石藥集團有限公司

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)

ANNUAL REPORT 2016

CONTENT

Corporate Information

BOARD OF DIRECTORS

Executive Directors:
CAI Dongchen *(Chairman and CEO)*
PAN Weidong
WANG Huaiyu
LU Jianmin
WANG Jinxu
WANG Zhenguo
LU Hua
WANG Shunlong
CHAK Kin Man

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
CHAN Siu Keung, Leonard
WANG Bo
LO Yuk Lam
YU Jinming
CHEN Chuan

COMMITTEES

Audit Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
WANG Bo

Nomination Committee:
CAI Dongchen *(Chairman)*
CHAN Siu Keung, Leonard
LO Yuk Lam

Remuneration Committee:
CHAN Siu Keung, Leonard *(Chairman)*
LEE Ka Sze, Carmelo
WANG Bo

AUDITOR

Deloitte Touche Tohmatsu

COMPANY SECRETARY

LEE Ka Sze, Carmelo

AUTHORISED REPRESENTATIVES

PAN Weidong
CHAK Kin Man

REGISTERED OFFICE

Suite 3206
32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
OCBC Wing Hang Bank Limited
Bank of China Limited
The Bank of Hebei Co., Ltd.
China Minsheng Banking Corp., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
The Export-Import Bank of China
Industrial and Commercial Bank of China
Bank of Communications Co., Ltd

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

STOCK CODE

1093

WEBSITE

www.cspc.com.hk

Financial Highlights

	2016 *HK$'000*	2015 *HK$'000*	Change in %	Change in % excluding foreign currency effects *(Note)*
Revenue by business units:				
Finished drugs				
Innovative drugs	**4,773,634**	3,775,220	26.4%	34.3%
Common generic drugs	**4,193,217**	4,018,485	4.3%	10.8%
Bulk drugs				
Antibiotics	**1,333,565**	1,718,436	(22.4%)	(17.6%)
Vitamin C	**1,308,687**	1,202,694	8.8%	15.6%
Caffeine and others	**759,938**	678,891	11.9%	18.9%
Total revenue	**12,369,041**	11,393,726	8.6%	15.3%
Gross profit	**6,308,809**	5,220,878	20.8%	28.3%
Operating profit	**2,649,484**	2,166,453	22.3%	29.9%
Profit attributable to shareholders	**2,100,848**	1,665,271	26.2%	34.0%

Note: Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi. Results stated on a constant currency basis are calculated by applying the average exchange rate of the prior year to current year local currency results.

Chairman's Statement

INDUSTRY OUTLOOK

During the "12th Five-Year Plan" period, the growth in pharmaceutical industry in China had gradually slowed down from high to moderate and has entered into a new norm. However, the Group has seen the existence of both opportunities and challenges. As a leading pharmaceutical enterprise in China, the Group has adapted to the healthcare reform by innovation and transformation. Business focus has been concentrated on developing high value-added new drugs, actively responding to market changes, exploring new businesses in the market and internationalisation of products and brand, with remarkable results achieved.

As we entered the "13th Five-Year Plan" period, the healthcare reform in China further deepened in 2016 with numerous policies introduced, involving drug manufacturing, drug distribution, quality supervision, drug usage and health insurance. Healthcare reform policies related to product quality bioequivalence evaluation and manufacture practice inspection are expected to gradually shift pharmaceutical production to large enterprises. Implementation of the two-invoice system, the change from business tax to value-added tax and the new GSP are expected to reshuffle the pharmaceutical distribution industry. Stringent usage restriction on antibiotic and inspection of product adverse reaction are expected to facilitate structural changes on end-users' drug usage. Moreover, the slow approval process for new drugs, policy tightening, tender price pressure and drug price negotiation have created a direct impact on the pharmaceutical industry. Under this challenging environment, pharmaceutical companies need to keep on seeking new business developments and growth drivers.

With the accelerating aging population, progress of urbanisation policy and increase in the people's income level in China, the demand for pharmaceutical products in China is expected to have a continuous increase. On top of that, factors such as deteriorating environmental pollution and unhealthy dietary habits have led to an increasing number of new cancer cases in China, with current number standing at about 3.5 million each year. As a result, the demand for effective treatment is growing year by year. In addition, the recent government policies on major innovative drugs have facilitated the development and market expansion of cancer drugs. With increasing concern for major and serious diseases, local provinces have also included more drugs for major and serious diseases in the medical reimbursement scope and supported the clinical use of domestic drugs in order to alleviate the burden of patients. Driven by these favorable factors, we expect the oncology drugs market in China will continue to maintain rapid growth in the future. Meanwhile, the increasing incidence of other senile diseases (such as cardio-cerebrovascular disease, senile dementia, diabetes, etc.) is also leading to a greater demand for medical treatment.

INDUSTRY OUTLOOK *(continued)*

In view of the massive size of population with the four major diseases mentioned above, the Group's "NBP", "Oulaining", "Xuanning", "Duomeisu", "Jinyouli", "Linmeixin" (glimepiride dispersible tablets) have huge market potential. On the other hand, the Group will also actively adapt to the policy direction towards tiered medical system and allocating more medical resources to the basic-tier market. The Group will make adjustments to its market strategy and step up the development of the basic-tier end-user market. With the revision of the national reimbursement drug list this year, the Group has 8 products newly included in the new national reimbursement drug list which will provide promising prospect on market expansion in the future.

BUSINESS OUTLOOK

Finished Drug Business

Innovative Drug Products

In recent years, the market share of innovative drugs continues to expand with a rapid growth momentum, with the product brands gaining reputation in the market. With the release of the new national reimbursement drug list, changes in the provincial medical reimbursement standards and the implementation of the two-invoice system, innovative drugs will face new opportunities and challenges. The Group will follow closely on the policy changes in order to seize opportunities and respond timely to challenges. For the provincial tenders, the Group will strive to maintain a reasonable tender price, constantly expand the market potential and extend the product life cycle to ensure sustainable and rapid growth for its products. With regard to the two-invoice system, the Group will consolidate and merge the distribution channels to ensure a smooth transition for our innovative drugs in the distribution channels. In the meantime, the Group will further improve its existing expert network through professional academic-based promotion, thus enhancing the reputation of its innovative drugs in the domestic market and bringing the market influence of its innovative drugs to a new level.

Common Generic Drug Products

The Group will seize the market opportunities provided by the new national healthcare reform, including the bioequivalence evaluation for generic drugs, medical reimbursement standards, tiered medical system and development of the basic-tier market. The Group will leverage the competitive edge of its product chain, quality control, brand value, channel structure and marketing team to expand its presence in the basic-tier medical market. In addition, the Group will gradually develop more generic drugs (including traditional Chinese medicines, pediatrics and gynecological drugs) which are in line with the government's direction, hoping to share the growth potential of the expanding basic-tier market. The Group will further cooperate with professional marketing teams to create pillar products with growth potential. It is expected that the common generic drug business will continue to have a stable growth in 2017.

BUSINESS OUTLOOK *(continued)*

Bulk Drug Business

In respect of the bulk drug business, the Group will continue its efforts in technology upgrades, production costs reduction, high-end quality certification, product quality enhancement and market expansion in order to increase the profitability and maintain the leading position in the industry. The Group will continue to closely monitor changes in the market and timely adjust its operating strategies. After several years of intense competition, the vitamin C market has started to demonstrate an upward trend. With its leading position in the industry, the bulk drug business of the Group is expected to remain stable in 2017 with certain products having the likelihood of achieving higher growth.

CAI Dongchen
Chairman

Hong Kong, 20 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year of 2016, the Group recorded sales of approximately HK$12,369 million, representing a 8.6% growth (or a 15.3% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of approximately HK$2,101 million, representing a 26.2% growth (or a 34.0% growth on a constant currency basis) year-on-year.

FINISHED DRUG BUSINESS

The finished drug business continued to achieve satisfactory growth in 2016, with sales reaching approximately HK$8,967 million, representing a 15.1% growth (or a 22.2% growth on a constant currency basis) year-on-year.

Innovative Drug Products

During the year, the Group continued its efforts in expanding its professional sales team, strengthening academic-based promotion and endeavoring hospital coverage expansion, whereas the new round of drug tenders also brought about new market potential. With these efforts made, the innovative drug business managed to continue its robust growth, along with continuous expansion of market share and a stronger presence and coverage in the high-end market. Sales for the year reached approximately HK$4,774 million, representing a 26.4% growth (or a 34.3% growth on a constant currency basis) year-on-year.

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

Following is an overview of the Group's major innovative drug products:

"NBP"

"NBP" series is a Class 1 new drug in China and a patent-protected exclusive product. Its major ingredient is butylphthalide, and the drug is mainly used for the treatment of acute ischemic stroke. Its soft capsule and injection forms were launched in 2005 and 2010, respectively. Both "NBP" soft capsule and injection forms have been listed in the latest edition of the national reimbursement drug list released in February 2017 (the "NRDL").

"NBP" has been awarded the "State Science and Technology Progress Award (Second Class)", the "Golden Award for Outstanding Chinese Patented Invention" and the "China Grand Awards for Industry". "NBP" is also listed as one of the recommended drugs in the "Guidelines for Acute Ischemic Stroke Treatment in China 2014" (the "Treatment Guidelines"), which serves to recognize the clinical efficacy of "NBP" in treating acute ischemic stroke, hence providing a solid basis for the academic-based promotion of "NBP". The Treatment Guidelines also mentioned the better efficacy results of the "NBP" sequential treatment group (14 days of "NBP" injection followed by 76 days of "NBP" soft capsules) against the control group in a study, which provides a sound basis for expanding the product's market potential. "NBP" also made progress in expanding into new treatment area. In addition to obtaining approval from the China Food and Drug Administration ("CFDA") for conducting clinical study of "NBP" soft capsules for the treatment of vascular dementia caused by ischemic stroke, the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China (2015 Edition)" published in August 2016 also pointed out the effectiveness of "NBP" in improving the cognitive function of patients with ischemic subcortical non-dementia-type vascular cognitive dysfunction as well as their ability to manage daily activities. The study of this new indication will create room for further expansion of the market potential for "NBP".

NBP (soft capsules)

NBP (injection)

Oulaining (capsules)

Oulaining (lyophilized powder injection)

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"NBP" *(continued)*

The new tender prices of "NBP" are largely stable and in line with the Group's product pricing strategy. It is expected that the new tenders will create more market opportunities for "NBP" injection. On the other hand, apart from achieving sustainable growth and vigorous expansion in the high-end market, the Group will gradually expand its coverage into the lower-tier medical markets. The Group will also continue to strengthen academic-based promotion by means of organizing academic conferences and initiating clinical study projects, so as to improve its expert network and enhance experts' recognition of the product. The inclusion of "NBP" injection in the new NRDL will also provide additional sales driver.

"Oulaining"

"Oulaining" series is available in the forms of capsule and lyophilized powder injection. Its major ingredient is oxiracetam, and the drug is mainly used for the treatment of mild to moderate memory and mental impairment resulting from vascular dementia, senile dementia and brain trauma. "Oulaining" lyophilized powder injection is an exclusive formulation in China, and has been awarded the "Hebei Province Science and Technology Progress Award (First Class)". At present, products of the "Oulaining" series are included in the tender and procurement lists of most provinces and cities in China. As both the national and local reimbursement drug lists will be progressively adjusted in 2017, the products of "Oulaining" series may have the chance of being included in more provincial reimbursement drug lists, aiding the oxiracetam market to further expand. Leveraging on this opportunity, the Group will adopt a more sophisticated approach in product positioning and market analysis for oxiracetam while continuing its professional academic-based promotion strategy to seek stable growth for "Oulaining" series.

Xuanning Duomeisu Jinyouli Nuolining

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Xuanning"

"Xuanning" series is available in the forms of tablet and dispersible tablet. Its major ingredient is maleate levamlodipine, and the drug is mainly used for the treatment of hypertension and angina pectoris. The product has been awarded the "State Technological Invention Award (Second Class)". With the aging population and the high prevalence rate of hypertension in China, the product has good market potential. After years of academic-based promotion, market development and clinical research, "Xuanning" has become a reputable brand among hypertension drugs in China, and is recommended by a number of domestic treatment guidelines. In 2017, the Group will continue to expand market coverage in areas with essential drug tenders won and concurrently increase marketing resources in areas with less robust sales in order to capture a bigger market share.

"Duomeisu"

"Duomeisu" (Doxorubicin hydrochloride liposome injection) is used as a first-line chemotherapy drug for the treatment of lymphoma, multiple myeloma, ovarian cancer and breast cancer. This product can also be used as a second-line chemotherapy drug for treating patients with improving progress of AIDS-related Kaposi's sarcoma, as well as patients who are intolerant of chemotherapy involving a combination of two or more of the following drugs: vincristine, bleomycin and doxorubicin (or any anthracycline antibiotics). The patented nano-membrane extrusion technique of "Duomeisu" can achieve a more consistent particle size of the liposome, ensuring the target enrichment effect of the liposomal drug and significantly minimizing cardiotoxicity, hair loss, nausea, vomiting and other side effects. The product has good market prospects given that the current market penetration rate of doxorubicin hydrochloride liposome injection in China is relatively low.

Ouyi

Gubang

Weihong

Guoweikang

Management Discussion and Analysis

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Jinyouli"

"Jinyouli" (PEG-rhGCSF injection) is the first long-acting white blood cell booster drug in China. It is used to decrease the incidence of infection due to a low white blood cell count in patients receiving chemotherapy, thus ensuring the chemotherapy can proceed according to schedule and dosage. Clinical researches of this drug have been conducted in China on various cancers, including lung cancer, breast cancer and lymphoma. It is also a key drug recommended by the treatment guidelines in China for clinical use. PEG-rhGCSF injection is a product newly introduced to China in recent years, market potential is huge. The inclusion of PEG-rhGCSF in the new NRDL significantly enhances the competitive advantage of "Jinyouli" and provides an additional sales driver.

"Ailineng"

"Ailineng" (Elemene injection) is a drug mainly used for the treatment of nerve glioma, brain metastases, and adjuvant treatment of malignant pleural and peritoneal effusion. The upgraded liquid formulation of this product has obtained patent in China. Compared with the traditional emulsion formulation, the liquid formulation contains elemene with enhanced purity and volume.

"Nuolining"

"Nuolining" (Imatinib mesylate tablets) was launched in 2015 as the Group's first approved small molecule targeted cancer drug. It is a first-line drug mainly used for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML) and Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL). This product (Imatinib mesylate tablets) is now reimbursable according to the new NDRL.

Common Generic Drug Products

During the year, the Group was dedicated in participating provincial tenders as well as online bidding, price negotiation and delivery across districts and counties in a meticulous manner. It has also organized various interactive activities in the end-user market. For instance, the promotion of best treatment options for common diseases and frequent diseases in the low-tier end-user market has enhanced the standard of services provided by medical practitioners and concurrently reinforced the reputation of the Group's common generic drugs in the low-tier market.

Linmeixin

Shuluoke

Ganmao Qingre soft capsules

Qingre Jiedu soft capsules

FINISHED DRUG BUSINESS *(continued)*

Common Generic Drug Products *(continued)*

Additionally, the Group has progressively enriched its common generic drug portfolio. New products launched during the year include "Niuhuang Jiangya capsules (牛黃降壓膠囊)", "Xiao'er Anfen Huang Namin granules (小兒氨酚黃那敏顆粒)" and "Jian'er Qinjie solutions (健兒清解液)", all of which are in line with the Chinese government's current support for the development of Chinese medicine and pediatric drugs and have growth potential. The Group will continue to fully make use of the strength of its sales and marketing team and distribution channels with the goal of developing strategic products for the low-tier market, capturing the opportunities in the Chinese medicine and pediatric drug markets as well as the expanding low-tier market. Furthermore, a series of sporoderm-broken health supplement products launched this year have recorded satisfactory sales and become the Group's new niche with growth potential.

The Group's Chinese medicine soft capsule product series (including "Qingre Jiedu soft capsules (清熱解毒軟膠囊)", "Ganmao Qingre soft capsules (感冒清熱軟膠囊)", "Yin Huang soft capsules (銀黃軟膠囊)", "Xiangsha Yangwei soft capsules (香砂養胃軟膠囊)" and "Huoxiang Qushu soft capsules (藿香祛暑軟膠囊)") have attained sound growth during the year. Meanwhile, the Group's high-end antibiotic product "Zhongnuo Shuluoke (中諾舒羅克)" (meropenem for injection) and health supplement product "Guoweikang (果維康)" (vitamin C tablet) have also recorded rapid growth for several consecutive years. Products for chronic diseases also represent one of the Group's key development areas. Sales of the existing product series including "Qinkexi (勤可息)" (enalapril maleate tablets), "Gubang (固邦)" (alendronate sodium enteric-coated tablets/tablets), "Ouyi (歐意)" (aspirin enteric-coated tablets), "Ouwei (歐維)" (mecobalamin tablets) and "Linmeixin (林美欣)" (glimepiride dispersible tablets) have also achieved rapid growth during the year.

