Miss Tse is also a director of CT Tianqing and the vice chairlady of Beijing Tide. She holds a Bachelor Degree of Science in Economics from the Wharton School of University of Pennsylvania. Throughout her coursework, she focused on the study of Finance and Healthcare. Previously, she worked in the investment, finance and business development departments of several companies. As a new generation business leader, Miss Tse was recognized as one of the "Most Outstanding Business Women in China for 2018" by Forbe China online. Miss Tse is the daughter of Mr. Tse Ping and Ms. Cheng Cheung Ling, both being Executive Directors and substantial shareholders of the Company, and she is also a niece of each of Mr. Tse Hsin, an Executive Director of the Company, Ms. Chia Fai, Miss Tse Wun, and Mr. Tse Hsuan, Johnny, all being senior management of the Company.

Mr. Tse Ping（謝炳先生）, aged 66, is the founder of the Company and now serves as the Chief Executive Officer of the Company. He is responsible for the overall operations of the Group. With more than 25 years of extensive experience in investment and management in the pharmaceutical industry in China, he is currently a director of CT Tianqing, NJCTT, Jiangsu CT Fenghai, Jiangsu CT Qingjiang, Qingdao CT, and Beijing Tide. He is also a director of Shanghai Fortune World Development Co., Ltd., Tianjin Chiatai Feed Tech Co., Ltd., SYN Energy Technology Co., Ltd. and Chia Tai Oversea Chinese Realty Development Co., Ltd., and a non- executive director of Tianjin Binhai Teda Logistics (Group) Corporation Limited, the shares of which are listed on GEM Board of the Stock Exchange. Mr. Tse still acts as a director of Chia Tai Qingchunbao Pharmaceutical Co., Ltd. and a council member of the Association of Pharmaceutical Biotechnology of China.

Soon after the adoption of the open-up and reform policy by China, Mr. Tse started to develop his investment and business in China. He has been engaged in the pharmaceutical industry since 1991, having made equity investments in a dozen or so enterprises, and is one of the most successful overseas investors in the PRC pharmaceutical industry. Led by Mr. Tse, CP Pharmaceutical Group now has developed to a large integrated pharmaceutical enterprise, and its Hong Kong listed flagship Sino Biopharmaceutical Limited owns a number of national key high-technology enterprises. Adhering to the concept of technology innovation and building upon R&D system based on imitation as well as originality, the Group strives to develop international level, high-end biological drugs and innovative drugs and to achieve breakthroughs in different areas including medical services, medical equipment, and mergers and acquisitions, and becomes an innovation driven pharmaceutical enterprise with its business encompassing a fully integrated chain which spans from R&D to manufacture and sales of pharmaceutical products. In 2017, Sino Biopharmaceutical Limited continued to break its own record in terms of revenue and net profit, and was ranked one of the "2017 Asia's Fab 50 Companies" by Forbes Asia, while its subsidiary was awarded the first place of "2017 Best Industrial Enterprise in the R&D of the Pharmaceutical Product Line in the PRC" by the China National Pharmaceutical Industry Information Center and ranked the first in the list of "Drug Development Capabilities in the PRC" jointly complied by www.yaozh.com and the China Pharmacy Journal.

As a recognition for his efforts in promoting the development of the pharmaceutical industry in China, Mr. Tse was awarded a number of honours, including the prize of "World Outstanding Chinese" and an honorary Doctor Degree by the University of West Alabama, United States of America in January, 2008, the "2007/2008 Asian Knowledge Management Association academician" granted by the Asian Knowledge Management Association in December, 2008, and the "The Top Ten Most Leading Innovative Persons of the PRC Enterprises in 2010" jointly granted by the PRC Productivity Society and the PRC Corporation Press in June, 2010.

Mr. Tse was a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People's Political Consultative Conference. He is currently the executive vice chairman of the China Overseas Chinese Entrepreneurs Association and the executive vice chairman of Beijing Private Sci-Tech Promotion Association.

Mr. Tse is the father of Miss Tse, Theresa Y Y, the Chairman of the Board, and a first cousin of Mr. Tse Hsin, an Executive Director of the Company. He is also the brother of Ms. Chia Fai and a first cousin of Miss Tse Wun and Mr. Tse Hsuan, Johnny, all being senior management of the Company.

Directors and Senior Management Profile

Ms. Cheng Cheung Ling（鄭翔玲女士）, aged 54, is the Vice Chairlady of the Board, an executive director, and a member of the Executive Board Committee of the Company. Ms. Cheng graduated from the Guanghua School of Management of Peking University and obtained a Master Degree in Business Administration. She is a clinician. Ms. Cheng has extensive experience in and a discerning vision for management and investment in the pharmaceutical industry. She spares no effort in promoting innovation and R&D capabilities in the industry. She is the chairman of Beijing Tide. Being at the helm of Beijing Tide, Ms. Cheng advocates for innovations in R&D, production, sales, and management, and has led Beijing Tide to step up its efforts in developing international collaboration, with an aim to promote rapid development of cutting-edge technologies for medical products in China, and to give top priority to quality control, considering product quality as the lifeblood of the company. Under her leadership, Beijing Tide has achieved tremendous growth, riding on internationalization and innovation. Beijing Tide has become a leading company for the development of targeted drugs in China, being ranked one of the "Top 50 Pharmaceutical Companies in China" (based on data of Ministry of Industry and Information Technology for 2016) and the 4th place of "Pharmaceutical Industry Enterprises with Most Investment Value in the PRC" (awarded by National Pharmaceutical Industry Information Annual Conference 2017).

Over the years, Ms. Cheng is committed to facilitating communication and trade between Mainland China and Hong Kong, and has done remarkable work for the purposes of promoting national cohesion and attracting investments in Hong Kong and Mainland China. She is also a devoted charity supporter, actively participating in and caring for community philanthropy. Public offices held by Ms. Cheng include being a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference, the president of Hong Kong Belt & Road General Chamber of Commerce, the chairlady of the Friendship Association of the Political Consultative Conference (Hong Kong Provincial Committee), the vice chairlady of the Friendship Association Foundation of the Political Consultative Conference (Hong Kong Provincial Committee), a member of Standing Committee of All-China Federation of Industry and Commerce, a member of the Eighth, Ninth, Tenth and Eleventh Standing Committees of the Shaanxi Province Chinese People's Political Consultative Conference (and the convenor of its committee members in Hong Kong), a member of the Standing Committee of the China Overseas Friendship Association, the vice president of the Shaanxi Province Federation of Industry and Commerce, the honorary president of Qin Merchant Federation of Shaanxi Province, the vice chairlady of the Development Fund of the Friends of Hong Kong Association, the president of the Hong Kong Shanxi Friendship Association, the vice president of the China Female Entrepreneurs Association, and the vice president of the Beijing Private Sci-Tech Promotion Association. She is the mother of Miss Tse, Theresa Y Y, the Chairlady of the Board.

Mr. Tse Hsin（謝炘先生）, aged 48, is an Executive Director and a vice president of the Company. He is mainly responsible for the acquisition and merger activities of the Group. He is also the Group's spokesman. Mr. Tse Hsin graduated from the University of Hong Kong with a Bachelor's Degree (Honors) in Industrial Engineering. He joined the Group in August, 1995 as an assistant to the president of the Company and served as the general manager of Xian C.P. Pharmaceutical Co., Ltd. Mr. Tse Hsin is a council member of the first council and the executive council member of the second council of Chaozhou Natives Chamber of Commerce Beijing. He is also an executive member of the Right Protection Association for the Medical Treatment Equipment Enterprises of the Shaanxi Province, the vice chairman of the fourth council of the Foreign Invested Enterprises Association of the Shaanxi Province, the executive member of the third committee of the Shaanxi Cancer Fighting Association and the vice chairman of the World Chinese Medicine and Pharmaceutical Professional Joint Committee. He was also awarded the "Outstanding Management Award for Foreign-invested Enterprises of Shaanxi Province" and "Outstanding entrepreneur who cares about his staff" by the Shaanxi Provincial Government. He was an executive director of Beijing Tide. He is currently a director of CT Tianqing, NJCTT, and Qingdao CT and the president of Chia Tai Shaoyang Orthopedic Hospital. He is an uncle of Miss Tse, Theresa Y Y, the Chairlady of the Board, and a first cousin of Mr. Tse Ping, an Executive Director and a substantial shareholder of the Company. He is also the brother of Miss Tse Wun and a first cousin of Ms. Chia Fai and Mr. Tse Hsuan, Johnny, all being senior management of the Company.

Directors and Senior Management Profile

Mr. Wang Shanchun (王善春先生), aged 50, is the president of CT Tianqing. He graduated from Nanjing University of Chemistry in July, 1990 and joined CT Tianqing in the same year. Mr. Wang studied pharmaceutical engineering with Tianjin University from 1999 to 2002 and obtained a Master Degree. Mr. Wang has extensive management experience in the PRC pharmaceutical field. His design of the new production plant of CT Tianqing in Haizhou achieved a number of innovations in the country and obtained the first new edition national GMP certificate. He was awarded as a Jiangsu Province Technology Advanced Worker, a Jiangsu Province Model Labour, a winner of the Shanghai Technology Advancement First Honour Award, a Jiangsu Province Outstanding Entrepreneur, a Jiangsu Province Young and Middle-aged Expert with Outstanding Contribution, a Jiangsu Advanced Individual with Outstanding Contribution in Manufacture, and a National Distinguished Leader in Pharmaceutical Quality Management, and was elected as a delegate to Committee of the 13th Chinese People's Political Consultative Conference of Jiangsu Province.

Mr. Tian Zhoushan (田舟山先生), aged 54, joined the Group in April, 1997 and is responsible for the business of NJCTT. Mr. Tian is currently the general manager of NJCTT. Mr. Tian completed MBA coursework in Nanjing University. He was the head of production, the assistant to the president, and the vice president of CT Tianqing, and has 29 years of experience in the pharmaceutical industry.

Ms. Li Mingqin (李名沁女士), aged 59, is currently a vice president of the Company and a director of Beijing Tide, Chia Tai Shaoyang Orthopedic Hospital and CP Boai Investment Ltd., and is principally responsible for the investment affairs of the Group. Ms. Li graduated from the Faculty of Medicine of Beijing Chinese Medicine University with a Bachelor Degree in medicine. Prior to joining the Company, Ms. Li had worked in Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in teaching of medicines, development of new medicines and medicine management. During the period from 1992 to 1995, Ms. Li had been engaged in post-doctorate research in the Medicine School of University of Colorado, USA and the Medical College of the University of Massachusetts. Ms. Li joined the Group in March, 1997 and has 35 years of experience in the pharmaceutical industry.

Directors and Senior Management Profile

Independent Non-executive Directors

Mr. Lu Zhengfei (陸正飛先生), aged 54, is an independent non-executive director of the Company and is the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. He received a P.h.D. Degree in Economics (financial management). Mr. Lu is currently a Distinguished Professor of Chang Jiang Scholars and supervisor of doctoral students of the Guanghua School of Management of Peking University. He had previously held various senior positions in the Department of Accounting of both Peking University and Nanjing University. He is a standing council member of the China Accounting Association and the deputy director of its Financial Management Committee and was also an expert consultant of the China Financial Accounting Standards Board, Ministry of Finance. Mr. Lu is the editor of several accounting and finance journals and has issued various publications. He is an independent non-executive director of Bank of China Limited, China National Materials Company Limited and Sinotrans Limited and an independent supervisor of PICC Property and Casualty Company Limited, shares of all four companies being listed on the Stock Exchange.

Mr. Li Dakui (李大魁先生), aged 74, joined the Company as an independent non-executive director and a member of the Audit Committee of the Company in September, 2004. He graduated from the Faculty of Pharmacy of Beijing Medical University (now known as the School of Pharmaceutical Sciences of Beijing University) in 1965, and obtained a Master Degree in Pharmaceutics from Peking Union Medical College ("PUMC") in 1982. He used to be the chief pharmacist of PUMC Hospital (retired in 2013) and the director of Pharmacy Department of PUMC Hospital for years. Mr. Li was a vice president of the Chinese Pharmaceutical Association, the Chairman of the Committee of Hospital Pharmacy Branch of Chinese Pharmaceutical Association and the vice chairman of the Chinese Practicing Pharmacist Association. He is currently an advisory member of the Chinese Pharmaceutical Committee and a vice president of the Beijing Pharmaceutical Association.

Ms. Lu Hong (魯紅女士), aged 48, joined the Company as an independent non-executive director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company in April, 2015. Ms. Lu has over 20 years of experience in accounting, financial management, company secretary and domestic and overseas capital operations fields. She is a member of the Chinese Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Lu has extensive knowledge of PRC and international accounting standards and the listing rules and regulations of both Hong Kong and PRC. She has been in charge of or involved in the entire process of the listing of multiple corporations in the PRC, Hong Kong, Singapore and the United States of America and quite a number of foreign and domestic investment and financing operations as well as mergers and acquisitions. She is familiar with financial analysis, budgeting, financial management and tax planning. She also has expertise in dealing with complex financing and taxation matters. Ms. Lu is an independent non-executive director of Huan Yue Interactive Holdings Limited which is listed on the Stock Exchange.

Mr. Zhang Lu Fu (張魯夫先生), aged 61, joined the Company as an independent non-executive director and the chairman of the Remuneration Committee and a member of the Nomination Committee of the Company in April, 2015. Mr. Zhang holds a Master Degree in Philosophy from the Beijing Normal University, and is currently a research associate and a part-time professor. Mr. Zhang has been working for multiple sectors of the Chinese government since 1987, including the Hong Kong branch of the Xin Hua News Agency (now known as Liaison Office of the Central People's Government in Hong Kong). Mr. Zhang has worked for a number of Hong Kong listed companies and charitable organizations on full-time and part-time bases. Mr. Zhang is a council member of the China Overseas Friendship Association, a standing council member of the Guangdong Overseas Friendship Association, a standing council member of the Shenzhen Overseas Friendship Association, a member of the Shenzhen Committee of the 4th Chinese People's Political Consultative Conference, and a part-time professor of the Hong Kong Academy of Management. Mr. Zhang is an independent non-executive director of Kingboard Laminates Holdings Limited and CT Environmental Group Limited, both being listed on the Stock Exchange.

Directors and Senior Management Profile

SENIOR MANAGEMENT

Mr. Zhang Xiquan (張喜全先生), aged 48, is a vice president in R&D of CT Tianqing and the director of the CT Tianqing R&D Institute. Mr. Zhang graduated from the chemistry department of Nankai University with a Master of Science degree in 1994. He takes charge of a number of studies of new drugs with expertise in drug candidate selection and joint development with collaborators. Mr. Zhang joined CT Tianqing in April, 1997. Being a leader of R&D of CT Tianqing, he was inducted into talents development programmes including Jiangsu Province Young and middle aged Experts with Outstanding Contribution, Six Categories of Talents Summit, and Jiangsu Province 333 Talents Project, and was awarded the National Technology Advancement Second Honour Award, the Jiangsu Province Technology Advancement Second Honour Award, and the Shanghai Technology Advancement Second and Third Honour Awards.

Ms. Li Chunling (李春玲女士), aged 46, is a vice president in finance of CT Tianqing, and is responsible for finance and informatization of CT Tianqing. Ms. Li joined the Group in 1996, worked in audit department and finance and accounting department of the Group, and was an accounting manager of the Group. Ms. Li graduated from Guizhou College of Finance and Accounting. She had worked in audit firms and served as a team in-charge for social auditing of projects. Ms. Li has over 20 years of experience in finance and accounting, and is a certified accountant in the PRC.