In 2016, the common generic drug business maintained stable growth with sales reaching approximately HK$4,193 million, representing a 4.3% growth (or a 10.8% growth on a constant currency basis) year-on-year.

BULK DRUG BUSINESS

Antibiotics

As affected by the sluggish market demand and increasing market supply, there was a general decline in the prices of the antibiotic products in 2016, resulting in a significant deterioration in the business performance during the year. Difficult market conditions are expected to remain for a certain period of time. The Group will continue to implement a number of measures such as technology upgrade, management reinforcement, energy saving and consumption reduction in order to continuously reduce the production costs and maintain its leading position in the industry.

Vitamin C

Overcapacity of the vitamin C market still lingered in 2016, yet the product price, which has hit the bottom, rebounded after years of continual volatility. In the first half of the year, the Group focused on market development and production technology improvement, resulting in an increase in sales volume and a continuous decrease in production costs. In the second half of the year, the Group was devoted to seizing market opportunities, realigning customer structure and expanding market coverage. Benefited from a rebound in product price and a decrease in production costs, the vitamin C business successfully turned around from loss-making to profit-making this year.

BULK DRUG BUSINESS *(continued)*

Caffeine and Others

In 2016, the market demand of caffeine remained stable while product prices recorded a slight increase. The Group also succeeded in increasing market share and lowering production costs during the year. As a result, the overall business performance has further improved.

RESEARCH AND DEVELOPMENT

The Group continued to invest in the research and development of new products, and currently has approximately 170 new products under research and development, primarily focusing on the therapeutic areas of cardio-cerebrovascular, diabetes, oncology, neurology and anti-infection. Among these products, 15 are Class 1 new drugs and 50 are Class 3 new drugs.

In 2016, the Group has submitted clinical trial application for 2 products and production application for 4 products (namely "paclitaxel for injection (albumin-bound)" (new Class 4 chemical drug), "moxifloxacin hydrochloride raw material and tablets" (Class 3+6 chemical drug), "metformin hydrochloride extended-release tablets" (Class 6 chemical drug) and "metformin hydrochloride tablets" (Class 6 chemical drug) to the CFDA; and has obtained production approval for 5 products (namely "cefamandole nafate for injection", "cefmetazole sodium for injection", "doxorubicin hydrochloride liposome injection (additional specification)", "ambroxol hydrochloride injection (additional specification)" and "pitavastatin calcium raw material") and clinical trial approval for 55 products (including Class 1 new drugs "SKLB1028 capsules", "ammoxetine hydrochloride tablets" and "recombinant glucagon-like peptide 1 receptor agonist (rE4) injection") from the CFDA.

At present, the Group has 28 products pending for production approval by the CFDA (including 4 Class 3 new drugs) and 20 products undergoing bioequivalence studies or clinical trials (including 9 Class 1 new drugs).

With regard to the Abbreviated New Drug Application ("ANDA") in the U.S., the Group has submitted application for 4 drugs (namely "montelukast sodium tablets", "montelukast sodium chewable tablets", "memantine hydrochloride tablets" and "benzonatate soft capsules 100 mg") and obtained approval for 3 drugs (namely "metformin hydrochloride tablets", "metformin hydrochloride extended-release tablets" (change of production site) and "clopidogrel hydrogen sulfate tablets") during the year. Currently, the Group has a total of 7 drugs with ANDA application submitted, and a total of 16 drugs in the research phase.

Meanwhile, the phase II clinical trial of "butylphthalide soft capsules" in the U.S. is in the stage of selecting clinical centers to conduct the clinical research. It is expected that subjects will be enrolled for the phase II clinical trial in the first half of 2017. The Investigational New Drug ("IND") application for "mitoxantrone hydrochloride liposome injection" in the U.S. has also been approved by the U.S. FDA to commence clinical trials during the year. At present, the protocol for clinical trial has passed the ethical evaluation and has started subject screening.

The Group also proactively explored cooperation opportunities with overseas pharmaceutical enterprises. During the year, the Group entered into agreements with four foreign pharmaceutical companies in relation to product technology licensing and commercialization of the Group's drugs in the overseas market. According to these agreements, the Group is entitled to receive milestone payments in line with the progress of the products' application and future sales performance, and a share of sales or profit after product launch.

Management Discussion and Analysis

FINANCIAL REVIEW

Results

	2016	2015	Change
Revenue *(HK$'000)*			
Finished drugs	**8,966,851**	7,793,705	15.1%
Bulk drugs	**3,402,190**	3,600,021	(5.5)%
Total	**12,369,041**	11,393,726	8.6%
Operating profit *(HK$'000)*	**2,649,484**	2,166,453	22.3%
Operating profit margin	**21.4%**	19.0%	
Profit attributable to Shareholders *(HK$'000)*	**2,100,848**	1,665,271	26.2%
Net profit margin	**17.0%**	14.6%	
Basic earnings per share *(HK cents)*	**35.25**	28.18	25.1%

Finished drug business continued to be the major growth driver to the Group. In particular, the innovative drugs of the Group delivered a strong growth in 2016 with aggregate sales reaching approximately HK$4,774 million, representing a growth of 26.4%. Revenue from innovative drugs as a percentage of the total revenue of the Group further increased from 33.1% in 2015 to 38.6% in the current year. Mainly driven by the growing contribution from the innovative drugs, operating profit margin and net profit margin of the Group improved to 21.4% and 17.0% in 2016, respectively. Profit attributable to shareholders increased by 26.2% to HK$2,101 million with a corresponding 25.1% increase of basic earnings per share to HK35.25 cents in 2016.

Liquidity and Financial Position

In 2016, the Group's operating activities generated a cash inflow of HK$2,916 million (2015: HK$2,249 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) further improved from 49 days in 2015 to 41 days in 2016. Compared with the bulk drug business, the finished drug business has a longer inventory turnover period in light of its business model. Given that the finished drug business has taken up a bigger proportion of the overall business of the Group, the average turnover period of inventories (ratio of balance of inventories to cost of sales) of the Group increased from 108 days in 2015 to 116 days in 2016. Current ratio of the Group was 2.1 as at 31 December 2016, remaining stable as compared to 2.2 a year earlier. Capital expenditure for the year amounted to HK$1,134 million, which were mainly spent to expand the production capacities and improve the production efficiency.

The Group's financial position remained solid. As at 31 December 2016, total bank balances and cash amounted to HK$3,238 million (2015: HK$2,306 million) and total borrowings amounted to HK$1,138 million (2015: HK$1,463 million), resulting in a net cash position of HK$2,100 million (2015: HK$843 million). Total borrowings comprised bank loans of HK$1,096 million and loan from a related company of HK$42 million. HK$898 million of the total borrowings are repayable within one year and the remaining HK$240 million repayable between two to three years. Gearing ratio further reduced from 16.6% as at 31 December 2015 to 11.2% as at 31 December 2016.

FINANCIAL REVIEW *(continued)*

Liquidity and Financial Position *(continued)*

24.3% of the Group's borrowings are denominated in Hong Kong dollars, 8.2% in United States dollars and 67.5% in Renminbi. The Group's sales are denominated in Renminbi for domestic sales in China and in United States dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its net foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

Employees

As at 31 December 2016, the Group had approximately 10,529 employees. The majority of them are employed in mainland China. The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and individual employee.

SUSTAINABLE DEVELOPMENT STRATEGIES

The Group will continue to pursue the development strategies of (i) active development of innovative drug business; (ii) continuation of products internationalization; and (iii) consolidation of leadership in bulk drug business in order to achieve long-term sustainable growth.

Environmental, Social & Governance Report

INTRODUCTION

This report is the first environmental, social and governance report issued by the Group. The Group prepared this report with reference to Appendix 27 *Environmental, Social and Governance Reporting Guide* to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and would like to take this opportunity to report to the shareholders and stakeholders on our efforts in corporate social responsibility and sustainable development during the financial year of 2016.

ENVIRONMENTAL PROTECTION

The Group actively builds a sound environmental protection and management system, sets up dedicated departments for the supervision and management of environmental protection and occupational health and safety, and adopts a management approach under which our head office and subsidiaries will be responsible for the efficiency supervision and daily operation, respectively. The operation management department at the Group's head office is responsible for monitoring the overall management of environmental protection while our subsidiaries also have specific environmental protection departments. In 2016, the Group's major subsidiaries were awarded the ISO14001 Environmental Management System Certification.

The Group is committed to the identification of hazardous sources and risk management and enhances our environmental protection performance through continuous assessment and review of various performance indicators. In order to better fulfil the requirements of laws and regulations, the Group enhances awareness of the existing laws and regulations from time to time, conducts extensive studies on the new and revised laws and regulations in a timely manner and undertakes comprehensive compliance assessment to ensure amendments can be timely made on relevant policies and procedures. Meanwhile, through our intranet, training programs and meetings before and after duty in the production workshop, the subsidiaries of the Company disseminate the knowledge in relation to environmental protection policies and regulations to relevant departments and employees so as to improve their understanding on applicable national laws and regulations and local standards and increase corporate environmental protection awareness.

The Group has set up a contingency mechanism for environmental emergencies and formulated "Environmental Emergency Response Plan" based on the situation of each subsidiary to ensure that the emergency measures can be implemented quickly and efficiently to minimise the damages to the environment caused by environmental emergencies and the loss of our business operations. In addition, the Group has established an incident investigation mechanism for environmental protection and occupational health and safety and has created a database on incident information to compare, evaluate and forecast various incidents, and formulate practicable precautionary measures based on investigation and analysis.

1. Pollutant Emission

The Group strictly complied with the following laws and regulations on pollutant emission and the relevant regulations and amendments issued by Hebei Province and Shijiazhuang:

- Environmental Protection Law of the People's Republic of China (the "PRC");
- Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Waste:
- Law of the PRC on the Prevention and Control of Water Pollution;
- Law of the PRC on the Prevention and Control of Atmospheric Pollution; and
- Law of the PRC on the Prevention and Control of Pollution from Environmental Noise.

ENVIRONMENTAL PROTECTION *(continued)*

1. Pollutant Emission *(continued)*

Each subsidiary performs annual compliance evaluation on their pollutant discharge, prepares operation report for the environmental management system and assessment form for the compliance with environmental laws and regulations to identify and correct the deficiencies based on the analysis results, and amends the management system for waste water discharge and solid waste treatment from time to time.

In addition, our subsidiaries set up a pollution emission automatic monitoring system in accordance with the requirements of governmental environmental protection departments to ensure that they can pass the conformity assessment on relevant laws and regulations of governmental supervision departments and obtained "Pollutant Discharge Permit of Hebei Province" issued by the Hebei Provincial Environmental Protection Bureau in 2016. The Group also conducts internal review on the environmental management system on a regular basis and prepares non-compliance reports to formulate corrective actions for the workshops with non-compliance items and to monitor and verify the effectiveness of those measures.

The Group attaches great importance to the impact of our production process on the surrounding environment. In 2016, the Group continued to strengthen the surveillance of atmospheric pollutants, sewage and industrial solid wastes generated from various workshops, timely track and respond to any excessive pollutant emission and continuously reduce the overall pollution emissions so as to ease the pressure on our end-of-pipe treatment.

Waste Gas Emissions

Atmospheric environmental protection is closely associated with the fundamental interests of the people and the sustainable and healthy development of the economy. At present, China's atmospheric pollution situation is grim. The regional atmospheric environmental problems characterized by the respirable suspended particulates (such as PM2.5) become increasingly prominent, causing damages to people's health and affecting social harmony and stability.

The Group actively manages waste gas emissions generated during the production process. In addition to the enclosed collection of waste gas emissions, the Group also constructs various advanced exhaust gas absorption devices (such as carbon fibre adsorption in the collection system, alkaline spray and active carbon adsorption and UV photocatalytic technology, etc.) to ensure that our subsidiaries can meet the requirements of emission standards for industrial enterprises.

In 2016, the National Development and Reform Commission of the PRC ("NDRC") issued the "Notice on Earnestly Implementing the Key Works of the National Carbon Emissions Trading Market", pointing out that the greenhouse gas emissions accounting methods and reporting guidelines shall be conducted by the enterprises in accordance with the relevant notifications issued by the NDRC since 2013. The Group will pay close attention to the development of the national carbon emissions trading market, actively master the accounting and reporting requirements of greenhouse gas emissions and strengthen the relevant data management.

ENVIRONMENTAL PROTECTION *(continued)*

1. Pollutant Emission *(continued)*

Waste Water

The industrial waste water discharged into the pipes by our subsidiaries containing pollutants (such as chemical oxygen demand ("COD") and ammoniac nitrogen) is pre-treated by the internal sewage treatment station of the factories before being discharged into the municipal sewage treatment system to ensure that the outward-discharged waste water can meet the national integrated wastewater discharge standard. Sewage treatment station adopts multi-level biological treatment processes, including advanced Internal Circulation ("IC") anaerobic process, membrane biological reactor ("MBR") film technology and high-efficiency composite microbial technology, to effectively reduce the pollutants contained in the waste water before the decomposition process. In order to ensure stable operation of the environmental protection facilities throughout the year, our environmental protection professionals adhere to the "Standard Operating Procedures for the Processing System in Environmental Protection Station", pursuant to which 24-hour shift inspection and test on water discharge will be conducted and regularly spot-checked by the competent departments, and timely take emergency measures upon discovering any deviations in the sewage discharge.

Solid Waste

Industrial solid waste can be broadly categorised as non-hazardous or hazardous waste. The Group appointed dedicated personnel to manage the hazardous wastes which are collected and classified according to National Catalogue of Hazardous Wastes. The packaging and storage areas of hazardous wastes are labeled for proper storage. After the hazardous wastes have been centrally collected, qualified company will be engaged to carry out centralised detoxification treatment to ensure that the hazardous waste disposal fulfills the compliance requirement. The environmental protection departments of each subsidiary make further suggestions on the compliance management of hazardous waste in accordance with the amendments to National Catalogue of Hazardous Waste published in 2016 and organise staff training on the implementation of the relevant environmental protection policies. Domestic and non-hazardous solid waste is collected by the municipal environmental hygiene department.

2. Energy Consumption

The Group established and continuously optimised our energy management system, implemented standardised and systematic energy-saving supervision and management, supported the promotion of energy conservation and energy efficiency improvements in accordance with the requirements of "Law of the PRC on Conserving Energy" so as to promote a comprehensive, coordinated and sustainable development of the economy and society.

The production department imposes quotas on various types of energy consumption in the production workshop to promote energy measurement management. Subject to semi-annual revision and adjustments under special circumstances, the energy consumption quota is determined by the production departments according to production operating conditions. The workshop of each subsidiary then sets the consumption quota for each production process and major energy-consuming equipment in the workshop based on the top down targets. The production department is also responsible for the statistical analysis on energy consumption and energy use by conducting monthly accounting on energy consumption quota in each workshop and reviewing daily and weekly energy reports of the workshops. The production department also establishes "Energy Purchase and Use Ledger" to account for and compile statistics on the classified data of various types of energy consumption to ensure that our energy consumption statistics are true and complete.

ENVIRONMENTAL PROTECTION *(continued)*

2. Energy Consumption *(continued)*

The Group continues to pay attention to the major energy-consuming equipment in our workshops. According to the operational status of the equipment, production demand and criteria for energy consumption classification, the Group screens out the key facilities with higher energy consumption (including electricity, steam and water). The workshops step up energy conservation management on these key energy facilities in accordance with the principle of rational use of energy, put forward recommendations or plans for energy-saving measures, as well as provide regular energy-saving education and on-the-job energy-saving training.

3. Environment and Natural Resources

The Group strictly complies with relevant provisions under the "Law of the People's Republic of China on Promoting Clean Production" and has been dedicated to further reduce pollutant emissions and extend our governance on industrial pollution sources.

During 2016, each of our subsidiaries continues to actively promote clean production, strengthen industrial pollution control, improve our production process design, use clean energy and materials and employ advanced workmanship, technology and equipment. The Group truly understands that pollution reduction at source and improvement on the resource efficiency are the only ways to reduce or avoid the generation and discharge of pollutants during our production process and mitigate or eliminate the threats against surrounding community environment and the residents' health.

The production departments of our subsidiaries understand the requirements on clean production imposed by the government and environmental protection bureau from time to time. At present, our subsidiaries strive to promote the following five technological transformation projects for energy conservation and emission reduction:

- Emission reduction at source: reducing chemical oxygen demand (COD), waste water, waste gas and solid waste emission;
- Water conversation: saving water resources;
- Energy conversation: saving energy, such as steam and electricity, etc;
- Consumption reduction: lowering the consumption of raw and supplemental materials;
- Improvement of technical indicators: enhancing the output, input and production yield of products or other production indicators.

The Group prioritises the investment in environmental governance as well as energy conservation and emission reduction to ensure that our production process meets the increasing regulatory requirements of the environmental protection policy and the relevant national pollutant emission standards. In recent years, the Group's investment in energy conservation and emission reduction has been mainly used for the improvement of sewage treatment facilities and recycling processes, upgrade of infrastructure and environmental protection technologies.

ENVIRONMENTAL PROTECTION *(continued)*

3. Environment and Natural Resources *(continued)*

Furthermore, the Group sets up a leading group for clean production and energy management to coordinate the clean production reviews comprising various departments and the implementation of clean production projects, develop annual work plan for clean production, hand out rewards or punishments in accordance with the "Clean Production Appraisal System". Review on clean production is a dynamic and continuous process. Each workshop complies with the established clean production procedures to manage and continuously improve the Group's performance in clean production.

The workshops of each subsidiary also set up a bulletin board for clean production to promote clean production knowledge and clean production in workshops. They also formulate training plans and compile training materials for clean production, with a hope to increase the awareness for clean production of our staff through series of clean production training and promotion.

EMPLOYMENT AND LABOUR PRACTICES

Talent is the most important capital of an enterprise. The Group's development benefited from the decent management team with advanced management philosophy and our excellent research and development ("R&D") team with the capability on technological innovation.

The Group has a human resources department responsible for the formulation of human resources policy and carrying out human resources strategic planning, personnel recruitment, personnel training, labour relations, remuneration and benefits, talent selection and evaluation and development of corporate culture. Each subsidiary establishes a corresponding human resources management department responsible for the implementation and execution of policies framed by the Group's human resources department and carry out relevant human resources management. The Group also developed policies for regular human resources meetings which are held at the beginning of each month to bolster the communication on policies and information exchange among the Group's head office and subsidiaries.

The Group has established various human resources management systems to specify the employees' interests and related regulations on labour relations and is committed to building a corporate culture with integrity and observance. "Rely on talent, foster talent and thrive on talent" has always been the Group's talent development philosophy. Under the guidance of such philosophy, the Group has gradually established a comprehensive staff remuneration, training and development mechanism to design and build a full range of career development and promotion channels for managements, professional technical personnel and operational staff.

Talent Structure

As of the end of December 2016, the Group has 10,529 serving employees, increased by 506 as compared to the end of 2015, in which male and female employees accounted for 5,711 (54.2% of the total) and 4,818 (45.8% of the total) respectively. During the year, the Group continued to optimise its employee structure and adhere to the guidelines mentioned below for improving talent structure to support our business transformation in recent years.

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Talent Structure *(continued)*

Staff Rejuvenation: The Group attaches importance to the rejuvenation of staff and the formation of a new generation of talent to better align our employee structure with the future business development of the Group, through which an increasing number of young people will take up core positions and become our backbone force. As of the end of December 2016, the total number of employees aged 35 years or below is 6,056, which accounted for 57.5% of the Group's total headcount.

	Total	Aged 25 and below	Aged 26-35	Aged 36-45	Aged 46-55	Aged 56 and above
Age	10,529	1,712	4,344	3,162	1,210	101

Upgrade of Academic Qualification: The Group introduces a pool of outstanding talents each year and recruits staff with higher academic level while filling the vacancies for junior position to cultivate backup personnel of the Company. As of the end of December 2016, the number of employees holding academic qualification of bachelor degree and above accounted for 32.2% of the Group's total headcount.

	Total	Doctoral degree	Master degree	Bachelor degree	Junior college	Below junior college
Academic qualification	10,529	35	465	2,886	3,405	3,738

The Group clearly defines the functions and responsibilities of positions at all levels and allocates our staff through a combination of internal and external recruitment to effectively carry out human resource management, such as recruitment and training.

Lawful Employment

The Group strictly abides by the provisions of relevant regulatory requirements of the "Labour Law of the PRC" (the "Labour Law") and the "Law on Labour Contract of the RPC" ("Law on Labour Contract") and safeguarded the legitimate rights and benefits of the employees to exert full efforts to build a harmonious and stable labour relations, and therefore was awarded the "Hebei Province's AAA Harmonious Labour Relations Enterprise" and the "National Advanced Enterprise for Employment". The Group's subsidiaries have always held fast to the following employment principles to ensure that employees have the best legislative protection:

1. Implementing an integrated collective contract system. Through negotiation on an equal footing to constantly improve the effectiveness of collective contracts and focus on the quality of formulation and performance of collective contracts in order to build a harmonious labour relations between enterprises and employees;

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Lawful Employment *(continued)*

2. Employing labour legally and signing labour contracts with all employees to ensure that both parties execute, amend, resolve and terminate the labour contracts in accordance with national laws and regulations and the relevant rules of the Company and make contribution to the social insurance lawfully;

3. Establishing regulations on recruitment. The Group is responsible for the management of recruitment to ascertain that new recruits are aged 18 or above to comply with the age requirement as set out in the Labour Law so as to ensure the legitimacy of recruitment to prevent and control the relevant legal risks;

4. Implementing the statutory paid annual leave system. The Group forbids the use of forced labour and respects the employees' right to rest so that our employee's work life balance is guaranteed;

5. Protecting the legitimate rights and interests of female workers. The Group takes appropriate and reasonable care of female workers during the three specific periods (pregnancy, perinatal and lactation) and arrange appropriate positions for them;

6. Engaging the labour union to arrange various kind of activities like employee contest, employee rights protection, recreational activities and staff retreat to combine their work and life together and establishing the labor congress as the basic form of a democratic management system;

7. Establishing a sound wage distribution and payment system to make timely and full payment of wages and adhering to sharing the fruits of enterprise success with our employees that the employees' wages will increase together with the Group's growing economic benefits.

Talent Introduction

A team of technical experts in the industry comprising high-end talents is prerequisite for the development and product innovation of an enterprise. The Group determines the objectives, directions and focuses of the talent introduction, adopts an effective and open policy for the talent introduction, makes every efforts to attract local and overseas innovative talents irrespective of geographical locations and uses talent without sticking to one pattern after the introduction. After years of building up a reserve and cultivation, the Group has an advanced research team to serve as the Group's strong engine for scientific research with an aim to being among the highest in domestic pharmaceutical industry through our strong capabilities in R&D of new drugs.

The Group cooperates closely with China Pharmaceutical University and Shenyang Pharmaceutical University to cultivate high-end talents, such as master and doctoral holders, to provide students with practical opportunities and platform on one hand, and on the other hand, to provide technical support to the universities to train their professionals. Meanwhile, the Group built a good relationship between schools and enterprises with certain colleges and secondary schools, such as Hebei Chemical & Pharmaceutical College, Hebei College of Industry and Technology, Shijiazhuang University of Applied Technology, Shijiazhuang Machinery Technical School and Shijiazhuang North China Pharmaceutical Technical School.

Each year, a large number of students visit and take up internship in the Group's subsidiaries which became an important base for internship of these institutions. The Group provides scholarships at six national key institutions, such as China Pharmaceutical University, Shenyang Pharmaceutical University, Tianjin University, Nankai University, Jilin University and Hebei Medical University, to effectively assist each institution in training more outstanding students and provide the Group with a constant supply of professional and technical talent of all kinds for our future development.

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Professional Training

The Group emphasizes on the professional training of talents and manages on-the-job training and technical improvement of our employees by adopting approaches that enable the employees to grow with the enterprise so as to gradually establish a talent pool for various kind of management and key technical positions and carry out the talent nurturing program for potential employees to provide talent for corporate sustainability.

The Group is committed to building a training system for staff at different stages, covering new employee training, new employee tutor system, staff management training for promotion, Master of Business Administration/Executive Master of Business Administration ("MBA/EMBA") competency training, English training, overseas working, regular domestic and overseas academic exchanges and post-doctoral workstations, etc.

Our existing employees are required to receive specialised training annually from their departments in relation to relevant technical and regulatory knowledge in safety, quality, environmental protection and labour regulations to effectively promote common legal knowledge and corporate governance according to law. Moreover, the Group has established connections with Peking University, Tsinghua University, Shenyang Pharmaceutical University and China Pharmaceutical University. Each year, the Group will select certain outstanding talents to pursue further study in these universities.

Development and Incentive

The Group has been creating a working environment that can attract, cultivate and motivate the growth of talents and is committed to providing a platform for fair competition to ensure that all employees have equal opportunities for development and growth so as to strive to retain talents with sincerity and career development opportunities. Our subsidiaries also organise new staff forum on a regular basis to understand the working conditions, living conditions and needs of new hires and provide a variety of supports and services, in the hopes of building an employment mechanism that places importance on both morality and performance.

In order to effectively select the management team, the Group introduces a human resources development and management model based on the principle of competency and establishes an evaluation and selection system for relevant management personnel so that the Group can effectively cultivate and select a large number of young and outstanding management talents over the years. With regard to establishing a professional technical team, the Group has gradually constructed the "Professional Tier and Qualification Management System", under which regular assessment and evaluation will be conducted on the professional capabilities and core competencies of our professional technical personnel. Appropriate technical duties and remuneration will be given to encourage our professional technical personnel to consistently make assiduous effort in their technological study.

In addition, the Group has designed an attractive remuneration system to highlight the contribution of a particular position while fully reflect the incentive pay. Under the remuneration system for our management and professional technical staff, the Group adopts a broadband salary structure based on position, capability and performance to reduce the number of salary grades and increase the salary range floating within the same grades. With the evaluation on competency and qualification, the Group regularly adjusts the pay rise for promotion and raises the salary level, so that competent talents can achieve a full development within the enterprise.

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Occupational Health and Safety

The Group considers production safety as a fundamental point of our production management and adheres to the production safety approach of "Safety first, Prevention Foremost and Comprehensive Management" with thorough implementation of the relevant law and regulations of the "Law on Production Safety of the PRC". Every employee in each of our subsidiaries is encouraged to strictly perform their respective safety responsibilities in their own positions, conscientiously promotes the responsibility system for production safety and realise full participation of our employees during the entire course of production safety management.

Production Safety

The Group establishes a sound production safety management system dedicated to the promotion of OHSAS18001 Occupational Health and Safety Management System and the implementation of the "Framework for Occupational Health and Safety Management System" and requires the production department of our subsidiaries to consider matters related to occupational health and safety during the establishment and formulation of production procedures. Each of our manufacturing subsidiaries possessed various conditions for safe production, passed relevant certification for occupational health and safety management system and safety standardization assessment and obtained safety production permit.

The Group's operation management department leads the safety management of each of our business units and subsidiaries. It organises monthly regular meetings on production safety which allow key managers of each subsidiaries to report the operation of occupational health and safety management system, the current progress of the occupational health and safety projects, the hidden danger investigation and rectification for production safety. The key managers also propose the arrangement and specific views on the next phase of the production safety work.

In terms of the production process management, the Group developed a risk analysis system for production and workmanship procedures detailing the preparation, review and usage of the operating procedure used in our production and the rules on safety training processes, content, frequency and record management. The Group upgrades our existing old production processes and equipment from time to time according to the Company's needs for technological transformation, improve the operating practices that do not fulfill the production safety requirements, progressively eliminate the backward production processes and equipment, reduce and remove the production processes generating hazardous substances to reduce occupational risks and improve the working environment.

For the avoidance of injuries and fatalities caused by the equipment, the technical transformation and equipment department of our subsidiaries carry out comprehensive and professional inspection on all equipment of various kinds on a regular basis and prepare and approve the equipment overhaul plan of all subsidiaries to ensure the proper functioning of our dust-proof and gas-proof protective equipment and labour protection facilities. In case of any equipment failure, each department will immediately collaborate with the investigation unit to carry out investigation and evidence collection, provide remedies and accurately report the incident in a timely manner as required.

Occupational Health

The Group has a sound occupational health surveillance system to ensure the implementation of surveillance work related to occupational health and strengthen the management in prevention and control of occupational disease. The major departments and workshops constantly optimise the occupational health management proposal according to occupational health target. The Group's operation management department conducts regular inspections and evaluations on the occupational health situation in various departments to ensure that all departments can accomplish our pre-determined targets. In 2016, each of the Group's subsidiaries achieved the target for occupational health and safe management — "Five Zero and One Low" (zero death, serious injuries, multiple injuries, occupational diseases and poisoning incidents as well as low incident rate of minor injuries).

EMPLOYMENT AND LABOUR PRACTICES *(continued)*

Occupational Health *(continued)*

In accordance with the requirements of the "Law of the PRC on Prevention and Control of Occupational Diseases", the Group provides occupational health examinations for employees in the positions exposed to occupational disease hazards and appoints the testing organisations with relevant qualifications to carry out occupational risk detection for the positions exposed to dust and hazardous gas. The occupational health surveillance records are updated and properly kept from time to time to effectively monitor the occupational health conditions of our employees transferred out of and leaving the positions.

In the event that the workers are diagnosed with occupational diseases, our subsidiaries will make timely arrangements for their treatment or convalescence in accordance with the opinion given by the occupational disease diagnosing institution. If the employee is confirmed to be not suitable for their original positions subsequent to the treatment or convalescence, the department will transfer him/her away from original position and arrange other suitable tasks.

The hazardous chemicals used in the workshops (such as hydrogen sulfide, methanol and toluene, etc.) bear safety labels. Associated equipment and facilities are required to operate in an enclosed area to prevent leakage. Safety technical manual is provided for our operating staff while labor protection equipment in compliance with the national regulations is offered to employees for free. In the area for the production and storage of toxic or hazardous chemicals, a yellow warning line and safety warning signs will be displayed with first aid facilities, and a cautionary description that clearly sets out the types, consequences, precautions and emergency treatment of the hazardous chemicals is also provided.

Safety Training and Education

The Group issues regulatory information on production safety, internal news on occupational health and production safety as well as other notifications and information related to production safety such as knowledge and technique about fire safety to various departments from time to time.

Our subsidiaries regularly arranges our operating personnel to attend job-related safety training covering safe operation at work sites, hazard identification, qualifications on safety surveillance, knowledge about fire safety and the use of fire equipment and special training on new production processes, new technology, new equipment and new materials for different positions. Those who are not qualified for safety education and training would not be allowed to perform duties.

Each year, our subsidiaries organise annual emergency drills, including specific drills for incidents such as the leakage of hazardous chemicals, poisoning, electric shock and fire. Production departments also carry out different forms of on-the-job emergency drills and medical activities each month for all teams in our production process as planned.

In June 2016, our subsidiaries held a "Safety Month" activity and launched a series of emergency drills, warning education for all employees and hidden danger identification and management to encourage all departments to actively enhance the ways of preventing incidents and strengthen the awareness of self-protection during the incidents and their operational capacity for using the firefighting facilities.

OPERATION PRACTICES

1. **Research and Development**

Under the circumstances of higher threshold on the R&D of new drugs and the enhanced patent protection, the question of how domestic pharmaceutical enterprises can improve their independently innovative capabilities, promote and implement intellectual property strategies is what all pharmaceutical enterprises must face and think. By adhering to the corporate tenet of "All for good medicine, all for mankind's health", the Group is dedicated to the development of high-quality medicines through constant exploration.

R&D and Collaboration

The Group has well-equipped scientific research facilities with an advanced clinical pharmacology research centre constructed in accordance with Good Laboratory Practice ("GLP") Standards and a Class II biosafety laboratory for viral drug research. The Group also established a high-quality clinical research team capable of undertaking all kinds of clinical research and completing phase I to IV clinical trial for Class 1 innovative drugs.

In addition, the Group has always placed importance on the cooperation and communication with domestic and foreign scientific research institutes, closely monitor the domestic and overseas development trend of advanced technology and establish good relationships with various domestic, European and America scientific research institutions. In order to make the scientific research cooperation network more systematic and sustainable, the Group employed a number of renowned domestic pharmaceutical R&D experts to form the "CSPC academic committee" to enhance our innovation abilities.

Intellectual Property Management

Intellectual property is the core strategic resources of an enterprise and also the core element essential for overall strength and competitiveness within the industry. The Group seized the opportunities arising from the intensification of national healthcare reform and the support on the development of independent innovation capability of pharmaceutical enterprises to continuously refine the pharmaceutical R&D system that integrates imitation and innovation and actively promote independent innovation system by capitalizing on our competitive advantage in R&D resources. The Group also works diligently to implement intellectual property strategies built to lead our corporate development in order to enhance our R&D capabilities and core corporate competitiveness.

The Group conducted a comprehensive diagnostic analysis on intellectual property from time to time, formulated patent application and protection strategies for our core products and had a dedicated department of intellectual property management responsible for strictly enforcing the monitoring system of patent application in compliance with the requirements of the "Patent Law of the PRC", the "Rules for the Implementation of the Patent Law of the PRC" and the "Enterprise Intellectual Property Management".

OPERATION PRACTICES *(continued)*

1. Research and Development *(continued)*

Intellectual Property Management *(continued)*

During the course of R&D project approval and investment, the Group focuses on the protection of the intellectual property rights in respect of R&D of our new products, formulates effective patent protection measures and performs patent searches at key R&D stages and makes early warning analysis and risk prevention of intellectual property rights to avoid the risk of infringement. The intellectual property department will access the domestic and foreign patent search and service systems for patent literature retrieval prior to making patent application and undertake comprehensive analysis and evaluation on the status of patents involved in the technical areas of our on-going R&D projects before the preparation of patent search report and make patent application in accordance with relevant laws and regulations and implementing rules. Subsequent to the introduction of independent innovative products, the Group will closely monitor and regularly track the relevant patent information of comparable products and ensure that any violations of the Group's independent intellectual property rights could be timely identified.