Mr. Tang Zhaocheng (唐兆成先生), aged 51, is a vice president of CT Tianqing, responsible for the affairs of the Party and labour union of CT Tianqing, and the general manager of LYG Runzhong. Mr. Tang joined CT Tianqing in April, 1997. He has a professional qualification in chemical engineering. Mr. Tang has been engaged in medicine production for more than 20 years, and has extensive experience in pharmaceutical production, quality control, and process advancement. He was awarded as a National Advanced Individual in Quality Control and a Jiangsu Province Outstanding Entrepreneur and was granted special allowance by the Lianyungang government.

Mr. Zhang Jie (張杰先生), aged 47, is a vice president of CT Tianqing. He graduated from Nanjing University and holds an MBA degree. Mr. Zhang joined the Group in April, 1997 and is responsible for policy matters, human resources, legal affairs, and public relations of CT Tianqing. He holds positions in a number of pharmaceutical profession associations and has rich research results on national medicines policies, in particular the policies for medical insurance and healthcare reform.

Mr. Li Jinming (李金明先生), aged 53, is a vice president of CT Tianqing. Mr. Li studied pharmacology major at Chinese Pharmaceutical University, and holds an MBA degree awarded by Sun Yat-sen University. Mr. Li joined the Group in June, 2006 and is in charge of marketing, planning, medical, and training affairs. He had worked as major district manager and deputy general manager in two well-known pharmaceutical enterprises in the PRC and has extensive sales and team management experience.

Mr. Hu Fangzhui (胡方墜先生), aged 45, is a vice president of CT Tianqing and is in charge of the finance and accounts sharing centre. Mr. Zhang graduated from the finance department of Nanjing University of Finance & Economics in July, 1995. Mr. Hu joined the Group in April, 1999, and has nearly 20 years of work experience. He has participated in and led many finance information platform projects and has extensive experience in management practices and finance informatization.

Mr. Zhuang Xinglong (莊興龍先生), aged 48, is a vice president of CT Tianqing. He graduated from Heilongjiang University of Chinese Medicine and holds a Bachelor degree in Chinese medicine. Mr. Zhuang joined the Group in April, 1997 and is currently the secretary of the board of CT Tianqing, being responsible for the affairs related to the board of directors of CT Tianqing as well as performance management, investment management, and strategic planning. He is also the president of Lianyungang Chia Tai Tianqing Medicines Co., Ltd. and Suzhou Tianqing Xingwei Medicines Co., Ltd., being in charge of the management of those wholly or non-wholly owned investees of CT Tianqing engaged in drugs distribution.

Mr. Wang Xiangjian (王祥建先生), aged 47, is a vice president of CT Tianqing. He graduated from Nankai University and holds a Bachelor degree in molecular biology. Mr. Wang joined the Group in April, 1997 and is responsible for clinical monitoring and new medicine registration of CT Tianqing R&D Institute. He was inducted into the Lianyungang 521 talents development programme.

Mr. Wang Hong (王宏先生), aged 54, is the general manager of channel division of CT Tianqing. Mr. Wang graduated from Shanghai Medical University with a Master degree in medical science in 1991, and also holds an MBA degree from the Business School of the National University of Singapore. Mr. Wang joined the Group in December, 2002, and was a director of marketing and a deputy general manager. He had been the Derm Franchise Sales Manager of Xian-Janssen Pharmaceutical Ltd. for 8 years. Mr. Wang has more than 20 years of experience in sales.

Directors and Senior Management Profile

Mr. Cai Fajun（蔡發軍先生）, aged 48, is the general manager of the sales department (division 1) of CT Tianqing. Mr. Cai studied drug analysis in Wuxi Medicine College and graduated from the Beijing Technology and Business University with a Bachelor degree in management. Mr. Cai joined the Group in April, 1997, and had been working in production and sales departments. He has nearly 30 years of practical experience in medicine production and sales, and has shrewd market acumen and rich sales and management experience.

Mr. Yao Qiang（姚強先生）, aged 46, is the general manager of the sales department (division 2) of CT Tianqing. He graduated from East China University of Science and Technology and holds an MBA degree. Mr. Yao joined the Group in April, 1997 and had been a sales director and a duputy general manager. He has extensive practical experience in sales and management, with advanced team management concepts and innovative sales management means.

Mr. Shi Wenjun（石文俊先生）, aged 45, is the general manager of the sales department (division 3) of CT Tianqing. Mr. Shi studied Chinese Language in Nanjing Normal University and obtained a Master degree in human resources management from Xiamen University. Mr. Shi joined the Group in April, 1997 and had been a director and a deputy general manager. He has over 20 years of experience in sales and management of pharmaceutical products, having shrewd sense of market conditions and insightful and precise views.

Mr. Kong Tai（孔泰先生）, aged 47, is the managing director of Beijing Tide. He is a member of the Chinese People's Political Consultative Conference (Beijing Daxing District), a deputy chairman of each of the All-China Federation of Industry and Commerce for Pharmaceuticals, China Pharmaceutical Industry Association, and Beijing Pharmaceutical Profession Association, an executive council member of Chinese Hospital Association, and a visiting professor of Heilongjiang University of Chinese Medicine. Mr. Kong graduated from Heilongjiang University of Chinese Medicine with a Bachelor degree. Mr. Kong joined Beijing Tide in February, 2013 as the managing director. He has ample practical management experience, and was recognized as a Best Leader in Pharmaceutical Fields in the World（普強獎）, a Leading Figure of Innovative Engineering – Beijing Yiqilun, one of the Top 10 Innovative Persons in the Pharmaceutical Industry in China for 2014 and 2015, an Influential Person in the Industry for 2016, and one of the Top 10 Leading Figures in the Pharmaceutical Industry in China for for 2016.

Mr. Zhang Zhenqian（張震乾先生）, aged 48, is the executive deputy general manager of NJCTT. He is an engineer and holds an MBA degree. Mr. Zhang joined the Group in April, 1997 and is responsible for marketing and sales and operations of NJCTT. Graduated from Xuzhou College of Engineering, Mr. Zhang has completed the studies in EMBA program of Guanghua Management School of Peking University. Mr. Zhang was a branch manager and a major district manager of CT Tianqing and has over 20 years of experience in pharmaceutical industry.

Mr. Wang Kuanqi（王寬起先生）, aged 51, is the senior deputy general manager of NJCTT and is in charge of production. Mr. Wang graduated from Changzhou Chemical Institute with the profession qualification in organic synthesis. He joined CT Tianqing in 1988. He holds a Bachelor degree in pharmacology from China Pharmaceutical University and an EMBA degree from both of Shanghai Fudan University and National Taiwan University. He was a team leader and an officer of production lines, a production manager and an assistant to general manager.

Mr. Zhang Ling（張翎先生）, aged 44, is a deputy general manager and the secretary to the board of directors of NJCTT, being responsible for human resources and board related affairs. Mr. Zhang graduated from the refined chemicals department of Zhengzhou Food Institute (now known as Zhengzhou Institute of Engineering) with a Bachelor degree in engineering. Mr. Zhang joined NJCTT in September, 2002, having served as a director of the general manager office, human resources director, assistant to general manager, etc., and has been the secretary to the board of directors since then. He has more than 10 years of experience in administration and human resources management, with profound knowledge of human resources management.

Mr. Wang Hongqi（王紅旗先生）, aged 52, is the deputy general manager of NJCTT, and is responsible for business affairs and sales. Mr. Wang graduated from the accounting faculty of Xuzhou School of Supply and Marketing and obtained a MBA degree from Nanjing University. Mr. Wang joined the Group in July, 2002 and had been its branch manager, major district manager, and sales director. He has rich experience in sales management, with nearly 20 years of experience in pharmaceutical sales.

Directors and Senior Management Profile

Mr. Zhang Yangqing（張揚清先生）, aged 49, is currently a deputy general manager of finance department of NJCTT. He graduated from the engineering management faculty of Central South University with a Bachelor degree in industrial engineering management in 1990. He is a senior accountant, a certified accountant and a practicing registered real estate appraiser. He was a member of National Development and Reform Commission of Ziyang District of Yiyang City in Hunan Province, a civil servant of Housing Administrative Bureau of Yiyang City, an audit manager of Hunan Kaiyuan CPA, a financial controller of Chengdu Jiuzhitang Jinding Pharmaceutical Ltd., a deputy head of finance department and a director of marketing centre of Jiuzhitang Co., Ltd., the head of audit department of CT Tiangqing, a finance manager of the Group, and a deputy general manager of finance department of Jiangsu CT Fenghai.

Mr. Wang Minggang（王明剛先生）, aged 61, is a Master degree postgraduate, a practicing doctor and a senior engineer, and is the vice president and the general manager of Qingdao CT. Mr. Wang joined the Group in September, 2008. He had worked in some large domestic and foreign pharmaceutical companies and was the general manager of Qingdao Haier Pharmaceutical Co. Ltd and the head of the biological division of the Haier Group. He has more than 30 years of management experience in pharmaceutical industry. Mr. Wang is the chairman of Qingdao Pharmaceutical Profession Association, a vice chairman of the Shandong Province Pharmaceutical Profession Association, as well as a delegate to the Committee of the 15th and 16th Chinese People's Political Consultative Conference of Qingdao City. Mr. Wang has received various recognitions in recent years, such as Qingdao Distinguished Talent, Shandong Province Technology Advancement Second Honour Award, Qingdao Technology Advancement Third Honour Award, and Shangdong Province Invention and Entrepreneurship First Honour Award.

Mr. Chen Yangsheng（陳陽生先生）, aged 50, graduated from chemistry department of Wuhan University and is a postgraduate student, a practicing pharmacist, and a research associate. He is a deputy general manager of R&D of Qingdao CT. Mr. Chen was engaged in new drugs development with the National Institute of Pharmaceutical Research and Development Center after his graduation in 1993, and joined the then Qingdao Haier Pharmaceutical Co. Ltd. as the head of R&D in 1998. He has 25 years of experience in new drugs development and management. Mr. Chen is a review expert of the national provincial level technology projects, an executive vice chairman of the medicinal chemistry specialist committee of Qingdao Pharmaceutical Association, and a council member of Qingdao Marine Biomedical Technology Innovation Center. Awards and recognitions received by Mr. Chan in recent years include Qingdao Municipal Government Expert Special Allowance, Shandong Province Technology Advancement Second Honour Award, Qingdao Technology Innovation Second Honour Award, and Qingdao Technology Advancement Third Honour Award.

Ms. Ren Li（任莉女士）, aged 45, graduated from medicinal chemistry faculty of Ocean University of China and is a PhD fellow, a practicing pharmacist, and a senior engineer. She is the general manager of Qingdao CT. Ms. Ren joined the then Qingdao Haier Pharmaceutical Co. Ltd. in 1997 after her graduation, responsible for new drugs development, and had been its head of R&D, the head of marketing, and a deputy general manager. She has gained more than 20 years of experience in pharmaceutical industry for new drugs development and management. Ms. Ren is an executive vice chairman of the marine medicine specialist committee of Qingdao Pharmaceutical Association, an executive vice chairman of the medicine engineering specialist committee of Qingdao Pharmaceutical Association, and an executive member of the editorial board of the Chinese Journal of Osteoporosis. Awards and recognitions received by Ms. Ren in recent years include Distinguished Talent of Qingdao Xihaian New District, Shandong Province Technology Advancement Second Honour Award, and Qingdao Technology Advancement Third Honour Award.

Mr. Xia Wenyu（夏文余先生）, aged 49, has a professional qualification in finance and accounting discipline at tertiary education level and is a Senior Economist. He graduated from the post-graduate MBA programme of the Renmin University of China. He has been the general manager and a director of Jiangsu CT Fenghai since September, 2014 and previously served as the head of finance department, deputy head of corporate restructuring committee, manager of financial planning department, board secretary, assistant to general manager and manager of logistic department, sales director, and deputy general manager of Jiangsu Fenghai. He has ample experience in corporate management, marketing, human resources and financial management and has over 30 years of experience in the pharmaceutical industry. He is the vice president of the Jiangsu Province Pharmaceutical Profession Association and a standing council member of the China Price Association and the Jiangsu Province Medical Insurance Committee.

Mr. Liu Haihua（劉海華先生）, aged 54, is a deputy general manager of Jiangsu CT Fenghai, the president of its labour union, and a senior engineer. Mr. Liu studied chemistry in university, completed a postgraduate MBA programme of Renmin University of China, and in 2007, took part in the Thousand Talents programme of the Jiangsu Province in Hong Kong. He had been the head of equipment, the head of production, an assistant to factory director, a deputy sales director, and a deputy director of production quality control. With 20 years' experience in management, he has profound knowledge in production quality control, corporate management, and project management, and has published various articles in major national journals.

Directors and Senior Management Profile

Mr. Zhu Yongqiang（朱永強先生）, aged 41, is a PhD fellow and a professor in medicinal chemistry. Mr. Zhu obtained a doctoral degree from Peking University School of Pharmaceutical Studies and had been engaged in post-doctorate research in the University of Michigan, USA. He has been a deputy general manager of Jiangsu CT Fenghai since December, 2015. He was the vice president and president of the R&D Institute and an assistant to the general manager of Jiangsu CT Fenghai, and had worked as a director of laboratory of medicinal chemistry of Simcere Pharmaceutical Co., Ltd. He has more than 15 years of experience in pharmaceutical industry.

Mr. Zhu Yong（朱勇先生）, aged 51, has been the marketing director of Jiangsu CT Fenghai since 2005, and is mainly responsible for marketing and academic promotion of new products, establishing the brand name of Fenghai and formulating successful marketing strategies for leading and developing market which resulted in the widespread recognition of the image of "New Model of Sugar Infusion Solution" of Jiangsu CT Fenghai by the pharmaceutical industry. In 2008, as a sales vice president, he initiated Jiangsu CT Fenghai's characteristic mixed marketing model with success. In 2011, he was the executive vice president of Jiangsu CT Fenghai, responsible for R&D, marketing and human resources, having set up a drugs R&D centre in Nanjing and established the training system for all levels of staff. In October, 2014, he was appointed as the executive vice president of Jiangsu CT Qingjiang and was responsible for R&D, human resources and office administration. From January, 2015 onwards, he is the general manager and is responsible for overall management of Jiangsu CT Qingjiang, having successfully re-engineered the sales system, proposed the "RMB100 million" strategy for key products, and driven the sales of products like Glucosamine Hydrochloride and Cefaclor and Bromhexine Hydrochloride to exceed the RMB100 million mark. He was awarded a May 1 Labour Medal by the Huian City Peoples' Government in 2015 and recognized as a Jiangsu Province Distinguished Manager for User Satisfaction in 2017.

Mr. Liu Zong（劉宗先生）, aged 53, is a senior engineer and holds a Bachelor degree in science from China Pharmaceutical University. Mr. Liu joined Jiangsu CT Qingjiang (previously known as Jiangsu Province Qingjiang Pharmaceutical Factory) in July, 1989. He was appointed as an assistant to general manager in 2000 and was responsible for quality control and new products development, helping the company obtain the GMP certificate for company relocation smoothly. He has been a deputy general manager and the secretary of board of directors of Jiangsu CT Qingjiang since 2004, being in charge of international trade of medicinal raw materials, product sales, and new products development and having successfully developed overseas market. He has rich experience in pharmaceutical industry.

Mr. Chen Sheng（陳成先生）, aged 38, graduated from the accounting department of Nanjing University of Finance & Economics with a Bachelor degree in management, and is a certified registered tax agent in PRC, a certified accountant and a senior accountant. Mr. Chen joined Jiangsu CT Qingjiang in July, 2012 as an assistant to financial controller and is now a deputy general manager and the financial controller. During his tenure, Mr. Chen actively promotes the transformation and upgrade of finance management services to support sales activities with success. Under his management, the results of the company have continuously improved and the company was ranked as one of the top 50 tax contributors in the region in 2017. Mr Chen has extensive management experience in finance.