The Group passed the relevant examination as a Model Enterprise of National Intellectual Property Rights according to the "Notice of Publishing the Results of Assessment and Review on the 2016 National Model Enterprise and Superior Enterprise of Intellectual Property Rights" issued by the State Intellectual Property Office of the PRC in December 2016.

2. Supplier Management

The Group established a sound supplier management system to clearly determine the responsibilities and authorities of relevant management departments, including procurement department, production department and quality department. The principles and basis for the classification of materials have been formulated to implement the categorization of all materials and set out the details of all material categories, such as raw materials, ancillary materials and packaging materials used in production.

After the long-standing business relationship with suppliers, the Group has established a long-term and stable strategic partnership with our core suppliers to share information, seek win-win results with mutual benefit and jointly bear the risks. In order to meet the customer demand, the Group helps key suppliers to improve their techniques and provides them with technical support which enables them to develop a supply risk management in line with the Group.

Procurement Management System

With the continued expansion in sales and production scale, the Group's procurement scale and variety are also increasing. A sound procurement management is therefore of great importance to the Group's products.

The Group has set up a centralised procurement centre ("Centralised Procurement Centre") to coordinate the procurement needs of our subsidiaries in order to reduce the procurement cost through composite tender, centralised price negotiation and the development of new suppliers and continuously optimises the supply risk management procedures. The Centralised Procurement Centre also assesses and minimises the impact of a single supplier on the stable material supply from time to time so to adopt mitigating measures timely when the supplier becomes the primary target for surveillance and supervision of the government or environmental protection departments. In terms of the information system development, the Group has an office automation system ("OA") and enterprise resource planning system ("ERP") to provide a communication platform for procurement information and immediate reference for the decision-making on procurement through exchanges and sharing of resources.

OPERATION PRACTICES *(continued)*

2. Supplier Management *(continued)*

Procurement Management System *(continued)*

The Centralised Procurement Centre formulates rules for materials procurement management and regularly prepares procurement plan for production materials with each department and subsidiary according to the production plan of user department. Our procurement officers select the appropriate pricing methods for material purchase under the procurement plan and are required to actively seek potential suppliers during the procurement process so as to ensure that not less than two suppliers are involved in the tender and request for quotations with the tender team members or the procurement department heads from our subsidiaries responsible for the price negotiation with qualified suppliers.

The procurement department makes comprehensive evaluation on qualified suppliers in various aspects such as qualification, reputation, quality and price and strictly follows the procurement principle of comparing both quality and price to make procurement approval in accordance with the requirements of established approval procedure for procurement tendering and comparison of quotations in the manner of "Comparing the quality of the same materials, the price of materials with the same quality and the reputation at the same price level".

Supplier Evaluation Mechanism

The Group created a management mechanism for the introduction and elimination of suppliers of production materials (including raw materials, ancillary materials and packaging materials) to ensure a reasonable and effective supplier structure while constantly regulating suppliers' performance management and optimising the supplier portfolio to reduce our procurement risk on an on-going basis.

The Group has in place strict inspection standards for all procured materials. Only materials which have passed the inspections are allowed in production use. Should there be any problems about the quality of the material and service discovered during the course of use, the relevant user departments must provide feedback to the procurement department which would then resolve the problems by communicating with the suppliers. They also need to report in a timely manner to the supplier administrator on the name of the supplier who has been disqualified due to the quality issue of their product for record purpose.

The quality management department regularly organises quality assessment on our material suppliers, reviews and analyses the results of material quality inspection and examines the investigation records of the complaints about the suppliers' quality and disqualification. The quality management department also eliminates the suppliers who failed to meet the requirements of our quality assessment or annual evaluation on suppliers each year.

Quality Audit

The Group sets up a supplier audit team with quality management department as the core member to perform audit on the overall quality management system of material suppliers and formulates an audit plan for the quality audit on suppliers in which the details requirements for duties, content, procedures and standards in the course of assessment is stipulated. The supplier audit is conducted in two forms of questionnaires and field audit. The supplier audit team formulates annual audit plan and conducts quality audit on major material suppliers in collaboration with relevant departments. Suppliers not passing the audit would be disqualified.

OPERATION PRACTICES *(continued)*

2. Supplier Management *(continued)*

Quality Audit *(continued)*

Field Audit

Field investigation plays a key role in the course of supplier quality audit and supply risk management. The investigation covers basic information on the suppliers (such as Good Manufacturing Practice ("GMP") certification and other quality certification), their environmental protection and safety status as well as their financial condition.

In terms of environmental protection, the supplier audit team checks whether the supplier has a report on environmental impact assessment; whether the supplier obtains an emission permit and meets the emission standards for waste gas and waste water; whether the supplier has environmental protection issues (mainly concerning the complaints about odour and solid waste disposal methods) and corresponding environmental protection facilities. Furthermore, the Group is also concerned about the suppliers' performance in the management of production safety and assesses the effectiveness of suppliers' management or precautionary measures against hidden dangers and problems for safety, ensuring that our suppliers establish personal safety training files for all employees, prepare safety training programs and provide training as required.

To further regulate the supplier audit procedures and build an impartial and strict corporate image for the Group, the supplier audit team strictly abides by the "Supplier Audit Discipline of CSPC" while requiring the suppliers to complete a "Letter of Undertaking for the Acceptance of Field Audit by CSPC" in 2016 and establishes a sound whistleblowing mechanism to ensure the impartiality, authenticity and effectiveness of our audit results in order to avoid our audit staff from corruption.

Procurement Integrity Management

Integrity and credibility is the foundation for the long-term cooperation between the Group and our suppliers. Thus the Group has been committed to the establishment of a fair, impartial and transparent procurement mechanism and imposing high standards of integrity on our employees. The Group regularly organises training to hold a detailed briefing on the definition, importance, public relations with suppliers and countermeasures of ethical procurement. The Group also requires our suppliers to maintain their integrity and self-discipline and disseminates the messages in respect of clean procurement by letter to clearly express that non-compliance with rules and regulations and unfair competition are prohibited. The Group will terminate the business relationships with the supplier if the supplier has no integrity and does not comply with laws and regulations.

OPERATION PRACTICES *(continued)*

3. Product Responsibility

The Group strictly abides by the laws and regulations of the PRC relating to the product safety. The relevant laws and regulations mainly include:

- The Drug Administration Law of the PRC;
- The Regulations for the Implementation of the Drug Administration Law of the PRC;
- The Product Quality Law of the PRC ("Product Quality Law");
- Law of the PRC on the Protection of Consumer Rights and Interests;
- Good Manufacturing Practice (China Food and Drug Administration); and
- The Measures for the Administration on Adverse Drug Reaction Reporting and Monitoring (Order of the Ministry of Health No. 81).

According to our domestic and overseas quality management philosophy, the Group gradually raises the quality management level as well as the quality and safety risk analysis through the implementation of quality inspection and product recall. After affirming the quality objective, the Group coordinates the quality, technical and production departments of our subsidiaries to work together for the quality improvement of our pharmaceutical products and seeks to meet the domestic and foreign requirements for product quality.

Quality System

The Group established a three-level (group-level, company-level and workshop-level) quality system. Each subsidiary has a dedicated department for quality control and quality assurance mainly responsible for the professional management in the following areas:

Quality control department – Conducting inspection based on our quality standards for raw materials and finished products, ensuring that no defective products and materials would be released and used in our production while undertaking product stability research, impurity analysis as well as sampling observation and verification;

Quality assurance department – Exercising quality supervision and control, control on production modification and deviation management during the entire production process.

Our subsidiaries formulates rectification and prevention measures internally and reaches conclusion on the existing problems in respect of production quality, sales, complaints and services and proposes relevant improvement measures through the monthly quality analysis meeting and annual quality review.

OPERATION PRACTICES *(continued)*

3. **Product Responsibility** *(continued)*

Quality System *(continued)*

Quality Management Certification

In recent years, the Group strives to improve our product quality standards, implement internationalisation strategies and commence quality management on our production in strict compliance with the requirements under various certifications. The following are the Group's major local and international certifications in 2016:

Certification	Authority	Details
New GMP Certification	State and Provincial Food and Drug Administration	All products and formulations passed the certification
New GSP Certification	Food and Drug Administration of each province (city)	The pharmaceutical wholesale enterprises in the Group passed the certification
ISO9001 Certification	Third party authority	All of our production subsidiaries in the Group passed the certification
U.S. FDA Certification	U.S. Food and Drug Administration	20 products passed the certification
EU Certification	Drug Administrations of the subsidiary states of European Union	4 products passed the on-site inspection of European Union and its member states
Certification of Suitability to the Monographs of the European Pharmacopoeia ("CEP") Certification	European Directorate for the Quality Control of Medicines	13 products obtained CEP certification

In addition, certain subsidiaries of the Group also passed the GMP certification of the drug administrations in Australia, Peru, South Africa and Columbia.

Drug Standard Management

The Group currently has two major product series, namely bulk drugs and finished drugs, of which the finished drugs include powder injection, liquid injection, capsules (hard capsule and soft capsule), tablets, granules and Chinese medicines. Apart from the strict implementation of national statutory standards for all of our products, our export products are also required to comply with the international pharmacopoeia standards, including the European Pharmacopoeia (EP), the United States Pharmacopoeia (USP) and the British Pharmacopoeia (BP). Therefore, the Group developed stringent internal control standards that our products must meet the standards before sales to domestic and foreign markets.

OPERATION PRACTICES *(continued)*

3. Product Responsibility *(continued)*

Quality System *(continued)*

Product Quality Commitment

The Group constantly improves quality management and makes the following commitments to safeguard the medication safety and the patients' interests:

1. Strictly following and implementing the requirements of relevant laws and regulations and ensuring the integrity in our business operations. Abiding by law with integrity and being not deceptive or even fraudulent during the course of production and processing, sales, brand promotion and after-sales service;

2. Ensuring our products meet the quality requirements as well as laws and regulations in accordance with the established standards set out in relevant national pharmacopoeia;

3. Establishing a sound quality management system in accordance with the requirements under "Good Manufacturing Practice in respect of pharmaceutical products" and GB/T19001-2008 (ISO9001-2008) quality management system, continuously refining and improving the file management of product quality and making strict quality control and measurement inspection on the key processes;

4. Promoting the enhancement of our quality management level through internal inspection and management review;

5. Ascertaining the measurement tools and equipment used for product inspection are calibrated (by qualified calibration institute) to make all quality inspection activities stringent and effective and ensuring the records of relevant quality management are traceable;

6. Implementing product serial number management with the help of the ERP management system; and

7. Undertaking to focus our concern on customers, improving after-sales service management system, practically striving for good after-sales services and taking customer satisfaction as our code of conduct.

In order to effectively fulfil the above quality commitments, the Group has established quality management and inspection teams consisting of management staff with master and undergraduate degree or above qualifications, implemented the Group's quality management system and prepared the documents covering various aspect of management. In terms of hardware, the Group monitors our production process through the use of domestic and foreign advanced equipment to ensure the entire production chain between the input of raw materials and the output of finished products at the factory is under control.

Quality and Safety Risk Management

The Group highly values the medication safety of patients and is committed to the sound management on quality and safety.

OPERATION PRACTICES *(continued)*

3. Product Responsibility *(continued)*

Quality and Safety Risk Management *(continued)*

Quality and Safety Risk Management (continued)

Risk Prevention and Control System

The Group formulates management system and operational menu of "Quality and Safety Risk Precautionary Plan" and "Management Procedures for the Supervision, Evaluation and Precaution of the Quality Risk" and clearly sets out the quality and safety risk assessment process, management as well as prevention and control measures according to the certification requirements such as GMP and U.S. FDA, in combination with the guidance provided by the World Health Organization (WHO), the International Society for Pharmaceutical Engineering (ISPE) and the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH).

In addition, the Group has also established a comprehensive quality risk prevention and control system to collect and segregate information from multiple perspectives. During the process of risk assessment, the department of quality supervision uses various evaluation and analysis tools, such as Failure Mode, Effects Analysis and Fishbone Diagram to carry out risk assessment of various drugs and production procedures while implementing classified management to formulate corresponding solutions based on the evaluation results.

Tracing and Recall Mechanism for the Quality and Safety of Drugs

The Group has built a quality and safety tracing system for the life cycles of drugs at various stages, ranging from material procurement, pharmaceutical production and finished product inspection to sales and delivery. The Group has also formed a drug quality and safety committee responsible for the collection of day-to-day adverse reaction, the strict implementation of relevant laws and regulations under "The Measures for the Administration on Adverse Drug Reaction Reporting and Monitoring" and the annual update and submission of regular drugs safety report.

Meanwhile, the Group has formulated regulations for the administration on reporting and monitoring of adverse drug reactions and emergency treatment plan for mass adverse reactions to ensure that emergency measures can be promptly initiated in the occurrence of adverse reaction events and the reporting to the China Food and Drug Administration and Hebei Province Adverse Drug Reaction Monitoring Centre would be made in a timely manner.

For the defective product recall, the Group has a "Product Recall Management System" that clearly determines the responsibilities of the quality and sales departments and establishes relevant procedures for product recall. Product recall drill is regularly arranged for all companies to ensure the effectiveness of the product recall system.

Product Complaint Handling

At present, the Group's sales network covers numerous provinces, cities, counties and towns in the PRC. Our subsidiaries set up offices in each large and medium-sized city for the provision of comprehensive pre-sale consultation, sales and after-sales service in the surrounding markets by our after-sales service personnel. Each of our sale systems has its customer service centre and corresponding marketing services response system as well as service hotline for the prompt handling of customer consultation and complaints.

OPERATION PRACTICES *(continued)*

3. Product Responsibility *(continued)*

Product Complaint Handling *(continued)*

By adopting a product complaint handling process, the sales department will get in touch with the customers as soon as possible upon the receipt of their complaints and provide a reply and an explanation to our customers subsequent to detailed investigation and inspection. The Group conducts an annual survey on customer satisfaction through questionnaire and performs evaluation, aggregation and analysis on the indicators of product quality and marketing services. The comprehensiveness and effectiveness of our complaint channels and feedback mechanism is reviewed through customer visits, forums, symposiums, monthly sales analysis meetings and annual marketing seminars.

Marketing Compliance

Honesty and trustworthiness is the first and foremost interpretation of the image of our management team among the Group's corporate culture. The Group has long been operating in good integrity and has in place an integrity supervision mechanism to employ professional legal counsel to regularly arrange training about legal knowledge, such as Contract Law, Product Quality Law and Law of the PRC Against Unfair Competition, for the management and business departments, so that relevant personnel can keep abreast of relevant laws and regulations to ensure strict compliance in the course of the execution and performance of contract and other marketing management.

At the same time, the Group establishes an internal credit management system in accordance with relevant requirements under the Contract Law. The Group also develops the "CSPC's Integrity Management Standards" with detailed terms of on good operation integrity. Harsh measures will be taken to conduct appraisal of the units and individuals in breach of our integrity management standards to ensure that integrity management has a "legal basis" by firmly opposing and resisting commercial briberies in all forms. The Group complies with the market rules and holds fast to our marketing philosophy, requiring our employee to win the market and gain credibility from customers with high-quality products and sincere service.

4. Anti-Corruption

The Group takes anti-corruption management, integrity building and supervision as our strategic tasks. In order to safeguard the order of the Group's business operations and foster all employees of the Group to conscientiously comply with the national laws and regulations and the Group's various procedures and systems, the Group distributed an undertaking in accordance with "Regulations on the Integrity and Self-discipline for the Management and Key Personnel" at the beginning of 2016 and required the key personnel of all business departments and subsidiaries to study and sign such undertaking, thereby raising the self-awareness of relevant positions.

The Group's independent supervision department urges our staff to perform their duties and functions with integrity and credibility and adopts a binding system to prevent our employees from corruption. From May 2016 onwards, the supervision department has organised and deployed personnel from the related functional departments to carry out special inspections on the implementation of integrity and self-discipline practice and hold a briefing on the system. For example, the supervision department arranged the supervisors from different business departments to deliver on-site presentation of "Regulations on the Integrity and Self-discipline for the Management and Key Personnel" at the sales office. During the year, the Group has completed over 100 trainings for the integrity building of sales department and achieved very good results.

OPERATION PRACTICES *(continued)*

4. **Anti-Corruption** *(continued)*

   In addition, the supervision department also deployed dedicated personnel for the supervision of procurement and tender to ensure that our tender management is conducted in line with regulations. The supervision department carries out special inspection on the production and operation, marketing system, financial cost, business travel criteria and expense of centralised procurement centre with the Group's financial department at the end of each quarter and urges them to rectify the problems that arise during the inspection in a timely manner.

COMMUNITY INVESTMENT

Since its inception, the Group has always regarded the social responsibility as the starting point of all business practices. The Group has infused the word "Responsibility" into every part of its business operations, corporate mission and value.

With an aim to make contribution to our home country and society, the Group has been adhering to the corporate tenet of "All for good medicine, all for mankind's health" for a long period of time and bearing in mind our corporate social responsibility to actively participate in social charitable activities such as book and medicine donations, student aids, victims' visits, environmental protection and people's wellbeing improvement. The Group has always been taking public welfare services as our work priorities to implement and taking actual action to help the poor and disadvantaged groups with full efforts.

To better achieve our works in charitable services, Mr. Cai Dongchen, the Chairman of the Group, together with CSPC Holdings Company Limited (an affiliated company of the Group) established the Hebei CSPC Pu'en Charity Foundation (the "Foundation") in late 2015 with an objective to help people in need. The service scope of the Foundation includes: 1) giving assistance to the sick, poor, depressed and old people in the disadvantaged groups, including those in serious diseases, poor families and their children, severely injured people due to accidents, the disabled, orphans and elderlies; and 2) organizing charity events for major natural disasters.

During the first year since the inception of the Foundation, the Group has proactively held charitable events in the fields of "helping the elderlies, assisting the poor, aiding the patients, soothing difficulties and supporting the students", made donation to the employees in poverty within the Group and organised activities, such as financial assistance to students, visit to children in poverty and elderly care. Taking helping needy employees as an example, the Group has implemented various relief measures during the year and then followed up their living conditions through visit, so that those in genuine hardship and needs can receive assistance to solve their difficulties.

For the children living in poverty, the Foundation organised activities called "Poverty Alleviation, Caring for Children, Donation for Students" and "A Loving Heart for Dreams" during 2016, making donations to needy students in poverty areas and providing them with supplies, such as computers, schoolbags, medicines and healthcare products. Moreover, the Foundation also organised activities for elderly care, through which the elderlies received more love and care from our volunteers.

COMMUNITY INVESTMENT *(continued)*

Since May 2016, the Foundation, together with one of the Group's subsidiaries, jointly organised a charity event called "Charity Walk for the Health and Chronic Diseases in the PRC". This event has undertaken social charitable activities related to health and chronic diseases for chronic disease patients (i.e. patients with chronic diseases, such as cardiovascular and cerebrovascular diseases, hypertension, osteoporosis and rheumatism) in the form of "Talks for the Health and Chronic Diseases", offering free medicines to the above-mentioned chronic disease patients who are in financial difficulty and meet the conditions for medication. So far more than 500 sessions of talks for chronic diseases have been held during the year, covering 26 provinces and cities all over the PRC, such as Hebei, Beijing, Jilin, Guangdong, Gansu and Tianjin.

Looking ahead, the Group will continue to use the Foundation as a social charitable platform to actively explore various channels and develop innovative forms of donation when initiating donation projects and establish a long-term effective mechanism for student assistance. The Group will also conduct assistance programme for the Group's employees in critical financial difficulties and build elementary schools and healthcare stations in poverty areas in Shijiazhuang so as to embody the social values of the Group through sharing our loving heart.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance practices are essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to achieving high standards of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2016 except the deviation from code provision A.2.1 as set out below.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine executive directors, one non-executive director and five independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting qualification and experience. The biographical details of the directors are provided on pages 54 to 57 of this annual report.

According to rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the resignation of Mr. Chen Shilin as an independent non-executive director on 8 January 2016, the number of independent non-executive directors on the Board represents less than one-third of the members of the Board. With the appointment of Mr. Chen Chuan as an independent non-executive director on 6 June 2016, the composition of the board comprises nine (9) executive directors, one (1) non-executive director and five (5) independent non-executive directors. The independent non-executive directors represent not less than one-third of the Board as required under rule 3.10A of the Listing Rules.

The Board is responsible for establishing strategic directions, setting objectives and business plans and monitoring performance. The management of the subsidiaries of the Company is responsible for the day-to-day management and operation of their respective individual business units.

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2016. Individual attendance of each director at the regular board meetings and committee meetings in 2016 is set out below:

	Number of meetings attended/held			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Cai Dongchen *(Chairman and CEO)*	4/4			1/1
Pan Weidong	4/4			
Wang Huaiyu	4/4			
Lu Jianmin	4/4			
Wang Jinxu	4/4			
Wang Zhenguo	4/4			
Lu Hua	4/4			
Wang Shunlong	4/4			
Chak Kin Man	4/4			
Non-Executive Director:				
Lee Ka Sze, Carmelo	4/4	4/4	2/2	
Independent Non-Executive Directors:				
Chan Siu Keung, Leonard	4/4	4/4	2/2	1/1
Wang Bo	4/4	4/4	2/2	
Lo Yuk Lam	2/4			1/1
Yu Jinming	3/4			
Chen Chuan *(appointed on 6 June 2016)*	2/2			
Chen Shilin *(resigned on 8 January 2016)*	0/0			

The Company has received an annual confirmation of independence from each of the independent non-executive directors as of the date of this report. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in rule 3.13 of the Listing Rules and considers them to be independent.

There is no financial, business, family or other material/relevant relationship between Board members.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cai Dongchen, the Company's Chairman, has also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

NON-EXECUTIVE DIRECTORS

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company for a term of three years subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board will consider setting measurable objectives to implement the policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the policy from time to time to ensure its continued effectiveness.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies and making recommendations to the Board on the remuneration of directors. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Wang Bo.

The remuneration of the directors is determined with reference to the performance and responsibilities of individuals, performance of the Group and prevailing market conditions. By providing remuneration at competitive industry levels, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

Two meetings were held in 2016 to consider and make recommendations to the Board on the remuneration of directors of the Company.

NOMINATION COMMITTEE

The Nomination Committee of the Company is responsible for making recommendations to the Board on the appointment of directors regarding the qualification and competency of the candidates, so as to ensure that all nominations are fair and transparent. The committee comprises three members, namely Mr. Cai Dongchen (Chairman), Mr. Chan Siu Keung, Leonard and Mr. Lo Yuk Lam.

One meeting was held in 2016 to review the appointment of a new independent non-executive director, the structure, size and composition of the Board and assess the independence of independent non-executive directors.

AUDIT COMMITTEE

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Group. The committee comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Wang Bo.

Four meetings were held in 2016. At the meetings, the committee discussed and reviewed the following matters:

1. the 2015 annual results, annual report and results announcement;

2. the external auditor's report to the Audit Committee in respect of the 2015 annual audit;

3. the quarterly results for the three months ended 31 March 2016 and results announcement;

4. the 2016 interim results, interim report and results announcement;

5. the external auditor's report to the Audit Committee in respect of the 2016 interim review;

6. the quarterly results for the nine months ended 30 September 2016 and results announcement;

7. the performance of the external auditor and its remuneration;

8. connected transactions during the year ended 31 December 2015; and

9. the systems of risk management and internal controls and the effectiveness of the internal audit function.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2016.

TRAINING FOR DIRECTORS

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

Details of the participation in continuous professional development by the existing directors during the year are summarized in the table below.

	Attending training course/ seminar/forum/ conference	Reading regulatory update or materials relevant to the Company or its business
Executive Directors:		
Cai Dongchen *(Chairman and CEO)*	✓	✓
Pan Weidong	✓	✓
Wang Huaiyu	✓	✓
Lu Jianmin	✓	✓
Wang Jinxu	✓	✓
Wang Zhenguo	✓	✓
Lu Hua	✓	✓
Wang Shunlong	✓	✓
Chak Kin Man	✓	✓
Non-Executive Director:		
Lee Ka Sze, Carmelo	✓	✓
Independent Non-Executive Directors:		
Chan Siu Keung, Leonard	✓	✓
Wang Bo	✓	✓
Lo Yuk Lam	✓	✓
Yu Jinming	✓	✓
Chen Chuan *(appointed on 6 June 2016)*	✓	✓

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for overseeing the Group's risk management and internal control systems, and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Effective risk management is the key to sustainable business success. As a major pharmaceutical group based in mainland China, we face a diverse range of risks and uncertainties that could have a materially adverse impact on the business or results of operations. Our approach to risk management is therefore an ongoing process of identification, evaluation and management of the principal risks affecting the business.

Risk Management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented — principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group — regular meetings with each business unit to ensure principals risk are properly managed, and new or changing risks are identified;

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal controls — review of the annual internal audit report and consideration of the Audit Committee's recommendation.

The risk management framework, coupled with our internal controls, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure the maintenance of proper accounting records, to ensure compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The management is responsible for the design, implementation and maintenance of internal controls, while the Audit Committee and the Board review the effectiveness of the Group's systems of internal controls and risk management through the assistance of the internal audit function.

During 2016, the Group's internal audit function has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group, covering all material financial, operational and compliance controls, and risk management. In addition, the review has considered the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The internal audit report was submitted to the Audit Committee and the Board for their review.

Apart from review of the annual internal audit report submitted by the internal audit function, the Audit Committee also had regular meetings with the external auditor and reviewed the reports by the external auditor of any control issues or findings identified in the course of their work. The Audit Committee has also requested the management to follow up the recommendations of the external auditor to remedy the control issues identified or to further improve the internal control system.

The Board formed its own view on the effectiveness of the systems based on the review of the annual internal audit report and the recommendation of the Audit Committee.

In respect of the year ended 31 December 2016, the Board considered the risk management and internal control systems of the Group effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management of the Group have been identified. The Board also considered the resources, qualification and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate. Nevertheless, the Group would take further steps to continually improve its risk management and internal control systems.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With these guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

1. develop and review the Company's policies and practices on corporate governance and make recommendations;

2. review and monitor the training and continuous professional development of directors and senior management;

3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

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

5. review the Company's compliance with the Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

The Board has performed the above duties during the year.

EXTERNAL AUDITOR'S REMUNERATION

During the year, the external auditor of the Company charged HK$3,500,000 for audit services and HK$880,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements and continuing connected transactions.

FINANCIAL REPORTING

The directors' responsibilities for the financial statements are set out on page 68 and the responsibilities of the external auditor are set out on page 69 of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

COMPANY SECRETARY

The Company Secretary, Mr. Lee Ka Sze, Carmelo, is a practicing solicitor in Hong Kong. Mr. Lee is currently a partner of Messrs. Woo, Kwan, Lee & Lo and is not a full time employee of the Company. He reports to the Board and the primary contact person of the Company with Mr. Lee is Mr. Chak Kin Man, an executive director of the Company. During 2016, Mr. Lee has confirmed that he has taken no less than 15 hours of relevant professional training.

COMMUNICATIONS WITH SHAREHOLDERS

The objective of communications with shareholder is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner. The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

The Company also actively attends different forms of investors' communication activities, including meetings with investors, telephone conference and activities organized by sell side institutions, with the hope to enhance corporate transparency so that investors can have a better understanding of the business model and latest development strategy of the Group. During 2016, management of the Company has attended over 600 one-on-one or group meetings covering over 1,000 shareholders/investors. Our persistent efforts in active communications with shareholders was widely recognized by the capital market with the winning of the titles – "Most Honored Company in Asia" and "Best Investors Relations Program (Overall) – First Place" in the Healthcare and Pharmaceutical sector in the 2016 Institutional Investors Poll organized by the Institutional Investor Magazine.

In order to enable shareholders to exercise their rights in an informed manner and to allow them to engage actively with the Company, a shareholders communication policy of the Company has been established. Shareholders may at any time send their enquiries and concerns to the Company via the Company's website. Shareholders may also make enquiries with the Board at the general meetings of the Company.

GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to Section 566 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) representing at least 5 per cent of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting.

The request —

(a) must state the general nature of the business to be dealt with at the meeting;

(b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

(c) may consist of several documents in like form;

(d) may be sent in hard copy form or electronic form; and

(e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a meeting. The Company must reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call the meeting.

PUTTING FORWARD PROPOSAL AT ANNUAL GENERAL MEETING ("AGM")

Pursuant to Section 615 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) can make a request to circulate a resolution for an AGM if they represent —

(a) at least 2.5 per cent of the total voting rights of all shareholders who have a right to vote on the resolution at the AGM to which the request relates; or

(b) at least 50 shareholders who have a right to vote on the resolution at the AGM to which the request relates.

The request —

(a) may be sent in hard copy form or electronic form;

(b) must identify the resolution of which notice is to be given;

(c) must be authenticated by the person or persons making it; and

(d) must be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The procedures for shareholders to propose a person for election as a director have been uploaded to the Company's website.

2016 GENERAL MEETINGS

At the 2016 annual general meeting, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee, Remuneration Committee and Nomination Committee has attended the 2016 annual general meeting to ensure effective communication with shareholders. The attendance record of the directors at the 2016 general meeting is set out below:

	General meeting attended/held
Directors	
Executive Directors:	
Cai Dongchen *(Chairman and CEO)*	1/1
Pan Weidong	0/1
Wang Huaiyu	0/1
Lu Jianmin	0/1
Wang Jinxu	0/1
Wang Zhenguo	0/1
Lu Hua	0/1
Wang Shunlong	1/1
Chak Kin Man	1/1
Non-Executive Director:	
Lee Ka Sze, Carmelo	1/1
Independent Non-Executive Directors:	
Chan Siu Keung, Leonard	1/1
Wang Bo	0/1
Lo Yuk Lam	0/1
Yu Jinming	0/1
Chen Chuan *(appointed on 6 June 2016)*	0/0
Chen Shilin *(resigned on 8 January 2016)*	0/0

CONSTITUTIONAL DOCUMENTS

During the year, there is no change in the Company's constitutional documents.

Directors' Report

The board of directors (the "Board") is pleased to present this annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and joint ventures are set out in notes 38 and 17 to the consolidated financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total revenue and purchases for the year, respectively.

At 31 December 2016, Massive Top Limited, which wholly owns Massive Giant Group Limited (a substantial shareholder of the Company), had an indirect interest in one of the Group's five largest customers. In addition, each of Mr. Cai Dongchen, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin, Mr. Wang Zhenguo, Mr. Wang Jinxu and Mr. Lu Hua, all being directors of the Company, had an indirect interest in Massive Top Limited. All transactions between the Group and the customer concerned were carried out on normal commercial terms.

BUSINESS REVIEW

Overview

The Group is principally engaged in the development, manufacture, marketing and sales of medicines and pharmaceutical related products in the People's Republic of China (the "PRC" or "China"). We currently has two major business segments, namely finished drugs and bulk drugs, accounting for 72.5% and 27.5% of the Group's revenue for the year 2016, respectively.

The finished drug products of the Group are primarily sold in China. The existing product portfolio consists of antibiotics, cardio-cerebrovascular drugs, diabetes drugs, neurology drugs, oncology drugs and traditional Chinese medicine. Of which, "NBP", "Oulaining", "Xuanning", "Duomeisu", "Jinyouli", "Ailineng" and "Nuolining" are categorized as innovative drugs of the Group. The other finished drug products of the Group, such as amoxicillin capsules, ceftriaxone sodium for injection, meropenem for injection, cefadroxil capsules, azithromycin tablets and vitamin C supplement tablets, are categorized as common generic drugs. The primary end-user customers of our finished drug products include hospitals, health-care centres, clinics and pharmacy stores. We generate revenue by selling our finished drug products to distributors which in turn sell our products to the end-user customers.

Bulk drug products of the Group include antibiotics, vitamin C and caffeine in the bulk powder form. Apart from the market in China, a significant part of the bulk drug products is sold in overseas markets, including U.S., Germany, Japan and India. We generate revenue by selling our bulk drug products to pharmaceutical companies, food and beverages manufacturers and distributors.

The Group has a strong research and development team which focuses on the development of innovative drugs and generic drugs. We also collaborate with leading research institutions, universities and hospitals in order to broaden our sources of new drugs. The Group currently has approximately 170 products under research and development. It is our strategy to continue to invest in research and development in order to maintain a sustainable growth of our business.

BUSINESS REVIEW *(continued)*

Overview *(continued)*

With over 10,000 employees, the Group's headquarters along with its major production facilities and research and development centres are located in Shijiazhuang City, Hebei Province, the PRC.

Principal risks and uncertainties

The following risks and uncertainties may affect the results and business operations of the Group, some of which are inherent to pharmaceutical sector and some are from external sources.

(i) Drug approval process in relation to our products under development

The actual timing of the market launch of our products under development could vary significantly from our estimates due to a number of factors including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process and the uncertainties in the outcome of regulatory approval process. If any of the necessary approvals in relation to our products under development is delayed or not obtained, this could adversely affect the timing of the market launch of our products. The Group is committed to investing in research and development of new drugs in order to ensure a rich product pipeline.