Mr. Xu Ziping（徐子平先生）, aged 62, graduated from Tongji University and holds a doctoral degree in engineering management. He is a senior engineer and a senior economist. Mr. Xu joined Shanghai Tongyong Pharmaceutical Co., Ltd. in December, 2016 as the general manager. Mr. Xu had worked in reputable pharmaceutical companies in the PRC as deputy general manager, vice president, and general manager. He has more than 20 years of ample management experience in pharmaceutical industry.

Mr. Wei Yuan（魏源先生）, aged 52, graduated from Macao University of Science and Technology and holds a MBA degree. Mr. Wei is an accountant, and is a member of each of Shanghai Association of Chief Financial Officers and Shanghai Federation of Social Science Association. Mr. Wei joined Shanghai Tongyong Pharmaceutical Co., Ltd. in December, 2016 and is a deputy general manager of operations and the director of audit. He has extensive practical experience.

Ms. Gu Zhaoshu（顧兆姝女士）, aged 58, graduated from East China University of Science and Technology and holds a Master degree in biochemical engineering. She is a senior engineer and holds a practicing pharmacist certificate. Ms. Gu joined Shanghai Tongyong Pharmaceutical Co., Ltd. in April, 2011. She was the director of quality control and is a deputy general manager of manufacture and the factory director. She has more than 30 years of management experience in pharmaceutical industry.

Directors and Senior Management Profile

Ms. Yu Chau Ling (余秋玲女士), is an assistant vice president, the financial controller and the qualified accountant of the Company. She graduated from the University of Hong Kong with a Bachelor degree in social sciences and in 2005 obtained an MBA Degree from The Open University of Hong Kong. She is a fellow member and an associate member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, respectively. Ms. Yu joined the Company in February, 2003 and has extensive working experience in international audit firm and listed companies.

Ms. Cheng Hui (程惠女士), aged 54, is the deputy financial controller of the Company. Ms. Cheng joined the Group in May, 1993 and is responsible for the Group's PRC finance and human resources. She was the head of the finance department in China Construction Bank (Zaozhuang City Branch). Ms. Cheng has 27 years of working experience in finance and accounting. She was awarded the accountancy qualification certificate issued by Ministry of Finance and Ministry of State Personnel, and the ACCA Chinese finance and accounting qualification certificate issued by the Association of Chartered Certified Accountants. Ms. Cheng received international advanced human resources management professional training held by the International Public Management Association for Human Resources (IPMA-HR) and advanced training for PRC financial investment held by the School of Economics of Peking University.

Dr. Ye Wei Nong (葉衛農博士), aged 55, is an assistant president of the Company and general manager of the R&D department. He is responsible for biotechnology development of the Group. He is currently a director of China Biotech & Drug Development Limited and Jiangsu CT Fenghai. In 1983, Dr. Ye graduated from Sun Yat-sen University with a Bachelor degree in biochemistry. In 1989, Dr. Ye obtained a doctoral degree in microbiology from the Institut National des Sciences Appliquees (INSA) de Toulouse of France. He also obtained a certificate of study for the post-graduate MBA programme of food technology and marketing from Ecole Superieure de Commerce (ESC) de Toulouse of France. Prior to joining the Group in July, 2002, he worked in Europe and Hong Kong for biotechnology and pharmaceutical companies. Dr. Ye was a member of the Advisory Committee on Applied Biology and Chemical Technology of The Hong Kong Polytechnic University from February, 2006 to September, 2014. He was a council member of the 8th Subcommittee of Industrial Biochemistry and Molecular Biology under the Chinese Society of Biochemistry and Molecular Biology.

Ms. Chia Fai (謝輝女士), is an assistant to the president and a vice president of the Company. Ms. Chia joined the Group in November, 1991 and has more than 28 years of experience in finance and accounting. Ms. Chia is a director of various companies including Chia Tai Pharmaceutical (Lianyungang) Company Limited, Evon Industries Limited, Talent Forward Limited, Sino Biopharmaceutical (Beijing) Limited and Magnificent Technology Limited.

Ms. Tse Wun (謝瑗小姐), is an assistant to the president of the Company. Ms. Tse joined the Group in November, 1991. She is mainly responsible for administration, finance and investment affairs of the Group's Hong Kong office. Ms. Tse graduated from the University of Oregon with a Bachelor of Science degree. She was formerly a director of Shenzhen 999 Pharmaceutical Co., Ltd. and has more than 20 years of experience in finance and investment.

Mr. Tse Hsuan, Johnny (謝炫先生), aged 48, is the general manager of the Company's information management department. He joined the Group in January, 2003, and is mainly responsible for the development and maintenance of the information system of the Company. Mr. Tse graduated from the University of Oregon with a Bachelor degree in computer science in the United States. He also studied at ESMOD (Ecole International de Mode Paris) in Paris of France with a diploma in fashion design and pattern drafting. Before joining the Company, Mr. Tse worked in Beijing Major Kind Co., Ltd. as a designer and a manager of information department. His design of uniform for air attendants was adopted by Air China.

Mr. Shen Xiaoguang (沈曉光先生), aged 44, is an assistant to president and the general manager of the investment management department of the Company. Mr. Shen participates in business development and management as well as mergers and acquisitions for medical and healthcare projects of the Group. Mr. Shen graduated from the Heilongjiang College of Business with a Bachelor degree in pharmaceutical manufacturing, and also holds an MBA degree from the Business School of Central University of Finance and Economics. He has 19 years of experience in pharmaceutical marketing, product R&D and manufacture, and management and operations of medical projects. Mr. Shen joined the Group in February, 2003.

Mr. Chan Oi Nin Derek (陳凱年先生), aged 50, was appointed as company secretary of the Company in August, 2015. Mr. Chan has nearly 20 years of experience in accounting and auditing and, before joining the Company, was the company secretary of another company listed on the Stock Exchange. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan received a Bachelor of Science degree from the Chinese University of Hong Kong in 1989 and an MBA degree from Monash University in 1995.

Corporate Information

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sinobiopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DATE OF LISTING ON GEM BOARD

29 September, 2000

DIRECTORS

Executive Directors
Miss Tse, Theresa Y Y *(Chairlady)*
Mr. Tse Ping *(Chief Executive Officer)*
Ms. Cheng Cheung Ling *(Vice Chairlady)*
Mr. Tse Hsin
Mr. Wang Shanchun
Mr. Tian Zhoushan
Ms. Li Mingqin

Independent Non-executive Directors
Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Lu Hong
Mr. Zhang Lu Fu

Executive Board Committee
Miss Tse, Theresa Y Y *(Chairlady)*
Mr. Tse Ping
Ms. Cheng Cheung Ling
Mr. Tse Hsin

AUDIT COMMITTEE

Mr. Lu Zhengfei *(Chairman)*
Mr. Li Dakui
Ms. Lu Hong

REMUNERATION COMMITTEE

Mr. Zhang Lu Fu *(Chairman)*
Mr. Lu Zhengfei
Ms. Lu Hong

NOMINATION COMMITTEE

Miss Tse, Theresa Y Y *(Chairlady)*
Mr. Tse Ping
Mr. Lu Zhengfei
Ms. Lu Hong
Mr. Zhang Lu Fu

COMPANY SECRETARY

Mr. Chan Oi Nin Derek

QUALIFIED ACCOUNTANT

Ms. Yu Chau Ling, FCCA, CPA

AUTHORISED REPRESENTATIVES

Mr. Tse Ping
Mr. Chan Oi Nin Derek

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

PRINCIPAL BANKERS

China CITIC Bank International Limited
166 Hennessy Road
Wanchai
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Agricultural Bank of China, Lianyungang Branch
No. 43 North Tong-guan Road, Xinpu
Lianyungang
Jiangsu Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House-3rd Floor.
24 Shedden Road, P.O.Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai
Hong Kong

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Central
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KY1-1111
Cayman Islands

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Beijing
PRC

AUDITORS

Ernst & Young
Certified Public Accountants
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1 Tim Mei Avenue
Central
Hong Kong

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit 01, 24th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

Independent Auditor's Report

EY 安永

TO THE SHAREHOLDERS OF SINO BIOPHARMACEUTICAL LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sino Biopharmaceutical Limited (the "Company") and its subsidiaries (the "Group") set out on pages 65 to 154, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of buildings included in property, plant and equipment	
The buildings of the Group, which represented 5% of the total assets of the Group, were valued at fair value at an amount of RMB1,008 million as at 31 December 2017. Management determines the fair value of the Group's buildings on a yearly basis and used an external appraiser to support the valuation as at 31 December 2017. The valuation of the buildings at fair value is highly dependent on estimates and assumptions, such as replacement cost of new and rate of newness. Given the size and complexity of the valuation of buildings and the importance of the disclosures relating to the assumptions used in the valuation, we identified this as a key audit matter. The Group's related disclosures are included in note 2.4 *Summary of Significant Accounting Policies-Property, plant and equipment and depreciation* and note 13 *Property, Plant and Equipment* to the financial statements.	We evaluated objectivity, independence and expertise of the external appraisal firm. We involved our own internal property valuation experts to assist us to evaluate the valuation methodology and assessed the assumptions and estimates made by management and the external appraiser by comparing the inputs used in the model to externally and internally derived data.
Capitalisation of development costs	
During the year ended 31 December 2017, research and development costs of RMB1,645 million were incurred, of which RMB50 million were capitalised into other intangible assets for the development of new pharmaceutical products. The expenditure on development activities was capitalised when all the criteria mentioned in note 2.4 *Summary of Significant Accounting Policies-Intangible assets (other than goodwill)* were satisfied. Significant management estimation and judgement were required in determining whether the capitalised costs met the capitalisation criteria. The Group's related disclosures are included in note 2.4 *Summary of Significant Accounting Policies-Intangible assets (other than goodwill), note 3 Significant Accounting Judgements and Estimates-Estimation uncertainty* and note 17 Other Intangible Assets to the financial statements.	Our audit procedures included, amongst others, assessing the compliance of capitalisation criteria used by the Group with those mentioned in note 2.4 *Summary of Significant Accounting Policies-Intangible assets (other than goodwill)*, evaluating the management judgement on distinction between research and development phase by reading trial readouts and regulatory announcements, evaluating the management judgement on the satisfaction of criteria through comparison to industry practice, reviewing the expenditure documents relevant to separately accounted development costs, understanding the Group's internal governance and approval process and examining the internal commercial and technical feasibility reports. We also interviewed a range of key management in charge of research, development and commercial.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional 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.

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

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

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

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

Independent Auditor's Report

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

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

The engagement partner on the audit resulting in this independent auditor's report is *Lai Wing Kwong*.

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

22 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 *(Restated)*
REVENUE	5	**14,819,302**	13,543,379
Cost of sales		**(3,090,625)**	(2,816,620)
Gross profit		**11,728,677**	10,726,759
Other income and gains	5	**642,861**	274,531
Selling and distribution costs		**(5,917,879)**	(5,453,137)
Administrative expenses		**(986,945)**	(1,039,434)
Other expenses		**(1,602,006)**	(1,526,075)
Including Research and development costs		***(1,595,312)***	*(1,368,192)*
Finance costs	7	**(77,945)**	(76,648)
Share of profits and losses of associates	18	**409,076**	297,495
PROFIT BEFORE TAX	6	**4,195,839**	3,203,491
Income tax expense	10	**(542,292)**	(474,984)
PROFIT FOR THE YEAR		**3,653,547**	2,728,507
Attributable to:			
Owners of the parent		**2,170,951**	1,637,378
Non-controlling interests		**1,482,596**	1,091,129
		3,653,547	2,728,507
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted		**RMB29.29 cents**	RMB22.09 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000 *(Restated)*
PROFIT FOR THE YEAR	**3,653,547**	2,728,507
OTHER COMPREHENSIVE LOSS		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(264,544)**	75,632
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	**(264,544)**	75,632
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Gains on property revaluation	**82,647**	44,856
Income tax effect	**(14,727)**	(10,646)
	67,920	34,210
Share of other comprehensive (loss)/income of associates	**(943)**	538
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**66,977**	34,748
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(197,567)**	110,380
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,455,980**	2,838,887
Attributable to:		
Owners of the parent	**1,955,372**	1,735,105
Non-controlling interests	**1,500,608**	1,103,782
	3,455,980	2,838,887

Consolidated Statement of Financial Position

31 December 2017

	Notes	**31 December 2017 RMB'000**	31 December 2016 RMB'000 *(Restated)*	1 January 2016 RMB'000 *(Restated)*
NON-CURRENT ASSETS				
Property, plant and equipment	13	**3,483,253**	2,687,355	2,226,104
Investment properties	14	**370,163**	421,494	416,099
Properties under development		**–**	–	443,962
Prepaid land lease payments	15	**789,362**	459,013	271,934
Goodwill	16	**88,926**	88,926	88,926
Other intangible assets	17	**219,249**	181,427	168,448
Investments in associates	18	**1,048,155**	894,714	1,054,578
Available-for-sale investments	19	**540,138**	369,447	308,709
Financial assets designated as at fair value through profit or loss	20	**190,421**	147,926	188,559
Deferred tax assets	30	**382,574**	360,928	180,159
Prepayments	23	**42,979**	40,217	129,356
Total non-current assets		**7,155,220**	5,651,447	5,476,834
CURRENT ASSETS				
Inventories	21	**918,819**	895,133	796,302
Trade and bills receivables	22	**2,051,290**	1,995,827	1,564,204
Prepayments, deposits and other receivables	23	**3,030,718**	3,195,528	1,280,263
Dividend due from an associate		**–**	349,199	–
Available-for-sale investments	19	**2,647,426**	2,122,358	2,027,890
Equity investments at fair value through profit or loss	24	**943,726**	408,557	386,210
Cash and bank balances	25	**4,188,140**	3,765,873	2,272,093
Total current assets		**13,780,119**	12,732,475	8,326,962
CURRENT LIABILITIES				
Trade and bills payables	26	**928,607**	826,734	643,305
Tax payable		**292,595**	193,025	215,572
Other payables and accruals	27	**3,725,942**	3,267,111	2,580,665
Interest-bearing bank borrowings	28	**741,307**	1,369,473	1,190,069
Total current liabilities		**5,688,451**	5,656,343	4,629,611
NET CURRENT ASSETS		**8,091,668**	7,076,132	3,697,351
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,246,888**	12,727,579	9,174,185

Consolidated Statement of Financial Position

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000 *(Restated)*	1 January 2016 RMB'000 *(Restated)*
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,246,888**	12,727,579	9,174,185
NON-CURRENT LIABILITIES				
Deferred government grants	29	**241,912**	201,603	118,704
Interest-bearing bank borrowings	28	**2,209,897**	1,678,968	256,505
Deferred tax liabilities	30	**184,030**	169,230	56,840
Total non-current liabilities		**2,635,839**	2,049,801	432,049
Net assets		**12,611,049**	10,677,778	8,742,136
EQUITY				
Equity attributable to owners of the parent				
Share capital	31	**170,033**	170,033	170,033
Reserves	33	**9,038,761**	7,734,966	6,320,489
		9,208,794	7,904,999	6,490,522
Non-controlling interests		**3,402,255**	2,772,779	2,251,614
Total equity		**12,611,049**	10,677,778	8,742,136