(ii) Results of drug tenders

Our sales volumes and profitability depends on our ability to win in the drug tender of each province or region in China for our products at a desirable tender price. We may fail to win bids in the tenders due to various factors, including uncompetitive bidding price or our products or other aspects of our operations are perceived to be less competitive. If our products are not selected in the tender in one or more provinces or regions, we will be unable to sell the relevant products to the public hospitals in those regions. This could adversely affect our market share, revenues and profitability. We have a team of staff monitoring and handling the drug tenders of our products with the objective of winning the tenders for our products at a desirable price level. The Group is also committed to investing in research and development of new drugs in order to expand and diversify our product portfolio.

(iii) Compliance with certain PRC environmental and safety regulations

We are subject to PRC laws, rules and regulations concerning environmental and safety protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste, the disposal of hazardous substances during our manufacturing processes, noise pollution and the safety of our workers during the manufacturing process. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our production facilities and obligations to take corrective measures. In addition to the above, the PRC government may amend such laws, rules and regulations to impose a more stringent standard. If there is any such amendment, we may need to incur additional costs and expenses (including additional capital expenditure) in order to comply with the amended standard. We have established specific departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to correct environmental issues identified and improve the environmental performance of the Group.

(iv) Exclusion of products from certain PRC medical reimbursement list

Under the PRC national medical insurance scheme, patients can obtain reimbursement of all or a portion of the cost of certain drugs listed in the National Medical Insurance Drugs Catalogues or the Provincial Medical Insurance Drugs Catalogues (the "Reimbursement Lists"). The drugs listed in the Reimbursement Lists are reviewed and updated from time to time. There is no assurance that our products will be or continue to be listed in the Reimbursement Lists. The entry into, and the removal from the Reimbursement Lists are beyond our control. The removal of any of our products from the Reimbursement Lists may have an adverse impact on the demand of our products, sales volume, revenue and profitability.

BUSINESS REVIEW *(continued)*

Principal risks and uncertainties *(continued)*

(v) Illegal practice of employees or third-party distributors

The Group prohibits our employees and third-party distributors from engaging in corruption practices to influence the procurement decision of hospitals. However, we may not be able to effectively ensure that every employee or third-party distributor complies at all times with our policies. Possible corruption or bribery practices in the PRC pharmaceutical industry may include providing kick-backs, bribes or other illegal benefits to hospitals, medical institutions, doctors or other medical practitioners in return for favourable treatment or recommendation of certain medical products. If our employees or third-party distributors engage in such corruption practices or improper conduct, this may harm our reputation or expose us to regulatory investigations. In such instance, this could adversely affect our business and operations, as well as diverting senior management's attention away from their normal duties. In addition, it may also expose us to additional costs and liabilities (including fines from regulatory authorities). The employee handbook and sales contracts entered into with third-party distributors contain specific rules to forbid employees and third-party distributors engaging in illegal practices, in order to prevent misconduct from occurring.

(vi) Side effects of products

Our products may cause severe side effects as a result of a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical testing, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by our customers. In addition, our products may be perceived to cause severe side effects if other pharmaceutical companies' products containing the same or similar active pharmaceutical ingredients, raw materials or delivery technologies as our products cause or are perceived to have caused severe side effects. If our products cause or perceived to cause severe side effects, our sales and profitability could be adversely affected. We have established a professional research and development team and increased our efforts in clinical research and clinical analysis in order to minimize the side effects of our products. We have also adopted a product recall procedure to ensure that our products could be quickly recalled in case of safety or quality concerns.

(vii) Quality standards

Our products are required to meet certain quality standards. However, certain post-production processes, including transportation, storage, warehousing and usage, may adversely affect the quality of our products. Some of these processes are managed by third parties, over which we have limited control. If, as a result of such post-production processes, our pharmaceutical products are deemed or proven to be unsafe, ineffective, defective or contaminated, this may result in product liability or product recalls. Any claims relating to the quality of our products, regardless of their merit, could adversely affect our reputation, business, financial condition and operations. Our production facilities have passed GMP authentication. We have formulated stringent quality management systems and standard operating procedures to rigorously control the production process, storage and transportation process, to prevent product quality issues.

BUSINESS REVIEW *(continued)*

Principal risks and uncertainties *(continued)*

(viii) Product liability

Claims for product liability and/or product recalls may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or contaminated or if we are alleged to have engaged in practices such as improper, insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. If we are not able to successfully defend such claims, we may be subject to civil liability for damages or criminal liability. Product liability claims may attract negative publicity to the Group and our products, which may adversely affect our reputation, business, financial condition and operations. We have set up a dedicated department to strictly implement the relevant technical and quality standards to ensure that the products meet the requirements in all aspects, to avoid product liability, and to properly handle relevant issues expeditiously.

(ix) Currency fluctuations

We generate the majority of our sales in Renminbi. Fluctuations in the exchange rate between Hong Kong dollars and Renminbi will affect the translation into Hong Kong dollars when we prepare our financial statements of the Group.

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members. In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted share option schemes to recognize and reward the contribution of the employees to the growth and development of the Group.

(ii) Suppliers

We have developed long-standing relationships with a number of our suppliers and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

(iii) Distributors

We sell some of our products to our customers through third-party distributors. We work closely with our distributors to ensure that we share the view for upholding our brand value and customer services, specifically focusing on attracting and retaining customers in order to drive sales growth. We also require our distributors to comply with our policies and promotional activities standards. We also monitor the financial condition and repayment history of our distributors.

BUSINESS REVIEW *(continued)*

Key Relationships *(continued)*

(iv) Hospitals

We are committed to offer a broad and diverse range of good-quality products to hospitals. We also stay connected and maintain a close relationship with the hospitals by maintaining a database and have ongoing communications with them through various channels such as telephone calls, direct mails, visits, marketing materials and meetings. We also work with our distributors and provide training to their key sales personnel to provide quality and value-added customer services to the hospitals.

Environmental policies

We are subject to certain PRC laws, rules and regulations concerning environmental protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste, the disposal of hazardous substances during our manufacturing processes and noise pollution.

The Group attaches importance to comply with the relevant environmental laws and regulations. We have established specific departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to correct environmental issues identified and improve the environmental performance of the Group.

Compliance with laws and regulations

The Group's operations are mainly carried out by the Company's subsidiaries established in the mainland China while the Company itself is incorporated in Hong Kong with its shares listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2016 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China and Hong Kong that have a significant impact on the Group.

Recent Developments

No important event affecting the Group has occurred since 31 December 2016.

Further discussion and analysis of the business and operation of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 71.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK12 cents (2015: final dividend in respect of the year ended 31 December 2015 of HK11 cents) per ordinary share has been proposed by the directors of the Company. Subject to approval by the shareholders in the forthcoming general meeting, the proposed final dividend will be paid on or around Thursday, 15 June 2017 to shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 6 June 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 19 May 2017 to Thursday, 25 May 2017, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Thursday, 25 May 2017, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 18 May 2017.

The register of members of the Company will be closed from Friday, 2 June 2017 to Tuesday, 6 June 2017, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 1 June 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 149 of this annual report. This summary does not form part of the audited consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2016 amounted to approximately HK$756,422,000 (2015: HK$694,495,000).

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately HK$1,134,255,000. Details of the movements in fixed assets of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the share capital and the share option scheme of the Company are set out in notes 28 and 29 to the consolidated financial statements, respectively.

EQUITY-LINKED AGREEMENTS

Save for the share option schemes as disclosed in the Annual Report, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every director shall be indemnified out of the assets and profit of the Company against all liability incurred by him as such director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

The Company has taken out insurance policy against the liabilities and costs associated with defending any proceedings which may be brought against the directors of the Company.

Directors' Report

DIRECTORS

Directors of the Company

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

Executive directors:

Cai Dongchen *(Chairman and CEO)*
Pan Weidong
Wang Huaiyu
Lu Jianmin
Wang Jinxu
Wang Zhenguo
Lu Hua
Wang Shunlong
Chak Kin Man

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Chan Siu Keung, Leonard
Wang Bo
Lo Yuk Lam
Yu Jinming
Chen Chuan *(appointed on 6 June 2016)*
Chen Shilin *(resigned on 8 January 2016)*

Mr. Chen Shilin resigned as an independent non-executive director of the Company effective from 8 January 2016 due to other business commitments. Mr. Chen Chuan was appointed as an independent non-executive director of the Company on 6 June 2016.

In accordance with Article 92 of the Company's Articles of Association, Mr. Chen Chuan shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Cai Dongchen, Chak Kin Man, Pan Weidong, Wang Shunlong and Lee Ka Sze, Carmelo shall retire by rotation at the forthcoming annual general meeting. All the retiring directors are eligible and offer themselves for re-election except for Mr. Wang Shunlong who does not offer himself for re-election in pursuit of his career development and shall retire at the forthcoming annual general meeting.

Directors of the subsidiaries of the Company

The directors of subsidiary undertakings included in the annual consolidated financial statements of the Company (other than those listed above) were Mr. Liu Jian, Mr. Li Chunlei, Mr. Yao Bin, Mr. Zhao Yongzheng, Ms. Tian Yumiao, Mr. Qu Buqing, Mr. Ji Mengwei, Mr. Liu Fang, Mr. Yuan Xichen, Mr. Guo Yumin, Mr. Wang Hongbin, Mr. Sun Jumin, Mr. Li Yingui, Mr. Ge Laibing, Mr. Wang Chunlin, Mr. Pang Zhenhai, Mr. Sang Baozhao, Mr. Min Longgang, Mr. Gao Jiapan, Mr. Zhao Shishuang, Mr. Wang Zhenyu, Mr. Zhang Ziren, Mr. Wang Yanjun.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 63, Chairman and Chief Executive Officer of the Company, was appointed as an executive director of the Company in 1998. Mr. Cai is also the chairman of the Nomination Committee of the Company and a director of certain subsidiaries of the Group. Mr. Cai holds a MBA degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry. Mr. Cai is a deputy of the 12th National People's Congress of the People's Republic of China (the "PRC").

Mr. Cai is also a director of True Ally Holdings Limited, Massive Giant Group Limited, Massive Top Limited, March Rise Limited, and the general partner of Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership), all of which are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO").

PAN Weidong

Mr. Pan, aged 47, was appointed as an executive director of the Company in 2006. Mr. Pan is also a director of certain subsidiaries of the Group. Mr. Pan holds an EMBA degree from Tsinghua University and has extensive experience in finance and accounting.

Mr. Pan is also a director of Massive Giant Group Limited, Massive Top Limited and March Rise Limited, all of which are substantial shareholders of the Company within the meaning of Part XV of the SFO.

WANG Huaiyu

Mr. Wang, aged 53, was appointed as an executive director of the Company in 2010. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in microbiology and biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

LU Jianmin

Mr. Lu, aged 58, was appointed as an executive director of the Company in 2010. Mr. Lu is also a director of certain subsidiaries of the Group. Mr. Lu has extensive technical and management experience in the pharmaceutical industry.

WANG Jinxu

Mr. Wang, aged 46, was appointed as an executive director of the Company in 2013. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in chemistry from Hebei University, a master's degree in chemical engineering from Hebei University of Technology and a doctorate in chemical engineering from Tianjin University, and has extensive experience in product research and development in the pharmaceutical industry.

WANG Zhenguo

Mr. Wang, aged 47, was appointed as an executive director of the Company in 2012. Mr. Wang is also a director of certain subsidiaries of the Group. Mr. Wang holds a bachelor's degree in chemistry from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

LU Hua

Mr. LU, aged 45, was appointed as an executive director of the Company in 2015. Mr. Lu is also a director of certain subsidiaries of the Group. Mr. Lu holds a bachelor's degree in science (chemistry) from Hebei Normal University, a master's degree in engineering (pharmaceutical manufacturing) from Beijing University of Chemical Technology, an EMBA degree from Tsinghua University and a doctorate in engineering (pharmaceutical manufacturing) from Tianjin University. Mr. Lu has extensive experience in pharmaceutical engineering, production management and technical research.

WANG Shunlong

Mr. Wang, aged 52, was appointed as an executive director of the Company in 2008. Mr. Wang holds a doctorate in engineering from Tsinghua University and has spent three years as a visiting researcher at Eindhoven University of Technology in the Netherlands. Mr. Wang has extensive experience in corporate management and investment planning.

Mr. Wang is also a non-executive director of Consun Pharmaceutical Group Limited (listed on The Stock Exchange of Hong Kong Limited).

CHAK Kin Man

Mr. Chak, aged 51, was appointed as an executive director of the Company in 2005. Mr. Chak is also a director of certain subsidiaries of the Group. Mr. Chak is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chak holds a bachelor of social sciences degree from The University of Hong Kong and has extensive experience in finance, accounting and investor relation.

LEE Ka Sze, Carmelo

Mr. Lee, aged 56, was appointed as a non-executive director in 1996, re-designated as an independent non-executive director in 1998 and further re-designated as a non-executive director in 2004. Mr. Lee is also a member of the Audit Committee and Remuneration Committee and the Company Secretary of the Company. Mr. Lee holds a bachelor of laws degree from The University of Hong Kong. Mr. Lee is a practising solicitor and a partner of Woo, Kwan, Lee & Lo. Mr. Lee is currently a member of the SFC (HKEC Listing) Committee.

Mr. Lee is also a non-executive director of Hopewell Holdings Limited, Yugang International Limited, Safety Godown Company Limited and Termbray Industries International (Holdings) Limited and an independent non-executive director of KWG Property Holding Limited, Esprit Holdings Limited and China Pacific Insurance (Group) Co., Ltd.. All of the above companies are listed on the Stock Exchange of Hong Kong Limited.

Mr. Lee was appointed as convenor cum member of the Financial Reporting Review Panel of the Financial Reporting Council for a term of 3 years from 16 July 2016 to 15 July 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

CHAN Siu Keung, Leonard

Mr. Chan, aged 59, was appointed as an independent non-executive director of the Company in 2004. Mr. Chan is also the chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Chan is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. Mr. Chan holds a master of business administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

WANG Bo

Mr. Wang, aged 56, was appointed as an independent non-executive director of the Company in 2012. Mr. Wang is currently the CEO of Beijing CHNMED Pharmaceutical Technology Development Co., Ltd and managing director of Beijing CHNMED Pharmaceutical Consulting Co., Ltd.. Mr. Wang graduated from Beijing Institute of Iron and Steel and has extensive experience in pharmaceutical policy research and consulting. Mr. Wang is currently the vice-chairman of Chinese Pharmaceutical Enterprises Association and China National Association of Pharmaceutical and Medical Equipment Technical Market.

Mr. Wang is also an independent director of Hainan Shuangcheng Pharmaceutical Co., Ltd. (listed on Shenzhen Stock Exchange), Guangxi Linzhou Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange) and Henan Taloph Pharmaceutical Stock Co., Ltd. (listed on Shanghai Stock Exchange). Mr. Wang was also appointed as independent director of Jiuzhitang Co., Ltd. (listed on Shenzhen Stock Exchange) on 12 May 2016.

Mr. Wang retired as an independent director of Jiangxu Wuzhong Industrial Co., Ltd. (listed on Shanghai Stock Exchange) on 5 April 2016.

LO Yuk Lam

Mr. Lo, aged 68, was appointed as an independent non-executive director of the Company in 2014. Mr. Lo is currently the President of Saitai Biotechnology Research Institute, Vice-Chairman of Santai Eco Fishery Limited, Chairman of Lo & Associates Limited, Senior Director of Questmark Asia Limited and Senior Advisor of Questmark Capital Management Sdn. Bhd.. Mr. Lo is also involved in public services, currently serving as Chairman of the Advisory Council on Food and Environmental Hygiene of the Food and Health Bureau of the HKSAR, a member of the Advisory Committee of the Vocational Training Council, a general committee member of The Chinese Manufacturers' Association of Hong Kong ("CMA"), Chairman of the Innovation and Technology Committee of the CMA and a consultant of the Chinese Centre for Disease Control and Prevention. Mr. Lo is also an Adjunct Professor of The Chinese University of Hong Kong, a Fellow of The Hong Kong University of Science and Technology and an Honorary Professor of several universities in China. Mr. Lo holds a bachelor's degree in science from the University of Waterloo and an honorary doctorate of philosophy science from York University in the U.S..

Mr. Lo is also an independent director of Sinovac Biotech Limited (listed on NASDAQ) and an independent non-executive director of Luye Pharma Group Ltd. (listed on The Stock Exchange of Hong Kong Limited).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

YU Jinming

Mr. Yu, aged 59, was appointed as an independent non-executive director of the Company in 2014. Mr. Yu is an Academician of Chinese Academy of Engineering, and is currently the Honorary President of Shandong Academy of Medical Sciences and the President of Shandong Cancer Hospital. Mr. Yu holds a bachelor's degree in medicine from Changwei Medical College and a doctorate in radiology from Shandong University.

CHEN Chuan

Mr. Chen, aged 53, was appointed as an independent non-executive director of the Company in 2016. Mr. Chen holds a bachelor's degree in Medicine from Norman Bethune University of Medical Science and a Master's degree in Science from Albert Einstein College of Medicine at Yeshiva University.