Tse Ping
Director

Tse Hsin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to owners of the parent											
	Note	Share capital RMB'000 (note 31)	Share premium account RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Contributed surplus RMB'000	Reserve funds RMB'000 (note 33)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 11)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016 *(restated)*		170,033	1,128,455	(169,686)	180,767	22,691	1,065,550	(332,940)	4,335,530	90,122	6,490,522	2,251,614	8,742,136
Profit for the year		–	–	–	–	–	–	–	1,637,378	–	1,637,378	1,091,129	2,728,507
Other comprehensive income for the year:													
Surplus on revaluation of buildings		–	–	–	23,323	–	–	–	–	–	23,323	10,887	34,210
Surplus on revaluation of buildings of associates		–	–	–	(4,731)	–	–	–	–	–	(4,731)	–	(4,731)
Exchange differences related to foreign operations		–	–	–	–	–	–	73,866	–	–	73,866	1,766	75,632
Exchange differences related to associates		–	–	–	–	–	–	5,269	–	–	5,269		5,269
Total comprehensive income for the year		–	–	–	18,592	–	–	79,135	1,637,378	–	1,735,105	1,103,782	2,838,887
Contribution from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	5,445	5,445
Disposal of a subsidiary		–	–	–	–	–	–	54,229	–	–	54,229	(350)	53,879
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(587,712)	(587,712)
Final 2015 dividend declared		–	–	–	–	–	–	–	–	(90,122)	(90,122)	–	(90,122)
Interim 2016 dividend	11	–	–	–	–	–	–	–	(285,451)	–	(285,451)	–	(285,451)
Proposed final 2016 dividend	11	–	–	–	–	–	–	–	(95,150)	95,150	–	–	–
Transfer from retained profits		–	–	–	–	–	360,193	–	(360,193)	–	–	–	–
Medical risk reserve		–	–	–	–	–	716	–	–	–	716	–	716
At 31 December 2016 *(restated)*		170,033	1,128,455*	(169,686)*	199,359*	22,691*	1,426,459*	(199,576)*	5,232,114*	95,150*	7,904,999	2,772,779	10,677,778

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to owners of the parent											
	Note	Share capital RMB'000 (note 31)	Share premium account RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Contributed surplus RMB'000	Reserve funds RMB'000 (note 33)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 11)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017		170,033	1,128,455	(169,686)	199,359	22,691	1,426,459	(199,576)	5,232,114	95,150	7,904,999	2,772,779	10,677,778
Profit for the year		-	-	-	-	-	-	-	2,170,951	-	2,170,951	1,482,596	3,653,547
Other comprehensive income for the year:													
Surplus on revaluation of buildings		-	-	-	47,332	-	-	-	-	-	47,332	20,588	67,920
Surplus on revaluation of buildings of associates		-	-	-	4,400	-	-	-	-	-	4,400	-	4,400
Exchange differences related to foreign operations		-	-	-	-	-	-	(261,968)	-	-	(261,968)	(2,576)	(264,544)
Exchange differences related to associates		-	-	-	-	-	-	(5,343)	-	-	(5,343)	-	(5,343)
Total comprehensive income for the year		-	-	-	51,732	-	-	(267,311)	2,170,951	-	1,955,372	1,500,608	3,455,980
Contribution from non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	76,250	76,250
Acquire of equity interests in a subsidiary		-	-	(201,787)	-	-	-	-	-	-	(201,787)	(150,092)	(351,879)
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	(797,290)	(797,290)
Final 2016 dividend declared		-	-	-	-	-	-	-	-	(95,150)	(95,150)	-	(95,150)
Interim 2017 dividend	11	-	-	-	-	-	-	-	(354,814)	-	(354,814)	-	(354,814)
Transfer from retained profits		-	-	-	-	-	451,326	-	(451,326)	-	-	-	-
Medical risk reserve		-	-	-	-	-	174	-	-	-	174	-	174
At 31 December 2017		170,033	1,128,455*	(371,473)*	251,091*	22,691*	1,877,959*	(466,887)*	6,596,925*	-*	9,208,794	3,402,255	12,611,049

* These reserve accounts comprise the consolidated reserves of approximately RMB9,038,761,000 (2016: approximately RMB7,734,966,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 *(Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,195,839**	3,203,491
Adjustments for:			
Finance costs	7	**77,945**	76,648
Share of profits and losses of associates	18	**(409,076)**	(297,495)
Bank interest income	5	**(65,940)**	(21,497)
Interest income on convertible bonds	5	**(17,117)**	(17,379)
Investment income	5	**(266,084)**	(135,739)
Dividend income	5	**(28,270)**	(12,656)
Depreciation of property, plant and equipment	13	**308,175**	284,155
Revaluation deficit/(surplus) of property, plant and equipment	6	**20,271**	(8,486)
Depreciation of investment properties	6	**22,563**	22,265
Recognition of prepaid land lease payments	6	**14,233**	8,267
Amortisation of other intangible assets	6	**12,651**	10,985
(Gain)/loss on disposal of items of property, plant and equipment	5,6	**(1,924)**	13,677
Loss on disposal of subsidiaries	6	**–**	49,588
Fair value (gain)/loss, net:			
Equity investments at fair value through profit or loss – held for trading	5,6	**(54,637)**	28,188
Financial assets designated as at fair value through profit or loss	5,6	**(42,495)**	51,240
		3,766,134	3,255,252
Increase in inventories		**(23,686)**	(98,889)
Increase in trade and bills receivables		**(55,463)**	(431,623)
Increase in prepayments, deposits and other receivables		**(91,185)**	(185,973)
Increase in trade and bills payables		**101,873**	203,728
Increase in other payables and accruals		**458,831**	752,510
Increase in deferred government grants		**40,309**	82,899
Cash generated from operations		**4,196,813**	3,577,904
Profits tax paid		**(464,295)**	(583,039)
Net cash flows from operating activities		**3,732,518**	2,994,865

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 *(Restated)*
Net cash flows from operating activities		**3,732,518**	2,994,865
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**65,940**	21,497
Investment income received		**266,084**	135,739
Dividends received from unlisted investments		**28,270**	12,656
Dividends received from associates		**653,908**	83,209
Purchases of items of property, plant and equipment		**(1,058,124)**	(714,224)
Addition to properties under development		**–**	(64,874)
Increase in available-for-sale investments		**(695,759)**	(143,865)
Decrease/(increase) in wealth management products recorded in other receivables		**152,996**	(1,277,000)
Increase in equity investments at fair value through profit or loss		**(480,532)**	(24,085)
Proceeds from disposal of items of property, plant and equipment		**17,664**	9,274
Additions to other intangible assets		**(50,473)**	(23,974)
Acquisition of associates		**(46,517)**	(20,956)
Loan to an associate		**(3,500)**	–
Acquisition of an equity investment of a subsidiary		**(351,879)**	–
Increase in prepaid land lease payments		**(351,583)**	(90,787)
Increase in long term prepayments		**(2,762)**	(17,791)
Increase in time deposits with original maturity of more than three months		**(232,658)**	(112,430)
Net cash outflow for disposal of subsidiaries		**–**	(6,377)
Proceeds from disposal of a subsidiary		**110,000**	–
Net cash flows used in investing activities		**(1,978,925)**	(2,233,988)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**692,432**	2,648,746
Repayment of bank loans		**(789,669)**	(1,046,879)
Dividends paid		**(449,964)**	(375,573)
Interest paid		**(77,945)**	(76,648)
Dividends paid to non-controlling shareholders		**(797,290)**	(587,712)
Contribution from non-controlling shareholders		**76,250**	5,445
Net cash flows (used in)/from financing activities		**(1,346,186)**	567,379
NET INCREASE IN CASH AND CASH EQUIVALENTS		**407,407**	1,328,256
Cash and cash equivalents at beginning of year		**3,502,435**	2,121,085
Effect of foreign exchange rate changes, net		**(217,798)**	53,094
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,692,044**	3,502,435
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances, unrestricted	25	**1,135,025**	1,476,675
Time deposits with original maturity of less than three months when acquired	25	**2,557,019**	2,025,760
Cash and cash equivalents as stated in the statement of cash flows		**3,692,044**	3,502,435

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September 2000. Upon approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the Main Board on 8 December 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group continued to be principally engaged in the research and development, production and sale of a series of modernised Chinese medicines and chemical medicines.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Champion First Investments Limited	British Virgin Islands/ Hong Kong	US$2	100	–	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK$100 Ordinary	–	51	Research and development of pharmaceutical products
Chia Tai-Tianqing Pharmaceutical Holdings Co., Ltd. ("CT Tianqing")	PRC/ Mainland China*	RMB690,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Jiangsu Runji Investment Co., Ltd.	PRC/ Mainland China**	RMB10,000,000	–	60	Investment holding
Magnificent Technology Limited	British Virgin Islands/ Hong Kong	US$500,000	–	60	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT")	PRC/ Mainland China*	RMB117,609,001	–	55.6	Development, manufacture and sale of pharmaceutical products
Lianyungang Runzhong Pharmaceutical Co., Ltd. ("LYG Runzhong")	PRC/ Mainland China**	RMB65,000,000	–	60	Development, manufacture and sale of pharmaceutical products
Lianyungang Chia Tai Tianqing Medicines Co., Ltd. ("LYG Tianqing")	PRC/ Mainland China**	RMB50,000,000	–	60	Distribution of pharmaceutical products
Chia Tai Refined Chemical Industry Limited	Hong Kong	HK$2 Ordinary	100	–	Investment holding
Evon Industries Limited	Hong Kong	HK$2 Ordinary	100	–	Property holding
Fine Enterprise Investment Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Sino Biopharmaceutical (Tianjin) Co., Ltd.	Hong Kong	HK$1 Ordinary	100		Investment holding
Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang")	PRC/ Mainland China*	RMB48,960,000	–	55.588	Development, manufacture and sale of pharmaceutical products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Jiangsu Chia Tai Qingjiang Medicines Co., Ltd. ("Jiangsu Qingjiang Medicines")	PRC/ Mainland China**	RMB5,000,000	–	55.588	Distribution of pharmaceutical products
Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai")	PRC/ Mainland China*	US$9,363,500	–	60.898	Development, manufacture and sale of pharmaceutical products
Jiangsu Chia Tai Fenghai Medicines Co., Ltd. ("Jiangsu Fenghai Medicines")	PRC/ Mainland China**	RMB20,000,000	–	60.898	Distribution of pharmaceutical products
Nanjing Chia Tai Fenghai Medicines Technology Co., Ltd.	PRC/ Mainland China**	RMB500,000	–	60.898	Distribution of pharmaceutical products
Chia Tai Wing Fuk Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. ("Qingdao Chia Tai") [1]	PRC/ Mainland China*	US$7,560,000	–	93	Development, manufacture and sale of pharmaceutical products
Qingdao Hang Seng Tang Pharmacy Co., Ltd.	PRC/ Mainland China**	RMB1,250,000	–	93	Retail of pharmaceutical products
Qingdao Haier Medicines Co., Ltd.	PRC/ Mainland China**	RMB5,000,000	–	93	Sale of pharmaceutical products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Talent Forward Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Sino Biopharmaceutical (Beijing) Limited	Hong Kong	HK$100 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited ("CTP(LYG)")	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Lucky Symbol Holdings Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Ace Elite Investments Limited	Hong Kong	HK$10 Ordinary	–	100	Investment holding
Shanghai Tongyong Pharmaceutical Co., Ltd. ("Shanghai Tongyong")	PRC/ Mainland China*	RMB56,000,000	–	81.786	Manufacture and sale of pharmaceutical products
Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd. ("CTP Investment")	PRC/ Mainland China***	US$118,500,000	100	–	Investment holding
Chia Tai Healthcare (Holding) Limited	Hong Kong	HK$100 Ordinary	100	–	Investment holding
Chia Tai Shaoyang Orthopaedic Hospital ("Shaoyang Hospital")	PRC/ Mainland China*	RMB129,928,711	–	44.2	Orthopaedic outpatient and surgical procedures
Lianyungang Tianrun Pharmacy Ltd.	PRC/ Mainland China**	RMB100,000	–	60	Retail of pharmaceutical products

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Tongzheng Import-Export Co., Ltd.	PRC/ Mainland China**	RMB1,200,000	–	81.786	Distribution of pharmaceutical products
Suzhou Tianqing Xingwei Medicines Co., Ltd. ("Suzhou Xingwei")	PRC/ Mainland China**	RMB30,000,000	–	33	Distribution of pharmaceutical products
Nanjing Shunxin Pharmaceutical Co., Ltd.	PRC/ Mainland China**	RMB500,000,000	–	60	Manufacture and sale of pharmaceutical products
Tianjin Chia Tai Zhenwutang Food Co., Ltd. ("Tianjin Zhenwutang")	PRC/ Mainland China*	RMB19,000,000	–	51	Manufacture and sale of health food
Zhejiang Tianqing Zhongwei Medicines Co., Ltd. ("Zhejiang Zhongwei")	PRC/ Mainland China**	RMB30,000,000	–	33	Distribution of pharmaceutical products
Chia Tai Medicines Investment Ltd. ("CT Medicines Investment")	Hong Kong	HK$100 Ordinary	100	–	Investment holding
CP Boai Investment Ltd. ("Hong Kong Pacific")	Hong Kong	US$4,224,819	–	55	Investment holding
Beijing Fuxing Boai Vision Optical Centre Co., Ltd.	PRC/ Mainland China**	RMB500,000	–	55	Optometry for optical glasses and sale of ophthalmic products
Zhengzhou Boai Ophthalmology Center Co., Ltd.	PRC/ Mainland China*	RMB7,000,000	–	38.5	Ophthalmic examination and diagnosis

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangxi Boai Ophthalmology Center Co., Ltd.	PRC/ Mainland China*	RMB5,000,000	–	38.5	Ophthalmic examination and diagnosis
Beijing Pacific Boai Medical Management Co., Ltd.	PRC/ Mainland China*	RMB17,373,261	–	55	Medical management consultancy services
Zhengzhou Puai Optical Sales Co., Ltd.	PRC/ Mainland China**	RMB100,000	–	55	Optometry for optical glasses and sale of ophthalmic products
Linyi City People Hospital – Boai Ophthalmology Hospital	PRC/ Mainland China	RMB15,101,000	–	33	Ophthalmic prevention and diagnosis
Linyi Boai Vision Optical Centre Co., Ltd.	PRC/ Mainland China**	–	–	33	Optometry for optical glasses and sale of ophthalmic products
Jiangxi Boai Optometry Centre Co., Ltd.	PRC/ Mainland China**	RMB1,000,000	–	38.5	Optometry for optical glasses and retail and wholesale of optical and auditory products
Zhengzhou Boai Otorhinolaryngology Hospital Co., Ltd.	PRC/ Mainland China**	RMB3,000,000	–	55	Outpatient and surgical procedures
Zhengzhou Boai Vision Optical Co., Ltd.	PRC/ Mainland China**	RMB100,000	–	55	Optometry for optical glasses and sale of glasses
Beijing Fuxing Boai Ophthalmology Centre	PRC/ Mainland China*	RMB13,870,032	–	41.25	Ophthalmic diagnosis

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chia Tai Resources Limited ("CT Resources")	Hong Kong	HK$10 Ordinary	100	–	Investment holding
Jiangsu Chia Tai Health Technology Co., Ltd.	PRC/ Mainland China**	–	–	55.588	Manufacture and sale of pharmaceutical products
Qingdao Hang Seng Tang Pharmacy Co. Ltd. Clinic ("QDHST Clinic")	PRC/ Mainland China**	RMB30,000	–	93	Hospital and sale of pharmaceutical products
Anhui Chia Tai Banlanhua Industry Co., Ltd. ("Anhui Banlanhua")	PRC/ Mainland China**	RMB75,000,000	–	38.061	Distribution and retail of health food
Karolinska Development (Asia) Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Golden Sword Ventures Limited	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
Suzhou Suhang Pharmacy Co., Ltd.	PRC/ Mainland China**	RMB100,000	–	33	Retail of pharmaceutical products
Champ Profit (China) Limited	Hong Kong	HK$1 Ordinary	100	–	Investment holding
Heroic Wise Investments Limited	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding

Notes to Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lianyungang Tianqing Xinte Pharmacy Ltd. [3]	PRC/ Mainland China**	RMB100,000	–	60	Retail of pharmaceutical products
Hangzhou Zhengzhuo Health Management Co., Ltd. [4]	PRC/ Mainland China**	RMB3,000,000	–	38.91	Healthy information consultancy services
Nanjing Junxin Medicines Technology Co., Ltd. [5]	PRC/ Mainland China**	RMB2,000,000	–	60	Medical technology development
Chia Tai Tianqing Europe SL [6]	Spain	EUR3,000	–	60	Healthy information consultancy services
Chia Tai Logistics Limited [7]	Hong Kong	HK$10	100	–	Investment holding
Changshu Chia Tai Teda Logistics Development Co., Ltd. [8]	PRC/ Mainland China**	RMB1,000,000,000	–	75	Distribution of pharmaceutical products
Jiangsu Runan Pharmaceutical Co., Ltd. [9]	PRC/ Mainland China*	RMB30,000,000	–	55.59	Development, manufacture and sale of pharmaceutical products

1. CORPORATE AND GROUP INFORMATION

Information about subsidiaries (continued)

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

Notes:

1. During the year ended 31 December 2017, the Group, through CTP Investment, acquired an additional equity interest of 42% of Qingdao Chia Tai from an independent third party at an aggregate consideration of approximately RMB351,879,000.