Mr. Chen is also a director of Beijing Dong Fang Ming Kang Medical Equipment Co., Ltd. (quoted on the National Equities Exchange and Quotations System) and an independent director of Jiangsu Wuzhong Industrial Co., Ltd. (listed on Shanghai Stock Exchange).

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Details of the continuing connected transactions of the Group during the year are set out in the section below headed "Continuing Connected Transactions".

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company, or any of its parent companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions

Name of director	Capacity	Number of issued ordinary shares held	Number of underlying shares under the share options held *(Note i)*	Total	Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	86,538,000	—	86,538,000	1.43%
	Interest of controlled corporation	1,765,825,534 *(Note ii)*	—	1,765,825,534	29.18%
Pan Weidong	Beneficial owner	10,000,000	—	10,000,000	0.17%
Wang Huaiyu	Beneficial owner	15,000,000	—	15,000,000	0.25%
Lu Jianmin	Beneficial owner	10,000,000	—	10,000,000	0.17%
Wang Jinxu	Beneficial owner	3,000,000	—	3,000,000	0.05%
Wang Zhenguo	Beneficial owner	3,000,000	—	3,000,000	0.05%
Lu Hua	Beneficial owner	3,000,000	—	3,000,000	0.05%
Chak Kin Man	Beneficial owner	4,000	1,500,000	1,504,000	0.02%

Notes:

(i) The share options were granted pursuant to the share option scheme of the Company as set out in the section below headed "Share Option Scheme".

(ii) Mr. Cai Dongchen is deemed to be interested in 1,765,825,534 shares, comprising (i) 493,880,000 shares directly held by True Ally Holdings Limited ("True Ally"), a direct wholly-owned subsidiary of Mr. Cai Dongchen; (ii) 213,929,500 shares directly held by Key Honesty Limited, an indirect wholly-owned subsidary of Mr. Cai Dongchen; and (iii) 1,058,016,034 shares directly held by Massive Giant Group Limited by virtue of his interests in a chain of corporations holding Massive Giant Group Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) (北京中宜和合眾投資管理中心(有限合夥)) ("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

Other than as disclosed above, none of the directors or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2016.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option holdings disclosed above, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders (other than interest disclosed under the section "Directors' interests in the shares, underlying shares and debentures" above) had notified the Company of relevant interests in the issued share capital of the Company.

Long Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
True Ally Holdings Limited	Beneficial owner	493,880,000	
	Interest in controlled corporation	1,271,945,534 *(Note (i))*	
		1,765,825,534	29.18%
Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership)	Interest in controlled corporation	1,058,016,034 *(Note (ii))*	17.48%
March Rise Limited	Interest in controlled corporation	1,058,016,034 *(Note (ii))*	17.48%
Massive Top Limited	Interest in controlled corporation	1,058,016,034 *(Note (ii))*	17.48%
Massive Giant Group Limited	Beneficial owner	1,058,016,034 *(Note (ii))*	17.48%
JPMorgan Chase & Co.	Beneficial owner	12,782,549	
	Investment manager	110,916,000	
	Custodian/approved lending agent	232,269,961	
		355,968,510	5.88%
UBS Group AG	Persons having a security interest in shares	299,147,569	
	Interest in controlled corporation	61,378,069	
		360,525,638	5.96%

SUBSTANTIAL SHAREHOLDERS *(continued)*

Long Positions *(continued)*

Note:

(i) The interests comprise 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("Ture Ally") and 1,058,016,034 shares directly held by Massive Giant Group Limited described in Note (ii) below.

(ii) The interests represent 1,058,016,034 shares directly held by Massive Giant Group Limited, of which Massive Top Limited owns 100%. Massive Top Limited in turn is owned as to 75% by March Rise Limited, 15% by Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) (北京中宜和合眾投資管理中心(有限合夥)) ("Zhongyihe") and 10% by True Ally. March Rise Limited is owned as to 40% by True Ally and 60% by Zhongyihe.

Short Positions

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
JPMorgan Chase & Co.	Beneficial owner	846,000	0.01%
UBS Group AG	Interest in controlled corporation	6,372,000	0.11%

Lending Pool

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of shares in issue of the Company
JPMorgan Chase & Co.	Custodian/approved lending agent	232,269,961	3.84%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2016.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2016, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Name of company	Nature of transactions	Transaction amount *HKD'000*
CSPC Holdings Company Limited ("CHL") and its subsidiaries (the "CHL Group")	Sales of pharmaceutical products *(note a)*	364,007
	Rental expenses *(note b)*	5,639
	Rental expenses *(note c)*	849
	Rental expenses *(note d)*	1,937
	Rental expenses *(note e)*	10,748
	Purchase of finished pharmaceutical products *(note f)*	—
	Purchase of steam *(note g)*	9,313
	Purchase of steam *(note h)*	4,989
	Warehouse service income *(note i)*	6,150

Notes:

(a) On 1 November 2015, the Company entered into a master sales agreement with CHL, pursuant to which the Company agrees to supply and to procure its subsidiaries to supply pharmaceutical products to the CHL Group for a terms of three years commencing on 1 November 2015.

(b) On 25 June 2013, CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd ("Zhongnuo") entered into three lease agreements with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2013 with an aggregate rental of RMB9,974,600 per annum. The agreements have expired on 24 June 2016.

(c) On 25 June 2013, CSPC XNW Pharmaceutical Joint Stock Company Limited ("XNW") entered into a lease agreement with Hebei Shengxue Glucose Limited Liability Company ("Shengxue"), a then non wholly-owned subsidiary of CHL, to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2013 with a rental of RMB1,501,200 per annum. The transaction is no longer a continuing connected transaction after Shengxue has become a subsidiary of the Company on 7 June 2016.

(d) On 20 July 2002, Zhongnuo entered into a lease agreement with CHL to lease four factory buildings and a piece of land located in Shijiazhuang, Hebei Province, the PRC for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The monthly rental was revised to RMB138,033 on 1 August 2014 for a term of three years.

(e) On 27 June 2016, Zhongnuo and CSPC Ouyi Pharmaceutical Co. Ltd. entered into lease agreements with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2016 respectively with an aggregate rental of RMB18,379,900 per annum. Details of the transactions are set out in the announcement of the Company dated 27 June 2016.

(f) On 18 December 2013, CSPC Zhongcheng Pharmaceutical Logistic Company Limited ("Zhongcheng Logistic"), a non wholly-owned subsidiary of the Company, entered into a master sales and purchase agreement with CSPC Hebei Zhongcheng Pharmaceutical Company Limited ("Hebei Zhongcheng"), a non wholly-owned subsidiary of CHL, in relation to the sale and purchase of finished pharmaceutical products for a term of three years commencing from 1 January 2014. The agreement has expired on 31 December 2016.

(g) On 29 August 2014, XNW entered into a steam supply agreement with Hebei Hongyuan Re Dian Limited Liability Company ("Hongyuan") (owned as to 40% by CHL) in relation to the purchase of steam by XNW from Hongyuan for a term of three years commencing on 29 August 2014.

(h) On 13 June 2016, Shengxue entered into a steam supply agreement with Hongyuan in relation to the purchase of steam by Shengxue from Hongyuan for a term of three years commencing on 13 June 2016. Details of the transaction are set out in the announcement of the Company dated 13 June 2016.

(i) On 14 November 2014, Zhongcheng Logistic entered into a warehouse storage service agreement with Hebei Zhongcheng whereby Zhongcheng Logistic would provide warehouse storage service to Hebei Zhongcheng for a term of three years commencing on 14 November 2014.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

Massive Giant Group Limited is a substantial shareholder of the Company holding approximately 17.48% of the total number of issued shares of the Company as at the date of this report, which is wholly owned by Massive Top Limited ("MTL"). CHL is a wholly-owned subsidiary of MTL. Therefore, CHL is an associate of a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Each of Mr. Cai Dongchen, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin, Mr. Wang Zhenguo, Mr. Wang Jinxu and Mr. Lu Hua, all being directors of the Company, is indirectly interested in MTL.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to carry out assurance procedures in respect of the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported the conclusion to the board of directors by confirming the matters as stated in Rule 14A.38, where applicable.

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

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

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

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

INTERESTS IN COMPETITOR

CHL holds a 51% interest in CSPC Jiangxi Jinfurong Pharmaceutical Co., Ltd, a company principally engaged in the manufacture and sales of traditional Chinese medicines in the PRC and which may compete with the Group in certain aspects of its business.

CHL is a wholly-owned subsidiary of MTL and each of Mr. Cai Dongchen, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Lu Jianmin, Mr. Wang Zhenguo, Mr. Wang Jinxu and Mr. Lu Hua, all being directors of the Company, is indirectly interested in MTL.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 29 to the consolidated financial statements.

The following table discloses movements in the Company's share options granted under the share option scheme adopted by the Company on 6 July 2004 during the year:

Category	Date of grant	Exercise price (HK$)	Exercisable period	Number of Share Options: As at 1 January 2016	Granted	Exercised	Cancelled	Lapsed	As at 31 December 2016
Directors									
Cai Dongchen	17 April 2013	3.98	17 April 2014 — 16 April 2023	80,000,000	—	(80,000,000)	—	—	—
Pan Weidong	17 April 2013	3.98	17 April 2014 — 16 April 2023	10,000,000	—	(10,000,000)	—	—	—
Wang Huaiyu	17 April 2013	3.98	17 April 2014 — 16 April 2023	15,000,000	—	(15,000,000)	—	—	—
Lu Jianmin	17 April 2013	3.98	17 April 2014 — 16 April 2023	10,000,000	—	(10,000,000)	—	—	—
Wang Zhenguo	17 April 2013	3.98	17 April 2014 — 16 April 2023	3,000,000	—	(3,000,000)	—	—	—
Wang Jinxu	17 April 2013	3.98	17 April 2014 — 16 April 2023	3,000,000	—	(3,000,000)	—	—	—
Lu Hua	17 April 2013	3.98	17 April 2014 — 16 April 2023	3,000,000	—	(3,000,000)	—	—	—
Chak Kin Man	17 April 2013	3.98	17 April 2014 — 16 April 2023	3,000,000	—	(1,500,000)	—	—	1,500,000
Employees									
In aggregate	17 April 2013	3.98	17 April 2014 — 16 April 2023	17,000,000	—	(16,000,000)	—	(1,000,000)	—
Total				144,000,000	—	(141,500,000)	—	(1,000,000)	1,500,000

Notes:

1. The closing price of the Company's shares immediately before the date of grant of the options was HK$3.98.

2. The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$7.75.

SHARE OPTION SCHEME *(continued)*

As at 31 December 2016, options to subscribe for an aggregate of 1,500,000 shares of the Company under the said share option scheme were outstanding, representing 0.02% of the existing shares in issue of the Company as at the date of the report.

At the extraordinary general meeting of the Company held on 9 December 2015, an ordinary resolution was passed for the adoption of a new share option scheme. No options have been granted under the new share option scheme since its adoption.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, performance and responsibilities of individuals and prevailing market practices.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

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

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2016.

DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$711,000.

AUDITOR

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

On behalf of the Board
CAI Dongchen
Chairman

Hong Kong, 20 March 2017

Deloitte. 德勤

TO THE MEMBERS OF CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of CSPC Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 148, which comprise the consolidated statements of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of trade receivables	
We identified the estimated impairment of trade receivables as a key audit matter due to the use of significant judgement and estimates with respect the recoverability of overdue trade receivables. As detailed in the note 4 and 20 to the consolidated financial statement, the management of the Group reviews and assesses the recoverability of the carrying value of all overdue trade receivables individually by considering the credit history including default or delay in payments, settlement records and subsequent settlements. Allowance for doubtful debts will be provided for the amount of trade receivables that is considered as irrecoverable. At 31 December 2016, the carrying amount of trade receivables was HK$1,482,432,000 (net of allowance for doubtful debts of HK$10,423,000).	Our procedures in relation to the recoverability of trade receivables included: • understanding how allowance for doubtful debts is estimated by the management; • testing the subsequent settlement of trade receivables, on a sample basis, to the source documents including bank statements and bank-in slips; and • discussing with the management and evaluating the basis of trade debtors that are overdue and without/with little settlement subsequent to the end of the reporting period identified by the management and their assessment on the recoverability of these trade receivables.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment of Vitamin C operating segment ("VC Segment")	
We identified impairment assessment of property, plant and equipment of VC Segment as a key audit matter due to significant judgement is required by the Group's management to assess the impairment when there is indication the property, plant and equipment of VC Segment may suffer an impairment loss. As detailed in the note 4 to the consolidated financial statements the carrying amount of the Group's property, plant and equipment of VC Segment was HK$912,615,000 as at 31 December 2016. VC Segment of the Group has reported loss in previous years which indicated that those property, plant and equipment may suffer an impairment loss. When such indication exists, the management of the Group estimates the recoverable amount by considering the value in use. The value in use is determined based on the cash flow projection for VC Segment and requires the estimation of key assumptions, including the discount rate, terminal growth rate, budgeted sales and gross margin. The management of the Group determines that there was no impairment recognized with respect to property, plant and equipment of VC Segment during the year ended 31 December 2016.	Our procedures in relation to the impairment of property, plant and equipment of VC Segment included: • understanding of the key control in respect of the impairment review process of the property, plant and equipment; • making inquiries with management on their methodology applied in calculating the value in use of the property, plant and equipment; • evaluating management's assumptions used in the cash flow forecast and the value in use calculations by checking the mathematical accuracy of the value in use and comparing forecast growth rates, selling price and margin to recent financial data; and • working with our internal valuation expert to assess the appropriateness of the discount rate used, and perform sensitivity analysis on discount rate and to assess the extent of impact on the value in use.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Wu Chung Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	5	**12,369,041**	11,393,726
Cost of sales		**(6,060,232)**	(6,172,848)
Gross profit		**6,308,809**	5,220,878
Other income		**106,970**	86,561
Selling and distribution expenses		**(2,788,160)**	(2,266,958)
Administrative expenses		**(553,694)**	(534,881)
Other expenses		**(424,441)**	(339,147)
Operating profit		**2,649,484**	2,166,453
Finance costs	6	**(41,711)**	(56,335)
Share of results of			
— an associate		**—**	141
— joint ventures	17	**27,559**	10,663
Loss on disposal of an associate		**—**	(8,873)
Profit before tax		**2,635,332**	2,112,049
Income tax expense	8	**(522,107)**	(432,423)
Profit for the year	7	**2,113,225**	1,679,626
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**(658,279)**	(423,345)
Share of exchange differences of an associate and joint ventures		**(2,773)**	(1,244)
Other comprehensive expense for the year, net of income tax		**(661,052)**	(424,589)
Total comprehensive income for the year		**1,452,173**	1,255,037

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Profit for the year attributable to:			
Owners of the Company		**2,100,848**	1,665,271
Non-controlling interests		**12,377**	14,355
		2,113,225	1,679,626
Total comprehensive income attributable to:			
Owners of the Company		**1,445,017**	1,244,595
Non-controlling interests		**7,156**	10,442
		1,452,173	1,255,037
		HK cents	*HK cents*
Earnings per share			
— Basic	11	**35.25**	28.18
— Diluted	11	**35.00**	27.95

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	13	**5,415,032**	5,142,767
Prepaid lease payments	14	**526,712**	467,785
Goodwill	15	**111,785**	119,388
Other intangible assets	16	**79,232**	96,080
Interests in joint ventures	17	**80,089**	27,586
Available-for-sale investments	18	**91,732**	—
Deferred tax assets	26	**27,986**	38,706
		6,332,568	5,892,312
Current assets			
Inventories	19	**1,933,147**	1,819,228
Trade and other receivables	20	**1,835,266**	1,877,617
Bills receivables	21	**1,215,156**	1,389,493
Trade receivables due from related companies	36(i)	**73,570**	162,212
Amounts due from joint ventures	36(ii)	**115,986**	75,179
Prepaid lease payments	14	**16,419**	15,057
Tax recoverable		**—**	2,477
Held for trading investments		**521**	606
Restricted bank deposits	22	**2,875**	6,202
Bank balances and cash	22	**3,234,678**	2,299,468
		8,427,618	7,647,539
Current liabilities			
Trade and other payables	23	**2,937,893**	2,488,645
Bills payables	24	**100,559**	392,828
Trade payables due to related companies	36(i)	**—**	1,108
Trade payables due to a joint venture	36(ii)	**—**	1,591
Amounts due to related companies	36(i)	**657**	3,060
Tax liabilities		**147,769**	145,063
Borrowings	25	**897,777**	451,966
		4,084,655	3,484,261
Net current assets		**4,342,963**	4,163,278

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Total assets less current liabilities		**10,675,531**	10,055,590
Non-current liabilities			
Deferred tax liabilities	26	**68,865**	46,322
Borrowings	25	**240,380**	1,010,944
Government grants	27	**174,964**	185,717
		484,209	1,242,983
Net assets		**10,191,322**	8,812,607
Capital and reserves			
Share capital	28	**10,569,620**	9,835,299
Reserves		**(461,994)**	(1,097,244)
Equity attributable to owners of the Company		**10,107,626**	8,738,055
Non-controlling interests		**83,696**	74,552
Total equity		**10,191,322**	8,812,607