2. Lianyungang Hualing Medicines Technology Co., Ltd., one of the company's subsidiary was mergered by LYG Runzhong on 31 October 2017.

3. Lianyungang Tianqing Xinte Pharmacy Ltd. was newly established during the year ended 31 December 2017. The Company holds 60% of its equity interests through LYG Tianqing.

4. Hangzhou Zhengzhuo Health Management Co., Ltd. was newly established during the year ended 31 December 2017. The Company holds 38.91% of its equity interests through Jiangsu Qingjiang.

5. Nanjing Junxin Medicines Technology Co., Ltd. was newly established during the year ended 31 December 2017. The Company holds 60% of its equity interests through Jiangsu Runji Investment Co., Ltd.

6. Chia Tai Tianqing Europe SL was newly established during the year ended 31 December 2017. The Company holds 60% of its equity interests through CT Tianqing.

7. Chia Tai Logistics Limited was newly acquired during the year ended 31 December 2017. The Company holds 100% of its equity interests.

8. Changshu Chia Tai Teda Logistics Development Co., Ltd. was newly acquired during the year ended 31 December 2017. The Company holds 75% of its equity interests through Chia Tai Logistics Limited.

9. Jiangsu Runan Pharmaceutical Co., Ltd. was newly established during the year ended 31 December 2017. The Company holds 55.59% of its equity interests through Jiangsu Qingjiang.

10. Chia Tai Likang (Tianjin) Technology Co., Ltd, one of the Company's subsidiaries, was liquidated on 7 December 2017.

* These subsidiaries were registered as foreign-owned enterprises under PRC law.
** These subsidiaries were registered as limited liability companies under PRC law.
*** This subsidiary was registered as a wholly-foreign owned enterprise under PRC law.

2.1 BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings classified as property, plant and equipment and equity investments which have been measured at fair value, as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

The adoption of the above revised standards has had no significant financial effect on these financial statements.

Change in presentation currency

In prior years, the presentation currency of the Group was Hong Kong dollar ("HK$") for the purpose of preparing its consolidated financial statements. Starting from 1 January 2017, the Group changed the presentation currency of its consolidated financial statements from HK$ to Renminbi ("RMB"). The Group's revenue, profits and cash flows are principally denominated in RMB. The directors of the Company consider that using RMB as the presentation currency could provide a better information reflecting the underlying performance and position of the Group. Accordingly, these consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated. Comparative amounts have been re-presented in RMB.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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

(a) Classification and measurement

Upon adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset.

The Group's bills receivable of RMB527,726,000 as at 31 December 2017 are managed with a business model under which bills receivable are not held to collect contractual cash flows as the Group regularly discounts bills receivable to banks prior to their expiry date. Accordingly, these bills receivable will be reclassified as financial assets at fair value through profit or loss.

The Group has assessed that the available-for-sale investments in unlisted equity of RMB540,138,000 as at 31 December 2017, that are currently measured at amortised cost, would not pass the contractual cash flow characteristics test in HKFRS 9 and will be reclassified as financial assets at fair value through profit or loss.

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

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group expects that the provision for impairment to be made on 1 January 2018 upon initial adoption of HKFRS 9 will not be material.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies, as further explained below, will have a material impact on the Group's financial statements from 2018 onwards.

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

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 47(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$15,468,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

If an investment in an associate becomes an investment in a vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Related parties

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

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

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

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

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

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

Valuations are performed on buildings frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of buildings are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Buildings	4%-5%
Leasehold improvements	5%-20%
Plant and machinery	5%-9%
Motor vehicles	9%-18%
Furniture and fixtures	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at historical cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on the straight-line basis over the expected useful life of 20 years.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the statement of profit or loss during the financial period in which they are incurred.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes. If an item of property, plant and equipment becomes an investment property because its use has changed, the carrying amount of this item at the date of transfer is recognised as the cost of an investment property for accounting purposes. Property being constructed or developed for future use as an investment property is classified as an investment property.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks

Trademarks with finite useful lives are measured initially at cost and are amortised on the straight-line basis over the respective estimated useful lives of 30 years. Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful lives of trademarks are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and bank balances, trade and other receivables, equity investments at fair value through profit or loss and available-for-sale investments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

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

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

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

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on classification as follows:

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

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

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

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pension schemes

The Company and the Group's subsidiaries which operate in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries, which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute 20% to 23% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Company is HK$, while the functional currency of the entities in Mainland China is RMB. During the year, the Group changed its presentation currency from the HK$ to RMB. The directors of the Company believe consolidated financial statements of the Group presented in RMB will provide shareholders with a more accurate reflection of the Group's underlying financial performance and position because the Group's revenues, profits and cash flows are primarily generated in RMB and are expected to remain principally denominated in RMB in the future.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Consolidation of entities in which the Group holds less than a majority of equity interest

The Group considers that it controls Chia Tai Shaoyang Orthopaedic Hospital ("Shaoyang Hospital") even though it owns less than 50% of the equity interest. This is because the Group is the single largest shareholder of Shaoyang Hospital with a 44.2% equity interest and owns more than 50% of the voting rights. The number of directors assigned by the Group to Shaoyang Hospital's board has been more than half of the total number of directors since the date of acquisition by the Group.

Recognition of deferred tax assets

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries. The Group considers that the deferred tax assets are recognised to the extent that it is probable that the subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets at 31 December 2017 was approximately RMB382,574,000 (2016: approximately RMB360,928,000). More details are given in note 30.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was approximately RMB88,926,000 (2016: approximately RMB88,926,000). More details are given in note 16.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2017, the best estimate of the carrying amount of capitalised development costs was approximately RMB164,140,000 (2016: approximately RMB118,424,000). More details are given in note 17.

Assessment of useful lives of deferred development costs

In assessing the estimated useful lives of deferred development costs, the Group takes into account factors such as the expected life span of the underlying pharmaceutical products based on past experience or from a change in the market demand for the products. The estimation of the useful lives is based on the experience of management.

4. OPERATING SEGMENT INFORMATION

Management considers the business from a product/service perspective. The three reportable segments are as follows:

(a) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of modernised Chinese medicine products and western medicine products;

(b) the investment segment is engaged in long term investments; and

(c) the "others" segment comprises, principally, (i) the Group's research and development sector which provides services to third parties; and (ii) related healthcare and hospital business.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax.

Segment assets exclude deferred tax assets and the investments in associates as these assets are managed on a group basis.

Segment liabilities exclude tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017

	Modernised Chinese medicines and chemical medicines RMB'000	Investment RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	14,368,898	–	450,404	14,819,302
Segment results	3,683,381	312,435	96,408	4,092,224
Reconciliation:				
Interest and unallocated gains				65,940
Share of profits and losses of associates				409,076
Unallocated expenses				(371,401)
Profit before tax				4,195,839
Income tax expense				(542,292)
Profit for the year				3,653,547
Assets and liabilities				
Segment assets	13,593,055	4,756,297	1,155,258	19,504,610
Reconciliation:				
Investments in associates				1,048,155
Other unallocated assets				382,574
Total assets				20,935,339
Segment liabilities	4,540,580	3,048,506	258,579	7,847,665
Reconciliation:				
Other unallocated liabilities				476,625
Total liabilities				8,324,290
Other segment information:				
Depreciation and amortisation	316,207	30,223	11,192	357,622
Capital expenditure	1,142,608	24,599	292,973	1,460,180
Other non-cash expenses	300	–	–	300

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016 *(Restated)*

	Modernised Chinese medicines and chemical medicines RMB'000	Investment RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	13,092,875	–	450,504	13,543,379
Segment results	3,336,932	(246,192)	95,941	3,186,681
Reconciliation:				
Interest and unallocated gains				21,497
Share of profits and losses of associates				297,495
Unallocated expenses				(302,182)
Profit before tax				3,203,491
Income tax expense				(474,984)
Profit for the year				2,728,507
Assets and liabilities				
Segment assets	12,222,148	4,323,101	583,031	17,128,280
Reconciliation:				
Investments in associates				894,714
Other unallocated assets				360,928
Total assets				18,383,922
Segment liabilities	4,583,751	2,535,330	224,808	7,343,889
Reconciliation:				
Other unallocated liabilities				362,255
Total liabilities				7,706,144
Other segment information:				
Depreciation and amortisation	289,859	28,931	6,882	325,672
Capital expenditure	820,130	7,357	1,498	828,985
Other non-cash expenses	16,149	2	312	16,463

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

(b) Non-current assets

	2017 RMB'000	2016 RMB'000
Hong Kong	1,748,730	1,591,820
Mainland China	5,379,774	4,032,911
Other countries/regions	26,716	26,716
	7,155,220	5,651,447

The non-current asset information of continuing operations above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

No information about major customers is presented as no single customer contributes to over 10% or more of the Group's revenue for the years ended 31 December 2017 and 2016.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	2017 RMB'000	2016 RMB'000 *(Restated)*
Revenue		
Sale of goods	14,368,898	13,206,895
Others	450,404	336,484
	14,819,302	13,543,379
Other income		
Bank interest income	65,940	21,497
Interest income on convertible bonds	17,117	17,379
Dividend income	28,270	12,656
Government grants*	32,656	37,605
Sale of scrap materials	7,925	14,934
Investment income	266,084	135,739
Gross rental income	5,266	5,196
Revaluation deficit of property, plant and equipment	–	8,486
Others	25,290	18,232
	448,548	271,724
Gains		
Gain on disposal of items of property, plant and equipment	2,224	2,786
Gain on disposal of a subsidiary	–	21
Foreign exchange gains	94,957	–
Fair value gains		
Equity investments at fair value through profit or loss – held for trading	54,637	–
Financial assets designated as at fair value through profit or loss	42,495	–
	194,313	2,807
Total other income and gains	642,861	274,531

* Various government grants have been received for setting up research activities in Mainland China. Government grants received for which related expenditure has not yet been undertaken are included in deferred government grant in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	Notes	**2017 RMB'000**	2016 RMB'000 *(Restated)*
Cost of inventories sold		**3,090,625**	2,816,620
Depreciation of property, plant and equipment	13	**308,175**	284,155
Depreciation of investment properties	14	**22,563**	22,265
Recognition of prepaid land lease payments	15	**14,233**	8,267
Amortisation of other intangible assets*	17	**12,651**	10,985
Research and development costs		**1,595,312**	1,368,192
Revaluation deficit/(surplus) of property, plant and equipment		**20,271**	(8,486)
Gain on disposal of items of property, plant and equipment	5	**(2,224)**	(2,786)
Loss on disposal of items of property, plant and equipment		**300**	16,463
Bank interest income	5	**(65,940)**	(21,497)
Dividend income	5	**(28,270)**	(12,656)
Investment income	5	**(266,084)**	(135,739)
Loss on disposal of subsidiaries, net		**–**	49,588
Fair value (gains)/losses, net:			
Equity investments at fair value through profit or loss – held for trading		**(54,637)**	28,188
Financial assets designated as at fair value through profit or – loss		**(42,495)**	51,240
Auditor's remuneration		**4,400**	4,622
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**1,223,150**	1,055,650
Pension scheme contributions		**251,817**	226,810
		1,474,967	1,282,460
Accrual of impairment losses of trade receivables	22	**2,336**	143
Foreign exchange (gain)/loss, net		**(94,957)**	64,442

* The amortisation of patents and licences, deferred development costs, and trademarks for the year were included in "Cost of sales" and "Other expenses", respectively, on the face of the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Interest on bank borrowings	77,945	76,648

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2017 RMB'000	2016 RMB'000 (Restated)
Fees	1,134	1,007
Other emoluments:		
Salaries, allowances and benefits in kind	23,996	21,709
Pension scheme contributions	161	123
Discretionary bonuses	42,894	24,118
	67,051	45,950
	68,185	46,957

(a) Independent non-executive directors

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

	2017 RMB'000	2016 RMB'000 (Restated)
Mr. Lu Zhengfei	291	257
Mr. Li Dakui	291	257
Ms. Lu Hong	261	236
Mr. Zhang Lufu	291	257
	1,134	1,007

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors

2017

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employee share option benefits RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:						
Ms. Tse, Theresa Y Y	–	1,917	6,938	–	15	8,870
Mr. Tse Ping	–	10,710	26,017	–	–	36,727
Ms. Cheng Cheung Ling	–	2,428	8,672	–	16	11,116
Mr. Tse Hsin	–	1,297	867	–	16	2,180
Mr. Wang Shanchun	–	5,008	–	–	57	5,065
Mr. Tian Zhoushan	–	2,090	–	–	57	2,147
Ms. Li Mingqin	–	546	400	–	–	946
	–	23,996	42,894	–	161	67,051

2016 *(Restated)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employee share option benefits RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:						
Miss Tse, Theresa Y Y	–	1,669	4,279	–	15	5,963
Mr. Tse Ping	–	9,457	18,828	–	15	28,300
Mr. Tse Hsin	–	1,168	411	–	15	1,594
Mr. Wang Shanchun	–	5,964	–	–	39	6,003
Mr. Tian Zhoushan	–	2,905	–	–	39	2,944
Ms. Li Mingqin	–	546	600	–	–	1,146
	–	21,709	24,118	–	123	45,950

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

9. FIVE HIGHEST PAID EMPLOYEES

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

10. INCOME TAX

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2017 RMB'000	2016 RMB'000 *(Restated)*
Current-Hong Kong	–	–
Current-Mainland China income tax	**563,865**	554,009
Deferred tax (note 30)	**(21,573)**	(79,025)
Total tax charge for the year	**542,292**	474,984

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

Hong Kong profits tax has been provided at a rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

In the year ended 31 December 2017, Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), Chia Tai-Tianqing Pharmaceutical Holdings Co., Ltd. ("CT Tianqing"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai"), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang"), Qingdao Chia Tai Haier Pharmaceutical Co., Ltd. and Lianyungang Runzhong Pharmaceutical Co., Ltd. ("LYG Runzhong") were entitled to a corporate income tax rate of 15% because they were qualified as "High and New Technology Enterprises".

Other than the above-mentioned entities, the entities located in Mainland China were subject to corporate income tax at a rate of 25% in 2017.

10. INCOME TAX (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

2017

	Mainland China RMB'000	Hong Kong RMB'000	Total RMB'000
Profit before tax	3,270,542	925,297	4,195,839
Tax at the statutory tax rate	817,636	152,674	970,310
Less: Preferential tax rate reduction	(305,274)	–	(305,274)
Income not subject to tax	–	(176,857)	(176,857)
Expenses not deductible for tax	55,188	37,205	92,393
Additional tax deduction for research and development expenses	(97,391)	–	(97,391)
Tax losses utilised from previous periods	–	(13,022)	(13,022)
	470,159	–	470,159
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries			72,133
Tax charge at the Group's effective rate			542,292

10. INCOME TAX (continued)

2016 *(Restated)*

	Mainland China RMB'000	Hong Kong RMB'000	Total RMB'000
Profit before tax	2,869,340	334,151	3,203,491
Tax at the statutory tax rate	717,335	55,135	772,470
Less: Preferential tax rate reduction	(264,713)	–	(264,713)
Income not subject to tax	–	(135,583)	(135,583)
Expenses not deductible for tax	22,772	57,616	80,388
Additional tax deduction for research and development expenses	(65,632)	–	(65,632)
Tax losses not recognised	–	22,832	22,832
	409,762	–	409,762
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries			65,222
Tax charge at the Group's effective rate			474,984

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000 *(Restated)*
Interim – HK$0.055 (equivalent to RMB0.048) (2016: HK$0.045 (equivalent to RMB0.039)) per ordinary share	**354,814**	285,451
Proposed final – HK$0.02 (equivalent to RMB0.0173) (2016: HK$0.015 (equivalent to RMB0.0128)) per ordinary share	**146,131**	95,150
	500,945	380,601

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent for the year of approximately RMB2,170,951,000 (2016: approximately RMB1,637,378,000), and the weighted average number of ordinary shares of 7,412,192,209 (2016: 7,412,192,209) in issue during the year.

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

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2017

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017:							
Cost or valuation	972,061	7,966	1,361,832	172,429	485,770	535,944	3,536,002
Accumulated depreciation	–	(7,912)	(514,514)	(70,950)	(255,271)	–	(848,647)
Net carrying amount	972,061	54	847,318	101,479	230,499	535,944	2,687,355
At 1 January 2017, net of accumulated depreciation	972,061	54	847,318	101,479	230,499	535,944	2,687,355
Additions	2,218	234	122,610	32,908	91,690	808,464	1,058,124
Depreciation provided during the year	(65,628)	(101)	(150,708)	(32,290)	(59,448)	–	(308,175)
Surplus on revaluation	62,376	–	–	–	–	–	62,376
Disposals	(10,695)	(7)	(1,202)	(3,240)	(596)	–	(15,740)
Transfers	48,741	–	187,509	31	9,938	(246,219)	–
Exchange realignment	(928)	–	–	(249)	490	–	(687)
At 31 December 2017, net of accumulated depreciation	1,008,145	180	1,005,527	98,639	272,573	1,098,189	3,483,253
At 31 December 2017:							
Cost or valuation	1,008,145	8,149	1,665,775	191,929	577,373	1,098,189	4,549,560
Accumulated depreciation	–	(7,969)	(660,248)	(93,290)	(304,800)	–	(1,066,307)
Net carrying amount	1,008,145	180	1,005,527	98,639	272,573	1,098,189	3,483,253

13. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2016 *(Restated)*

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016:							
Cost or valuation	942,666	7,493	1,228,393	152,114	382,836	198,878	2,912,380
Accumulated depreciation	–	(7,428)	(432,389)	(52,519)	(193,940)	–	(686,276)
Net carrying amount	942,666	65	796,004	99,595	188,896	198,878	2,226,104
At 1 January 2016, net of accumulated depreciation	942,666	65	796,004	99,595	188,896	198,878	2,226,104
Additions	2,724	12	100,014	33,768	116,635	461,071	714,224
Depreciation provided during the year	(67,803)	(23)	(115,045)	(29,577)	(71,707)	–	(284,155)
Surplus on revaluation	53,342	–	–	–	–	–	53,342
Disposals	(2,022)	–	(13,137)	(2,352)	(5,440)	–	(22,951)
Disposal of a subsidiary	–	–	(254)	(344)	(228)	–	(826)
Transfers	42,254	–	79,736	–	2,015	(124,005)	–
Exchange realignment	900	–	–	389	328	–	1,617
At 31 December 2016, net of accumulated depreciation	972,061	54	847,318	101,479	230,499	535,944	2,687,355
At 31 December 2016:							
Cost or valuation	972,061	7,966	1,361,832	172,429	485,770	535,944	3,536,002
Accumulated depreciation	–	(7,912)	(514,514)	(70,950)	(255,271)	–	(848,647)
Net carrying amount	972,061	54	847,318	101,479	230,499	535,944	2,687,355

The Group's buildings as at 31 December 2017 were revalued as at that date by RHL Appraisal Ltd., independent professionally qualified valuers at fair value of approximately RMB1,008,145,000 (2016: approximately RMB972,061,000) based on their existing use. The revaluation resulted in a surplus of approximately RMB62,376,000 (2016: approximately RMB53,342,000). The Group has credited approximately RMB51,732,000 (2016: credited approximately RMB18,592,000) to the revaluation reserve in the current year. The Group has debited approximately RMB20,271,000 (2016: credited approximately RMB8,486,000) to the statement of profit or loss in the current year.

Had the buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately RMB704,203,000 (2016: approximately RMB713,869,000).

At 31 December 2017, certain of the Group's buildings with a net carrying amount of approximately RMB31,600,000 (2016: approximately RMB36,050,000) were pledged to secure general banking facilities granted to the Group (note 28).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's buildings:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Properties held for own use	**–**	**–**	**1,008,145**	**1,008,145**

As at 31 December 2016 (Restated)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Properties held for own use	–	–	972,061	972,061

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

Below is a summary of the valuation techniques used and the key inputs to the valuation of buildings:

	Valuation technique	Significant unobservable inputs	Range of weighted average 2017	2016
Industrial property	Depreciated replacement cost method	(1) Replacement cost (2) Rate of newness	**RMB560-4,900; 5%-90%**	RMB436-4,921; 5%-93%
Commercial properties	Market comparison method	(1) Adjusted market price	**RMB623-47,614 per square meter**	RMB589-42,501 per square meter

14. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000 (Restated)
At 1 January		
Cost or valuation	**436,086**	436,086
Accumulated depreciation	**(14,592)**	(19,987)
Net carrying amount	**421,494**	416,099
At 1 January, net of accumulated depreciation	**421,494**	416,099
Depreciation provided during the year	**(22,563)**	(22,265)
Effect of foreign exchange rate changes, net	**(28,768)**	27,660
At 31 December, net of accumulated depreciation	**370,163**	421,494
At 31 December:		
Cost or valuation	**433,362**	436,086
Accumulated depreciation	**(63,199)**	(14,592)
Net carrying amount	**370,163**	421,494

The Group's investment properties consist of two commercial properties in Hong Kong, which are held to earn rentals. The properties are measured initially and subsequently at cost. Depreciation commences on the day the transaction of purchase is completed and is calculated on the straight-line basis over 20 years.

The Group's investment properties as at 31 December 2017 were revalued as at that date by RHL Appraisal Ltd., independent professionally qualified valuers, at fair value of approximately RMB416,424,000 (2016: RMB440,781,000).

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

The properties have been mortgaged for bank loans as mentioned in note 28.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Investment properties	**–**	**–**	**416,424**	**416,424**

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

As at 31 December 2016 (Restated)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Investment properties	–	–	440,781	440,781

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range of weighted average 2017	2016
Commercial properties	Market comparison method	Adjusted market price	**RMB11,978-19,960 per square meter**	RMB12,533-21,318 per square meter

15. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000 *(Restated)*
Carrying amount at 1 January	**468,845**	279,395
Addition during the year	**351,583**	197,717
Recognised during the year	**(14,233)**	(8,267)
Carrying amount at 31 December	**806,195**	468,845
Current portion included in prepayments, deposits and other receivables	**(16,833)**	(9,832)
Non-current portion	**789,362**	459,013

At 31 December 2017, there were no lands pledged to secure general banking facilities granted to the Group (2016: approximately RMB6,700,000 were pledged to secure general banking facilities granted to the Group (note 28)).

16. GOODWILL

	2017 RMB'000	2016 RMB'000 *(Restated)*
Cost and carrying amount at 1 January & 31 December	**88,926**	88,926

Impairment testing of goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The carrying amount of goodwill of the Group is related to twelve different cash-generating units ("CGUs"), namely Hong Kong Pacific, Zhejiang Zhongwei, Suzhou Xingwei, Shanghai Tongyong, Shaoyang Hospital, and seven other subsidiaries of the Group acquired in previous years. Approximately 43% of the carrying amount of goodwill arose from the acquisition of Hong Kong Pacific in the previous years.

The recoverable amounts of the goodwill attributable to the acquisition of equity interests in these CGUs have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Growth rates – The growth rates are based on industry growth forecasts.

Changes in selling prices and direct costs – These are based on past practices and expectations of future changes in the market.

The values assigned to the key assumptions on discount rates, growth rates and changes in selling prices and direct costs are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

31 December 2017

	Patents and licences RMB'000	Deferred development costs RMB'000	Trademarks RMB'000	Total RMB'000
Cost:				
At 1 January 2017	42,396	148,616	50,690	241,702
Additions	895	49,578	–	50,473
At 31 December 2017	43,291	198,194	50,690	292,175
Accumulated amortisation:				
At 1 January 2017	25,014	30,192	5,069	60,275
Provided during the year	7,099	3,862	1,690	12,651
At 31 December 2017	32,113	34,054	6,759	72,926
Net carrying amount	11,178	164,140	43,931	219,249

31 December 2016 *(Restated)*

	Patents and licences RMB'000	Deferred development costs RMB'000	Trademarks RMB'000	Total RMB'000
Cost:				
At 1 January 2016	40,955	126,327	50,690	217,972
Additions	1,685	22,289	–	23,974
Disposal of a subsidiary	(244)	–	–	(244)
At 31 December 2016	42,396	148,616	50,690	241,702
Accumulated amortisation:				
At 1 January 2016	20,876	25,269	3,379	49,524
Provided during the year	4,372	4,923	1,690	10,985
Disposal of a subsidiary	(234)	–	–	(234)
At 31 December 2016	25,014	30,192	5,069	60,275
Net carrying amount	17,382	118,424	45,621	181,427

18. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000 *(Restated)*
Share of net assets	**954,008**	804,067
Goodwill on acquistion	**90,647**	90,647
	1,044,655	894,714
Loans to an associate	**3,500**	–
	1,048,155	894,714

Particulars of the material associates are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Tianjin Teda	Ordinary shares	PRC/ Mainland China	21.82%	Provision of comprehensive logistics services
Beijing Tide	Registered capital of RMB500,000,000	PRC/ Mainland China	33.6%	Manufacture and sale of pharmaceutical products

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

18. INVESTMENTS IN ASSOCIATES (continued)

(i) Beijing Tide

	2017 RMB'000	2016 RMB'000 *(Restated)*
Share of net assets	**711,504**	598,019
Goodwill on acquisition	**32,068**	32,068
Share of net assets	**743,572**	630,087

On 1 June 2012, the Company entered into a restructuring agreement (the "Restructuring Agreement") with France Investment (China 1) Group Limited (incorporated in Hong Kong, "France Investment Hong Kong") and Mr. Tse Ping (the then Chairman and executive director of the Company) in preparation for the proposed listing of Beijing Tide on the ChiNext of the Shenzhen Stock Exchange. Pursuant to the Restructuring Agreement, (a) the Company sold a 51% equity interest in Sino Biopharmaceutical (Beijing) Limited (which in turn holds an approximately 33.6% equity interest in Beijing Tide) to France Investment Hong Kong for a consideration of HK$293 million; (b) France Investment Hong Kong sold its 48% equity interest in Super Demand Investments Limited ("Super Demand") (which in turn holds an approximately 24% equity interest in Beijing Tide through a wholly-owned subsidiary, France Investment (China 1) Group Limited (incorporated in the British Virgin Islands ("France Investment BVI"), to the Company; and (c) Super Demand sold its 45% equity interests in France Investment the British Virgin Islands to the Company. The total consideration for the acquisitions under (b) and (c) was HK$293 million. Pursuant to the Restructuring Agreement, the Company is entitled to unwind the restructuring in the event that the completion of the proposed listing of Beijing Tide has not taken place by 31 December 2013 (the "Proposed Listing Date"). The above transactions were completed in the year ended 31 December 2012. For accounting purposes, given that there is a possibility for the restructuring to be unwound, the Group will account for the above transactions only when (a) the proposed listing of Beijing Tide is completed; (b) the Company elects to unwind the restructuring but such unwinding was not completed (if the proposed listing of Beijing Tide has not completed by 31 December 2013); or (c) the Company elects not to unwind the restructuring.

On 23 December 2013, after amicable negotiations, the Company, France Investment Hong Kong and Mr. Tse Ping entered into a supplemental agreement (the "Supplemental Agreement") pursuant to which the parties thereto agreed to extend the Proposed Listing Date from 31 December 2013 to 31 December 2016. Save for the extension of the Proposed Listing Date, all the terms and conditions of the Restructuring Agreement remain unchanged. The investment in Beijing Tide was classified as an investment in an associate from the year ended 31 December 2013 as management assessed that the Group had a significant influence on Beijing Tide after entering into the Restructuring Agreement.

As at 31 December 2017, the Group was still entitled to unwind the restructuring. Beijing Tide was still accounted for as an associate company of the Group as at 31 December 2017.

18. INVESTMENTS IN ASSOCIATES (continued)

(i) Beijing Tide (continued)

The following table illustrates the summarised financial information of Beijing Tide adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

	2017 **RMB'000**
Current assets	**1,695,477**
Non-current assets	**1,351,480**
Current liabilities	**(656,437)**
Non-current liabilities	**(272,949)**
Net assets	**2,117,571**
Net assets, excluding goodwill	**2,117,571**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**33.6%**
Group's share of net assets of the associate, excluding goodwill	**711,504**
Goodwill on acquisition (less cumulative impairment)	**32,068**
Carrying amount of the investment	**743,572**
Revenue	**3,506,576**
Profit for the year	**1,228,786**
Total comprehensive income for the year	**1,237,752**
Dividend received	**302,400**

(ii) Tianjin Teda

	2017 **RMB'000**	2016 RMB'000 *(Restated)*
Share of net assets	**190,862**	185,940

Tianjin Teda, which is considered a material associate of the Group, is a strategy partner of the Group engaged in the provision of comprehensive logistic services and is accounted for using the equity method.

18. INVESTMENTS IN ASSOCIATES (continued)

(ii) Tianjin Teda (continued)

The following table illustrates the summarised financial information of Tianjin Teda adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

	2017 RMB'000
Current assets	1,837,628
Non-current assets	550,247
Current liabilities	(1,413,632)
Non-current liabilities	(99,532)
Net assets	874,711
Net assets, excluding goodwill	874,711
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	21.82%
Carrying amount of the investment	190,862
Revenue	2,403,998
Profit for the year	33,139
Total comprehensive income for the year	33,139
Dividend received	2,309

(iii) Others

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 RMB'000	2016 RMB'000 *(Restated)*
Share of the associates' (profit)/loss for the year	(11,027)	30,209
Share of the associates' total comprehensive (profit)/loss	(14,983)	30,209
Aggregate carrying amount of the Group's investments in the associates	113,721	78,687

19. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000 *(Restated)*
Current		
Wealth management products and trust funds	**2,647,426**	2,122,358
Non-current		
Unlisted equity investments, at cost	**540,138**	369,447

For wealth management products, the Group entered into the investment contracts with several PRC financial institutions with a floating return which will be paid together with the principal on the maturity date.

The unlisted equity investments comprised the Group's 5% equity investment in Chia Tai Qingchunbao Pharmaceutical Co., Ltd., 4.93% equity investment in LTT Bio-pharma Co., Ltd., 5% equity investment in Chia Tai Oversea Chinese Realty Development Co., Ltd. ("CTOCRD"), 6.9% equity investment in Wuxi Healthcare Ventures II, L.P, 9.6% equity investment in Pitango Growth Fund I L.P, 69.77% equity investment in KB CAP CH LLC, and 2% equity investment in Talking Data Group Holding Limited.

KB CAP CH LLC was not accounted for as a subsidiary as the Group owns less than 50% of the voting rights despite holding 69.77% equity interests.

The unlisted equity investments are stated at cost less any impairment losses because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

20. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB'000	2016 RMB'000 *(Restated)*
Convertible bonds of Karolinska Development AB	**190,421**	147,926

As at 31 December 2017, the Company and its subsidiary, CT Resources, have subscribed the convertible bonds of Karolinska Development AB with an aggregate nominal value of SEK22,858,294 and SEK250,000,000 respectively.

The bonds are convertible at an option of the bondholders into class B shares at any time during the conversion period at an initial conversion price of SEK22 per share at the Swedish Companies Registration Office until 30 June 2019.

The bonds bear interest at 8% per annum, which is annually compounded paid on the maturity date of the convertible bonds unless conversion has taken place before that. The interest income is accrued in other receivables.

The above investments at 31 December 2017 were designated by the Group as financial assets at fair value through profit or loss.

21. INVENTORIES

	2017 RMB'000	2016 RMB'000 (Restated)
Raw materials	**231,861**	216,556
Work in progress	**197,453**	267,584
Finished goods	**481,528**	395,829
Spare parts and consumables	**7,977**	15,164
	918,819	895,133

22. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000 (Restated)
Trade and bills receivables	**2,054,351**	1,996,552
Impairment	**(3,061)**	(725)
	2,051,290	1,995,827

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit periods range from 60 days to 180 days. The Group seeks to maintain a strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2017 RMB'000	2016 RMB'000 (Restated)
Current to 90 days	**1,654,569**	1,657,541
91 days to 180 days	**361,657**	314,366
Over 180 days	**35,064**	23,920
	2,051,290	1,995,827

22. TRADE AND BILLS RECEIVABLES (continued)

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

	2017 RMB'000	2016 RMB'000 *(Restated)*
At 1 January	725	582
Impairment losses recognised (note 6)	2,336	143
Amount written off as uncollectible	–	–
	3,061	725

The aging analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000 *(Restated)*
Neither past due nor impaired	2,017,238	1,977,690
Less than 30 days past due	29,156	17,252
Between 31 and 90 days past due	2,156	546
Between 91 and 180 days past due	2,652	95
Between 181 and 365 days past due	88	244
	2,051,290	1,995,827

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

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

The carrying amounts of the trade receivables approximate to their fair values due to their relatively short maturity term.

Financial assets that are derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of approximately RMB426,926,000 (2016: approximately RMB714,087,000). The Derecognised Bills had maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills shall have recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposures to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

22. TRADE AND BILLS RECEIVABLES (continued)

Financial assets that are derecognised in their entirety (continued)

During the year ended 31 December 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000 *(Restated)*
Current		
Prepayments	184,488	141,178
Other receivables	693,501	746,905
Investment in wealth management products	2,125,004	2,278,000
Prepaid expenses	10,892	19,613
Current portion of prepaid land lease payments	16,833	9,832
	3,030,718	3,195,528
Non-current		
Prepayments	42,979	40,217

The carrying amounts of other receivables, prepayments, investment in wealth management products and prepaid expenses approximate to their fair values due to their relatively short maturity terms.

For wealth management products, the Group entered into the investment contracts with several PRC financial institutions with a fixed return which will be paid together with the principal on the maturity date.

Long term prepayments represent prepayments to purchase a land use right in Nanjing.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB'000	2016 RMB'000 *(Restated)*
Listed equity investments, at market value	943,726	408,557

The above equity investments at 31 December 2017 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

25. CASH AND BANK BALANCES

	2017 RMB'000	2016 RMB'000 *(Restated)*
Cash and bank balances, unrestricted	**1,135,025**	1,476,675
Time deposits with original maturity of less than three months	**2,557,019**	2,025,760
Time deposits with original maturity of more than three months	**496,096**	263,438
Cash and bank balances	**4,188,140**	3,765,873

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to approximately RMB1,455,505,000 (2016: approximately RMB1,334,780,000) in Mainland China. The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. TRADE AND BILLS PAYABLES

An aging analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice receiving date, is as follows:

	2017 RMB'000	2016 RMB'000 *(Restated)*
Current to 90 days	**704,689**	573,680
91 days to 180 days	**189,163**	215,202
Over 180 days	**34,755**	37,852
	928,607	826,734

Trade and bills payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade and bills payables approximate to their fair values due to their relatively short maturity terms.

27. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000 (Restated)
Advances from customers	101,476	73,613
Accrued payroll and bonuses	883,507	730,744
Other payables	858,757	801,112
Accrued expenses	1,641,155	1,480,876
Staff welfare and bonus fund	37,654	55,833
Tax payable other than profits tax	203,393	124,933
	3,725,942	3,267,111

Other payables are non-interest-bearing and have an average term of three months. The carrying amounts of the other payables and accruals approximate to their fair values due to their relatively short maturity terms.

28. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000 (Restated)
Current						
Bank loans – unsecured (d)	HIBOR+1.6	On demand	666,278	HIBOR+1.6	On demand	716,717
Bank loans – unsecured (d)	3.92-4.57	2018	26,812	–	–	–
Bank loans – secured (a)	4.35	2018	35,000	5.0-6.2	2017	37,000
Bills receivable discounted (b)	–	–	–	3.0-3.8	2017	601,538
Current portion of long term						
bank loans – secured (c)	HIBOR+1.75	2018	10,619	HIBOR+1.75	2017	11,423
bank loans – secured (c)	HIBOR+1.95	2018	2,598	HIBOR+1.95	2017	2,795
			741,307			1,369,473
Non-current						
Bank loans – unsecured (e)	LIBOR+1.35	2019	1,948,863	LIBOR+1.35	2019	1,397,599
Bank loans – unsecured (e)	4.5	2019	30,000	4.5	2019	20,000
Bank loans – secured (c)	HIBOR+1.75	2030	121,520	HIBOR+1.75	2030	139,634
Bank loans – secured (c)	HIBOR+1.95	2022	109,514	HIBOR+1.95	2022	121,735
			2,209,897			1,678,968
			2,951,204			3,048,441
Analysed into:						
Bank loans repayable:						
Within one year or on demand			741,307			1,369,473
In the second year			1,968,863			14,218
In the third to fifth years, inclusive			109,514			1,461,684
Beyond five years			131,520			203,066
			2,951,204			3,048,441

28. INTEREST-BEARING BANK BORROWINGS (continued)

Notes:

(a) At 31 December 2017, the Group's bank borrowings were secured by the Group's buildings with a carrying amount of approximately RMB31,600,000 (2016: approximately RMB36,050,000 and Group's land with a carrying amount of approximately RMB6,700,000).

(b) As at 31 December 2016, bills receivable of an amount of approximately RMB601,538,000 were discounted at banks to obtain certain bank facilities of approximately RMB601,538,000.

(c) As at 31 December 2017, the Group's bank borrowings were secured by the Group's investment properties with a carrying amount of HK$444,455,000 (approximately equivalent to RMB370,163,000) (2016: HK$470,476,000 (approximately equivalent to RMB421,494,000)).

(d) On 21 June 2016, the Company, as the borrower, entered into a facility agreement with Bank of Communications Co., Ltd. Hong Kong Branch, for an unsecured loan in the principal sum of HK$800,000,000 (approximately equivalent to RMB666,278,000) with an interest rate as HIBOR plus 1.60% per annum.

(e) On 27 September 2016, the Company, as the borrower, entered into a Syndicated facility agreement with Bank of China (Hong Kong) Limited, Hang Seng Bank Limited, TaiPei Fubon Commercial Bank Co., Ltd, Bank of Communications Co., Ltd. Hong Kong Branch and CTBC Bank Co., Ltd for a three-year unsecured loan in the principal sum of US$300,000,000 (approximately equivalent to RMB1,948,863,000) at an interest rate of LIBOR plus 1.35% per annum. As at 31 December 2017, the Group had used US$300,000,000 (approximately equivalent to RMB1,948,863,000) (2016: US$200,000,000 (approximately equivalent to RMB1,665,700,000)) from the facility.

29. DEFERRED GOVERNMENT GRANTS

The Group's deferred government grants represented government grants received for projects and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

30. DEFERRED TAX

Deferred tax liabilities

2017

	Development costs RMB'000	Revaluation of properties RMB'000	Withholding taxes RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Acquisition RMB'000	Total RMB'000
At 1 January 2017	25,805	69,967	147,995	41,373	19,085	304,225
Deferred tax charged/(credited) to the statement of profit or loss (note 10)	491	(4,491)	72,133	22,300	(1,214)	89,219
Realised during the year	–	–	(57,395)	(4,589)	–	(61,984)
Deferred tax debited to equity	–	14,727	–	–	–	14,727
Gross deferred tax liabilities at 31 December 2017	26,296	80,203	162,733	59,084	17,871	346,187

Deferred tax assets

2017

	Government grants RMB'000	Provision for trade receivables RMB'000	Accruals RMB'000	Building revaluation depreciation RMB'000	Elimination of unrealised profits on inventories RMB'000	Total RMB'000
At 1 January 2017	48,898	70	346,690	23,313	76,952	495,923
Deferred tax credited/(charged) to the statement of profit or loss (note 10)	(12,592)	1,005	36,517	424	23,454	48,808
Gross deferred tax assets at 31 December 2017	36,306	1,075	383,207	23,737	100,406	544,731

30. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	382,574
Net deferred tax liabilities recognised in the consolidated statement of financial position	(184,030)
	198,544

Deferred tax liabilities

2016 *(Restated)*

	Development costs RMB'000	Revaluation of properties RMB'000	Withholding taxes RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Acquisition RMB'000	Total RMB'000
At 1 January 2016	21,448	57,392	125,453	24,379	18,990	247,662
Deferred tax charged to the statement of profit or loss (note 10)	4,357	1,929	65,222	19,034	95	90,637
Realised during the year	–	–	(42,680)	(2,040)	–	(44,720)
Deferred tax debited to equity	–	10,646	–	–	–	10,646
Gross deferred tax liabilities at 31 December 2016	25,805	69,967	147,995	41,373	19,085	304,225

Deferred tax assets

2016 *(Restated)*

	Government grants RMB'000	Provision for trade receivables RMB'000	Accruals RMB'000	Building revaluation depreciation RMB'000	Elimination of unrealised profits on inventories RMB'000	Total RMB'000
At 1 January 2016	28,372	682	257,071	16,175	68,681	370,981
Deferred tax credited/(charged) to the statement of profit or loss (note 10)	20,526	(612)	89,619	7,138	8,271	124,942
Gross deferred tax assets at 31 December 2016	48,898	70	346,690	23,313	76,952	495,923

30. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2016 RMB'000 *(Restated)*
Net deferred tax assets recognised in the consolidated statement of financial position	360,928
Net deferred tax liabilities recognised in the consolidated statement of financial position	(169,230)
	191,698

The Group has tax losses arising in Hong Kong of approximately RMB140,580,000 (2016: approximately RMB229,033,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of accumulated tax losses of approximately RMB140,580,000 (2016: approximately RMB229,033,000) as they have occurred in the Company that has been loss making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

31. SHARE CAPITAL

Shares

	2017 **RMB'000**	2016 RMB'000 *(Restated)*
Issued and fully paid:		
7,412,192,209 ordinary shares of HK$0.025 each	**170,033**	170,033

32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "2013 Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The 2013 Scheme became effective on 28 May 2013 upon the listing of the Company's shares on the Main Board, unless otherwise cancelled or amended, the 2013 Scheme remains in force for 10 years from that date.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2013 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The maximum number of shares in respect of which options may be granted under the share option scheme when aggregated with the maximum number of shares in respect of which options over shares or other securities may be granted by the Group under any other scheme shall not exceed 10% of the issued share capital as at the date of adoption of the 2013 Scheme.

32. SHARE OPTION SCHEME (continued)

The total number of shares issued and to be issued upon exercise of options granted under the 2013 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding options, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2013 Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value (based on the closing price of the shares at the date of each grant) in excess of HK$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2013 Scheme at any time during a period to be determined on the date of offer of grant of a share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of grant of options to a grantee, there is no minimum period required under the 2013 Scheme for the holding of a share option before it can be exercised.

The exercise price of the shares under the 2013 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the shares on the date of the offer of the grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2013 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued share of HK$0.10 into four shares of HK$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2013 Scheme accordingly.

No share options have been granted under the 2013 Scheme since 28 May 2013.

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former group holding companies acquired pursuant to the group reorganisation as stated in the Company's prospectus dated 22 September 2000, and the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of Mainland China on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's Mainland China joint ventures, profits of the Group's Mainland China joint ventures as determined in accordance with the accounting rules and regulations in Mainland China are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, the enterprise expansion fund and the staff welfare and bonus fund. According to the articles of association of the respective Mainland China joint ventures of the Group, the appropriation to the statutory reserve funds is at the discretion of the boards of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective Mainland China joint ventures. The appropriation to the staff welfare and bonus fund is based on nil to 10% of the statutory annual net profit after tax of the respective Mainland China joint ventures and has been reclassified as an expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint venture and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the Mainland China joint ventures.

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2017	2016
Percentage of equity interests held by non-controlling interests:		
CT Tianqing	**40.0%**	40.0%
NJCTT	**44.4%**	44.4%
LYG Runzhong	**40.0%**	40.0%

	2017	2016
	RMB'000	RMB'000
		(Restated)
Profit for the year allocated to non-controlling interests:		
CT Tianqing	**933,324**	913,008
NJCTT	**178,617**	150,603
LYG Runzhong	**718,412**	531,353
Accumulated balances of non-controlling interests at the reporting date:		
CT Tianqing	**1,654,390**	1,440,729
NJCTT	**393,298**	309,666
LYG Runzhong	**1,051,537**	773,406

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2017	**CT Tianqing**	**NJCTT**	**LYG Runzhong**
	RMB'000	**RMB'000**	**RMB'000**
Revenue	**8,336,409**	**2,134,659**	**2,635,808**
Total expenses	**(6,003,099)**	**(1,732,368)**	**(839,778)**
Profit for the year	**2,333,310**	**402,291**	**1,796,030**
Total comprehensive income for the year	**2,373,858**	**405,707**	**1,801,631**
Current assets	**3,909,321**	**956,514**	**2,564,534**
Non-current assets	**2,399,364**	**819,456**	**573,362**
Current liabilities	**(1,933,969)**	**(883,468)**	**(457,720)**
Non-current liabilities	**(238,742)**	**(6,696)**	**(51,334)**
Net cash flows from operating activities	**1,468,631**	**497,424**	**1,307,034**
Net cash flows from/(used in) investing activities	**420,562**	**(330,211)**	**(202,924)**
Net cash flows used in financing activities	**(1,840,621)**	**(217,347)**	**(1,106,301)**
Net increase/(decrease) in cash and cash equivalents	**48,572**	**(50,134)**	**(2,191)**

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

2016 *(Restated)*	CT Tianqing RMB'000	NJCTT RMB'000	LYG Runzhong RMB'000
Revenue	7,205,130	1,847,908	2,032,187
Total expenses	(4,922,611)	(1,508,713)	(703,804)
Profit for the year	2,282,519	339,195	1,328,383
Total comprehensive income for the year	2,095,293	295,985	1,214,852
Current assets	3,691,395	777,373	2,381,436
Non-current assets	2,180,140	635,862	336,889
Current liabilities	(2,048,814)	(708,025)	(761,382)
Non-current liabilities	(220,899)	(7,765)	(23,429)
Net cash flows from operating activities	1,617,541	462,118	726,668
Net cash flows used in investing activities	(328,340)	(189,646)	(151,910)
Net cash flows used in financing activities	(1,227,625)	(186,161)	(570,238)
Net increase in cash and cash equivalents	61,576	86,311	4,520

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms of five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2017 RMB'000	2016 RMB'000 *(Restated)*
Within one year	**5,196**	5,440
In the second to fifth years, inclusive	**8,885**	14,960
	14,081	20,400

35. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office properties and land use rights under operating lease arrangements. Leases for office equipment are for terms ranging between two and five years, and those for land use rights are for terms of fifty years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000 *(Restated)*
Within one year	**18,034**	6,028
In the second to fifth years, inclusive	**22,105**	5,875
After five years	**21,182**	24,966
	61,321	36,869

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000 *(Restated)*
Contracted, but not provided for:		
– Land, plant and machinery	**436,634**	96,173
– Capital Investments	**135,121**	462,438
– Others	**–**	84,500
	571,755	643,111

37. RELATED PARTY TRANSACTIONS

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

	2017 RMB'000	2016 RMB'000 (Restated)
Operating lease rentals payable to:		
– a company beneficially owned by one director (note (i))	5,630	4,735
Provision of consulting services to:		
– a company beneficially owned by connected persons (note (ii))	6,226	5,407

Notes:

(i) The lease rentals were based on tenancy agreements entered into between the Group and the related party with reference to market prices.

(ii) The service fees were based on consulting agreements entered into between CTP Investment and CTOCRD with reference to market prices.

(b) Other transactions with related parties

(i) In 2010, Validated Profits Limited ("Validated Profits"), which is wholly owned by Mr. Tse, Chia Tai Land Company Limited ("CT Land") and some other investors entered into an agreement (the "Consortium Agreement") to form an investment consortium for the purpose of tendering a bid to the relevant governmental authorities in Beijing for the acquisition of a site located at Beijing Chaoyang District CBD and, subject to the bid being successful, to form a project company for the purpose of carrying out the development. On 6 December 2010, CTP Investment, a wholly-owned subsidiary, entered into (a) an investment agreement with Validated Profits whereby Validated Profits agreed to transfer to CTP Investment all of its investment rights and obligations under the Consortium Agreement in connection with 7.5% of the total investment to be contributed by the Investment Consortium with nil consideration, and (b) an investment agreement with CT Land whereby CTP Investment agreed to transfer to CT Land all of its investment rights and obligations under the Consortium Agreement in connection with 2.5% of the total investment to be contributed by the Investment Consortium with nil consideration. Details are set out in the Company's press announcement dated 6 December 2010. As at 31 December 2017, the Group's capital contribution was approximately RMB238,942,000 in relation to this investment (note 19) (2016: prepayment of approximately RMB238,942,000). During the year ended 31 December 2017, the project company CTOCRD was registered in the PRC with a registered capital of RMB4,700,000,000. The Group, through CTP Investment, holds a 5% equity interest in CTOCRD.

37. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued)

(ii) On 1 June 2012, the Company entered into a restructuring agreement with France Investment Hong Kong and Mr. Tse Ping (Chairman and executive director of the Company) in preparation for the proposed listing of Beijing Tide on the ChiNext of the Shenzhen Stock Exchange. Pursuant to the Restructuring Agreement, (a) the Company sold a 51% equity interest in Sino Biopharmaceutical (Beijing) Limited (which in turn holds approximately 33.6% equity interests in Beijing Tide) to France Investment Hong Kong for a consideration of HK$293 million; (b) France Investment Hong Kong sold its 48% equity interests in Super Demand (which in turn holds approximately 24% equity interests in Beijing Tide through a wholly-owned subsidiary, France Investment BVI to the Company; and (c) Super Demand sold its 45% equity interests in France Investment the British Virgin Islands to the Company. The total consideration for the acquisition under (b) and (c) is HK$293 million. Pursuant to the Restructuring Agreement, the Company is entitled to unwind the restructuring in the event that the completion of the proposed listing of Beijing Tide has not taken place by 31 December 2013. The above transactions were completed in the year ended 31 December 2012. For accounting purposes, given that there is a possibility for the restructuring to be unwound, the Group will account for the above transactions only when (a) the proposed listing of Beijing Tide is completed; (b) the Company elects to unwind the restructuring but such unwinding was not completed (if the proposed listing of Beijing Tide was not completed by 31 December 2013); or (c) the Company elects not to unwind the restructuring. On 23 December 2013, after amicable negotiations, the Company, France Investment Hong Kong and Mr. Tse Ping entered into a supplemental agreement (the "Supplemental Agreement") pursuant to which the parties thereto agreed to extend the Proposed Listing Date from 31 December 2013 to 31 December 2016.

(c) Key management personnel's remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Directors as disclosed in note 8 to the financial statements, is as follows:

	2017 **RMB'000**	2016 RMB'000 *(Restated)*
Salaries and other short-term employee benefits	**137,555**	89,715
Pension scheme contributions	**1,342**	948
	138,897	90,663

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2017

	Financial assets at fair value through profit or loss				
	Held for trading RMB'000	Designated as such upon initial recognition RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	943,726	–	–	–	943,726
Financial assets designated as at fair value through profit or loss	–	190,421	–	–	190,421
Available-for-sale investments	–	–	–	3,187,564	3,187,564
Trade and bills receivables	–	–	2,051,290	–	2,051,290
Financial assets included in prepayments, deposits and other receivables	–	–	2,818,505	–	2,818,505
Cash and bank balances	–	–	4,188,140	–	4,188,140
	943,726	190,421	9,057,935	3,187,564	13,379,646

2016 *(Restated)*

	Financial assets at fair value through profit or loss				
	Held for trading RMB'000	Designated as such upon initial recognition RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	408,557	–	–	–	408,557
Financial assets designated as at fair value through profit or loss	–	147,926	–	–	147,926
Available-for-sale investments	–	–	–	2,491,805	2,491,805
Trade and bills receivables	–	–	1,995,827	–	1,995,827
Financial assets included in prepayments, deposits and other receivables	–	–	3,024,905	–	3,024,905
Dividend due from an associate	–	–	349,199	–	349,199
Cash and bank balances	–	–	3,765,873	–	3,765,873
	408,557	147,926	9,135,804	2,491,805	12,184,092

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Financial liabilities

	Financial liabilities at amortised cost	
	2017	2016
	RMB'000	RMB'000
		(Restated)
Trade and bills payables	**928,607**	826,734
Financial liabilities included in other payables and accruals	**858,757**	801,112
Interest-bearing bank borrowings	**2,951,204**	3,048,441
	4,738,568	4,676,287

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		*(Restated)*
Financial assets				
Equity investments at fair value through profit or loss	**943,726**	408,557	**943,726**	408,557
Financial assets designated as at fair value through profit or loss	**190,421**	147,926	**190,421**	147,926
Available-for-sale investments	**3,187,564**	2,491,805	**3,187,564**	2,491,805
Trade and bills receivables	**2,051,290**	1,995,827	**2,051,290**	1,995,827
Financial assets included in prepayments, deposits and other receivables	**2,818,505**	3,024,905	**2,818,505**	3,024,905
Dividend due from an associate	**–**	349,199	**–**	349,199
Cash and bank balances	**4,188,140**	3,765,873	**4,188,140**	3,765,873
	13,379,646	12,184,092	**13,379,646**	12,184,092
Financial liabilities				
Trade and bills payables	**928,607**	826,734	**928,607**	826,734
Financial liabilities included in other payables and accruals	**858,757**	801,112	**858,757**	801,112
Interest-bearing bank borrowings	**2,951,204**	3,048,441	**2,641,503**	2,521,266
	4,738,568	4,676,287	**4,428,867**	4,149,112

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

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and dividend due from an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of the listed equity investments are based on quoted market prices.

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

Assets measured at fair value

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	**943,726**	**–**	**–**	**943,726**
Financial assets designated as at fair value through profit or loss	**190,421**	**–**	**–**	**190,421**

As at 31 December 2016 *(Restated)*

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	408,557	–	–	408,557
Financial assets designated as at fair value through profit or loss	147,926	–	–	147,926

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's bank borrowings with floating interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk.

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

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000	(Decrease)/ increase in equity RMB'000
2017			
HK$ – denominated borrowings	**50**	**(3,792)**	**(3,792)**
US$ – denominated borrowings	**50**	**(9,744)**	**(9,744)**
HK$ – denominated borrowings	**(50)**	**3,792**	**3,792**
US$ – denominated borrowings	**(50)**	**9,744**	**9,744**
2016 *(Restated)*			
HK$ – denominated borrowings	50	(4,962)	(4,962)
US$ – denominated borrowings	50	(6,988)	(6,988)
HK$ – denominated borrowings	(50)	4,962	4,962
US$ – sdenominated borrowings	(50)	6,988	6,988

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. In Mainland China, foreign investment enterprises are authorised to convert Renminbi to foreign currencies in respect of the current account items (including payment of dividend and profit to the foreign joint venture partner).

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

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2017			
If the Renminbi weakens against Hong Kong dollar	**5**	**132,620**	**242,824**
If the Renminbi strengthens against Hong Kong dollar	**(5)**	**(132,620)**	**(242,824)**
2016 *(Restated)*			
If the Renminbi weakens against Hong Kong dollar	5	41,489	248,504
If the Renminbi strengthens against Hong Kong dollar	(5)	(41,489)	(248,504)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, equity investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's liquidity remained strong as at the end of the reporting period. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group's exposure to liquidity risk is not significant.

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

2017

	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**Total RMB'000**
Trade and bills payables	**364,085**	**473,293**	**79,368**	**11,861**	**928,607**
Other payables	**226,264**	**462,288**	**132,504**	**37,701**	**858,757**
Interest-bearing bank borrowings	**666,278**	**47,450**	**27,579**	**2,209,897**	**2,951,204**
	1,256,627	**983,031**	**239,451**	**2,259,459**	**4,738,568**

2016 *(Restated)*

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	262,530	516,345	43,507	4,352	826,734
Other payables	291,937	294,548	139,446	75,181	801,112
Interest-bearing bank borrowings	716,717	1,725	651,031	1,678,968	3,048,441
	1,271,184	812,618	833,984	1,758,501	4,676,287

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as held-for-trading investments (note 24) as at 31 December 2017. The Group's listed investments are listed on the Hong Kong Stock Exchange and New York Stock Exchange, and the investments were valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 1% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments RMB'000	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2017			
Investments listed in			
Hong Kong – Held-for-trading	**863,241**	**8,632/(8,632)**	**8,632/(8,632)**
US – Held-for-trading	**80,485**	**805/(805)**	**805/(805)**
2016 *(Restated)*			
Investments listed in			
Hong Kong – Held-for-trading	380,951	3,810/(3,810)	3,810/(3,810)
US – Held-for-trading	27,606	276/(276)	276/(276)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's abilities to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group funds its operations principally via its capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company is as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000 *(Restated)*	1 Janaury 2016 RMB'000 *(Restated)*
NON-CURRENT ASSETS			
Property, plant and equipment	**2,521**	8,808	13,344
Investment properties	**370,163**	421,494	416,099
Investments in subsidiaries	**1,244,123**	919,028	859,721
Investments in associates	**44,231**	58,602	82,672
Available-for-sale investments	**199,503**	36,228	19,509
Financial assets designated as at fair value through profit or loss	**13,832**	12,392	15,796
Prepayments	**5,554**	15,374	–
Total non-current assets	**1,879,927**	1,471,926	1,407,141
CURRENT ASSETS			
Due from subsidiaries	**1,515,360**	1,816,623	1,262,576
Prepayments, deposits and other receivables	**384,823**	484,172	36,326
Equity investments at fair value through profit or loss	**943,726**	408,557	386,210
Cash and bank balances	**2,693,609**	2,382,172	1,141,711
Total current assets	**5,537,518**	5,091,524	2,826,823
CURRENT LIABILITIES			
Due to subsidiaries	**537,020**	1,161,138	218,649
Other payables and accruals	**103,566**	70,770	62,989
Interest-bearing bank borrowings	**679,495**	730,935	1,091,913
Total current liabilities	**1,320,081**	1,962,843	1,373,551
NET CURRENT ASSETS	**4,217,437**	3,128,681	1,453,272
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,097,364**	4,600,607	2,860,413
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	**2,179,897**	1,658,968	256,505
Total non-current liabilities	**2,179,897**	1,658,968	256,505
Net assets	**3,917,467**	2,941,639	2,603,908
EQUITY			
Share capital	**170,033**	170,033	170,033
Reserves (note)	**3,747,434**	2,771,606	2,433,875
Total equity	**3,917,467**	2,941,639	2,603,908

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
Balance at 1 January 2016	1,128,455	65,051	(338,613)	1,488,860	90,122	2,433,875
Profit for the year	–		–	531,629		531,629
Exchange differences related to foreign operations	–		181,675	–		181,675
Total comprehensive income for the year	–	–	181,675	531,629	–	713,304
Final 2015 dividend declared	–	–	–	–	(90,122)	(90,122)
Interim 2016 dividend	–	–	–	(285,451)	–	(285,451)
Proposed final 2016 dividend	–	–	–	(95,150)	95,150	–
At 31 December 2016 *(Restated)* and 1 January 2017	**1,128,455**	**65,051**	**(156,938)**	**1,639,888**	**95,150**	**2,771,606**
Profit for the year	**–**	**–**	**–**	**1,681,637**	**–**	**1,681,637**
Exchange differences related to foreign operations	**–**	**–**	**(255,845)**	**–**	**–**	**(255,845)**
Total comprehensive income for the year	**–**	**–**	**(255,845)**	**1,681,637**	**–**	**1,425,792**
Final 2016 dividend declared	**–**	**–**	**–**	**–**	**(95,150)**	**(95,150)**
Interim 2017 dividend	**–**	**–**	**–**	**(354,814)**	**–**	**(354,814)**
At 31 December 2017	**1,128,455**	**65,051**	**(412,783)**	**2,966,711**	**–**	**3,747,434**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

42. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2018, the Company entered into the acquisition agreements (the "Acquisition Agreements") with France Investment (China 1) Group Limited ("Vendor"). Pursuant to the Acquisition Agreement, (a) Vendor has conditionally agreed to sell, and the Company has conditionally agreed to acquire 51% of the entire issued share capital of Sino Biopharm Beijing for a consideration of approximately HK$9,207 million (equivalent to approximately RMB7,668 million) and (b) Vendor has conditionally agreed to sell, and the Company has conditionally agreed to acquire 52% of the entire issued share capital of Super Demand Investments Limited for a consideration of approximately HK$3,688 million (equivalent to approximately RMB3,072 million). The consideration for the Acquisition Agreements will be satisfied by the Company by the issuance of 1,013,002,116 Shares at the issue price of HK$12.73 per Share to Vendor. Upon the completion, the Company's interest in Beijing Tide will be increased to 57.6% and Beijing Tide will become a non-wholly owned subsidiary of the Company with its financial statements to be consolidated with the accounts of the Group. The completion of the issue took place on 1 March 2018.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2018.