The consolidated financial statements on pages 71 to 148 were approved and authorised for issue by the Board of Directors on 20 March 2017 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Equity attributable to owners of the Company									
	Share capital HK$'000	Other reserve HK$'000 *(note a)*	Statutory reserves HK$'000 *(note b)*	Capital contribution reserve HK$'000 *(note c)*	Share options reserve HK$'000 *(note 29)*	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	9,819,731	(5,523,729)	514,760	45,564	181,433	35,269	3,006,126	8,079,154	72,374	8,151,528
Profit for the year	—	—	—	—	—	—	1,665,271	1,665,271	14,355	1,679,626
Other comprehensive expense for the year	—	—	—	—	—	(420,676)	—	(420,676)	(3,913)	(424,589)
Total comprehensive income for the year	—	—	—	—	—	(420,676)	1,665,271	1,244,595	10,442	1,255,037
Dividends recognised as distribution *(note 12)*	—	—	—	—	—	—	(590,802)	(590,802)	—	(590,802)
Dividends paid to non-controlling interest	—	—	—	—	—	—	—	—	(3,267)	(3,267)
Transfer to statutory reserve	—	—	185,876	—	—	—	(185,876)	—	—	—
Exercise of share options	15,568	—	—	—	(3,629)	—	—	11,939	—	11,939
Forfeiture of share options	—	—	—	—	(3,629)	—	3,629	—	—	—
Capital contribution from a non-controlling interest	—	—	—	—	—	—	—	—	366	366
Acquisition of additional interest in a subsidiary *(note d)*	—	—	—	—	—	—	(6,831)	(6,831)	(5,363)	(12,194)
At 31 December 2015 and 1 January 2016	**9,835,299**	**(5,523,729)**	**700,636**	**45,564**	**174,175**	**(385,407)**	**3,891,517**	**8,738,055**	**74,552**	**8,812,607**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**2,100,848**	**2,100,848**	**12,377**	**2,113,225**
Other comprehensive expense for the year	**—**	**—**	**—**	**—**	**—**	**(655,831)**	**—**	**(655,831)**	**(5,221)**	**(661,052)**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**(655,831)**	**2,100,848**	**1,445,017**	**7,156**	**1,452,173**
Dividends recognised as distribution *(note 12)*	**—**	**—**	**—**	**—**	**—**	**—**	**(650,212)**	**(650,212)**	**—**	**(650,212)**
Transfer to statutory reserve	**—**	**—**	**69,179**	**—**	**—**	**—**	**(69,179)**	**—**	**—**	**—**
Exercise of share options	**734,321**	**—**	**—**	**—**	**(171,151)**	**—**	**—**	**563,170**	**—**	**563,170**
Forfeiture of share options	**—**	**—**	**—**	**—**	**(1,210)**	**—**	**1,210**	**—**	**—**	**—**
Disposal of a subsidiary *(note 31)*	**—**	**—**	**—**	**—**	**—**	**16**	**(16)**	**—**	**(348)**	**(348)**
Acquisition of subsidiaries and assets *(note 30)*	**—**	**—**	**—**	**11,879**	**—**	**—**	**—**	**11,879**	**6,312**	**18,191**
Acquisition of additional interest in a subsidiary *(note d)*	**—**	**—**	**—**	**—**	**—**	**—**	**(283)**	**(283)**	**(3,976)**	**(4,259)**
At 31 December 2016	**10,569,620**	**(5,523,729)**	**769,815**	**57,443**	**1,814**	**(1,041,222)**	**5,273,885**	**10,107,626**	**83,696**	**10,191,322**

Notes:

(a) The balance in other reserve mainly included an amount of HK$5,038,291,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of HK$3,288,998,000 and the fair value of the consideration paid by the Company of HK$8,327,289,000 in the reverse acquisition on 29 October 2012.

(b) The statutory reserves were appropriated from the profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(c) The balance in capital contribution reserve represents the deemed contribution by CSPC Holdings Company Limited ("CHL"), a related company as defined in note 36, which comprise 1) the difference between the carrying amounts of the net assets of entities comprising Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to CHL and its subsidiaries during group reorganisation under the Robust Sun Group in 2012; 2) the imputed interest arising on a non-interest bearing loan from CHL in 2012 and (3) deemed capital contribution arising as a result of the acquisition set out in note 30.

(d) In August 2015 and August 2016, the Group entered into equity transfer agreements with an independent third party to acquire the remaining 5.84% in CSPC Baike (Shandong) Biopharmaceutical Co., Ltd ("Baike Shandong") and the remaining 6.82% of CSPC Shengxue Glucose Co., Ltd ("Shengxue"), respectively. The transactions were completed on 17 September 2015 and 25 August 2016, respectively. Upon completion of these acquisitions, Baike Shandong and Shengxue became wholly-owned subsidiaries of the Company. Accordingly, the differences between the carrying amounts of net assets attributable to the additional interests acquired at the date of acquisitions and the fair value of considerations paid by the Company for these acquisitions were debited to accumulated profits.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before tax	**2,635,332**	2,112,049
Adjustments for:		
Amortisation of other intangible assets	**17,796**	18,430
Amortisation of prepaid lease payments	**19,218**	14,794
Depreciation of property, plant and equipment	**550,713**	572,036
Gain on disposal of an available-for-sale investment	**—**	(358)
Gain on disposal of a subsidiary	**(26)**	—
Government grant income	**(24,976)**	(39,730)
Finance costs	**41,711**	56,335
Interest income	**(13,005)**	(9,807)
Loss on disposal of an associate	**—**	8,873
Loss on disposal of property, plant and equipment	**20,572**	7,012
Loss on fair value change of held for trading investments	**49**	68
Impairment loss on trade receivables	**1,972**	9,024
Reversal of impairment loss of trade receivables	**(4,460)**	—
Share of results of		
— an associate	**—**	(141)
— joint ventures	**(27,559)**	(10,663)
Operating cash flows before movements in working capital	**3,217,337**	2,737,922
Increase in inventories	**(197,427)**	(99,272)
(Increase) decrease in trade and other receivables	**(70,446)**	30,636
Decrease (increase) in bills receivables	**91,206**	(373,799)
Decrease (increase) in trade receivables due from related companies	**81,975**	(76,964)
Increase in trade and other payables	**545,143**	170,201
(Decrease) increase in bills payables	**(279,754)**	183,192
Decrease in trade payables due to related companies	**(1,086)**	(25,165)
Decrease in trade payable due to an associate	**—**	(572)
(Decrease) increase in trade payable due to a joint venture	**(1,559)**	1,656
Increase in government grants	**50,757**	143,999
Cash generated from operations	**3,436,146**	2,691,834
Income tax paid	**(479,161)**	(385,855)
Interest paid	**(40,684)**	(56,752)
NET CASH FROM OPERATING ACTIVITIES	**2,916,301**	2,249,227

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

		2016	2015
		HK$'000	*HK$'000*
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,099,142)**	(815,691)
Purchase of an available-for-sale investment		**(91,732)**	—
Prepaid lease payments paid		**(80,253)**	(7,170)
Advances to joint ventures		**(39,611)**	(945)
Acquisition of a joint venture	*17*	**(33,662)**	—
Acquisition of subsidiaries and assets	*30*	**(25,270)**	—
Purchase of others intangible assets		**(6,625)**	(7,853)
Acquisition of additional interest in a subsidiary		**(4,259)**	(12,194)
Disposal of a subsidiary	*31*	**26,377**	—
Interest received		**13,005**	9,807
Proceeds on disposal of property, plant and equipment		**8,114**	9,342
Withdrawal of restricted bank deposits		**1,446**	56,973
Placement of restricted bank deposits		**—**	(5,593)
Proceeds from disposal of interest in an associate		**—**	48,000
Proceeds from disposal of an available-for-sale investment		**—**	2,063
NET CASH USED IN INVESTING ACTIVITIES		**(1,331,612)**	(723,261)
FINANCING ACTIVITIES			
Repayment of borrowings		**(702,114)**	(1,324,456)
Dividends paid		**(650,212)**	(590,802)
Repayment to related companies		**(82,489)**	(273,798)
Receipt on issuance of shares upon exercise of share options		**563,170**	11,939
New borrowings raised		**419,248**	1,587,702
Dividends paid to non-controlling interests		**—**	(3,267)
Capital contribution from non-controlling interest		**—**	366
NET CASH USED IN FINANCING ACTIVITIES		**(452,397)**	(592,316)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,132,292**	933,650
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**2,299,468**	1,468,421
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(197,082)**	(102,603)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		**3,234,678**	2,299,468

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products. Details of the subsidiaries are set out in note 38.

The functional currency of the Company is Renminbi ("RMB"), the consolidated financial statements are presented in Hong Kong dollar ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 — 2014 Cycle

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

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2017.

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

New and amendments to HKFRSs in issue but not yet effective *(continued)*

HKFRS 9 Financial Instruments

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

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

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have an impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

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

New and amendments to HKFRSs in issue but not yet effective *(continued)*

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

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

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

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

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

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

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

New and amendments to HKFRSs in issue but not yet effective *(continued)*

HKFRS 16 Leases

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$71,945,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Group complete a detailed review.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries *(continued)*

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

Business combinations

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

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

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

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

Acquisition of a subsidiary not constituting a business

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of a joint venture is described below.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in joint ventures *(continued)*

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

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

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interest in the joint venture that are not related to the Group.

Revenue recognition

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

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

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

Service income is recognised when services are provided.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

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

The Group as lessee

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

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease terms on a straight-line basis.

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

On the disposal of a subsidiary which are not foreign operations, all of the relevant exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to accumulated profits.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

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

Government grants

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

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

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

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 29.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

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

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

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

Buildings under development for future owner-occupied purpose

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

Intangible assets

Intangible assets acquired separately

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

Internally generated intangible assets — research and development expenditure

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Internally generated intangible assets — research and development expenditure *(continued)*

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

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

Intangible assets acquired in a business combination

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Inventories

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

Provisions

Provision are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments, other than those financial assets classified as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in other income or other expenses in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 35c.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, restricted bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, bills payables, trade payables due to related companies, trade payable due to a joint venture, amounts due to related companies, and borrowings) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Estimated impairment of trade receivables

In determining the recoverability of trade receivables, the management considers any changes in the creditability of its customers and assesses the recoverable amount of each individual receivables at the end of the reporting period based on objective evidence such as credit history, including default or delay in payments and settlement records.

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amounts of the Group's trade receivable is approximately HK$1,482,432,000 (2015: HK$1,547,767,000), net of allowance for doubtful debts of approximately HK$10,423,000 (2015: HK$13,181,000).

Impairment assessment of property, plant, and equipment

The Group evaluates whether there is any event or change in circumstances which indicates that the carrying amount of property, plant and equipment may not be recoverable. Whenever such events or changes in circumstances occur, these assets are reviewed for impairment.

When such indication exists, the management of the Group estimate the recoverable amount by considering the value in use. The value in use is determined based on the cash flow projection for the cash-generating unit of which the asset belongs and requires the estimation of key assumptions. As at 31 December 2016, the carrying amount of property, plant and equipment of the Group was approximately HK$5,415,032,000 (2015: HK$5,142,767,000). Details of the movements for property, plant and equipment of the group are disclosed in note 13.

In light of reported loss in Vitamin C operating segment ("VC Segment") of the Group in previous years, management identified there may be impairment indicator for the property, plant and equipment held by VC segment and impairment assessment based on value in use calculation was conducted. Determining whether certain property, plant and equipment is impaired requires an estimation of the value in use of those property, plant and equipment. The value in use calculation requires the Group to estimate the future cash flows expected to arise from respective property, plant and equipment and a suitable discount rate, terminal growth rate, budgeted sales and gross margin in order to calculate the present value. As at 31 December 2016, the carrying amount of property, plant and equipment of VC segment was approximately HK$912,615,000 (2015: HK$977,917,000) respectively. No impairment loss was recognised after performing the impairment assessment as at 31 December 2016 and 2015.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/further impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill was approximately HK$111,785,000 (2015: HK$119,388,000). Details of the recoverable amount calculation are disclosed in note 15.

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews the aging of the inventories to identify slow-moving and obsolete inventories. When the Group identifies an item of inventory which has a market price that is lower than its carrying amount or is slow-moving or obsolete, the Group would write down inventories in that year. As at 31 December 2016, the carrying amount of the inventories was approximately HK$1,933,147,000 (2015: HK$1,819,228,000), net of provision for inventories of approximately HK$6,592,000 (2015: HK$7,041,000).

5. REVENUE AND SEGMENT INFORMATION

	2016	2015
	HK$'000	*HK$'000*
Sale of goods	**12,369,041**	11,393,726

Information reported to the board of directors, being the chief operating decision maker ("CODM"), for the purpose of resources allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

(a) Finished drugs

(b) Antibiotics (bulk drugs)

(c) Vitamin C (bulk drugs)

(d) Caffeine and others (bulk drugs)

All reportable and operating segments are engaged in the manufacture and sales of pharmaceutical products.

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended 31 December 2016:

	Finished drugs HK$'000	Antibiotics HK$'000	Vitamin C HK$'000	Caffeine and others HK$'000	Segment total HK$'000	Eliminations HK$'000	Consolidated HK$'000
SEGMENT REVENUE							
External sales	8,966,851	1,333,565	1,308,687	759,938	12,369,041	—	12,369,041
Inter-segment sales	—	72,689	12,621	7,688	92,998	(92,998)	—
TOTAL REVENUE	8,966,851	1,406,254	1,321,308	767,626	12,462,039	(92,998)	12,369,041
SEGMENT PROFIT	2,554,555	24,493	25,726	175,254	2,780,028		2,780,028
Unallocated income							13,005
Unallocated expenses							(143,549)
Operating profit							2,649,484
Finance costs							(41,711)
Share of results of joint ventures							27,559
Profit before tax							2,635,332

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2015:

	Finished drugs *HK$'000*	Antibiotics *HK$'000*	Vitamin C *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE							
External sales	7,793,705	1,718,436	1,202,694	678,891	11,393,726	—	11,393,726
Inter-segment sales	—	55,434	4,126	8,245	67,805	(67,805)	—
TOTAL REVENUE	7,793,705	1,773,870	1,206,820	687,136	11,461,531	(67,805)	11,393,726
SEGMENT PROFIT (LOSS)	2,030,600	189,496	(39,577)	119,853	2,300,372		2,300,372
Unallocated income							9,807
Unallocated expenses							(143,726)
Operating profit							2,166,453
Finance costs							(56,335)
Share of results of							
— an associate							141
— a joint venture							10,663
Loss on disposal of an associate							(8,873)
Profit before tax							2,112,049

Segment profit (loss) represents the profit earned by/loss from each segment without allocation of interest income, finance costs, central administrative expenses, share of results of an associate and joint ventures and loss on disposal of an associate. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information

For the year ended 31 December 2016

	Finished drugs *HK$'000*	Antibiotics *HK$'000*	Vitamin C *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Depreciation and amortisation	**272,462**	**138,339**	**124,705**	**29,752**	**565,258**	**22,469**	**587,727**

For the year ended 31 December 2015

	Finished drugs *HK$'000*	Antibiotics *HK$'000*	Vitamin C *HK$'000*	Caffeine and others *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Depreciation and amortisation	240,630	166,618	148,716	25,766	581,730	23,530	605,260

Geographical information

Information about the Group's revenue is presented based on geographical location of customers:

	2016 *HK$'000*	2015 *HK$'000*
The PRC (country of domicile)	**9,679,224**	8,671,612
Other Asian regions	**1,228,182**	1,122,154
Americas	**659,305**	830,673
Europe	**654,555**	607,443
Others	**147,775**	161,844
	12,369,041	11,393,726

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

6. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on bank loans	**38,461**	47,498
Interest on loans from a related company	**3,250**	8,837
	41,711	56,335

7. PROFIT FOR THE YEAR

	2016 HK$'000	2015 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' and chief executive's remuneration *(note 9)*		
— Salaries, wages and other benefits	**810,800**	789,421
— Contribution to retirement benefit schemes	**100,533**	106,812
Total staff costs	**911,333**	896,233
Amortisation of other intangible assets (included in cost of sales)	**17,796**	18,430
Amortisation of prepaid lease payments	**19,218**	14,794
Depreciation of property, plant and equipment	**550,713**	572,036
Total depreciation and amortisation	**587,727**	605,260
Auditor's remuneration	**3,500**	3,660
Gain on disposal of a subsidiary (included in other income)	**(26)**	—
Gain on disposal of an available-for-sale investment (included in other income)	**—**	(358)
Government grant income *(note 27)*	**(24,976)**	(39,730)
Interest income	**(13,005)**	(9,807)
Loss on disposal of property, plant and equipment (included in other expenses)	**20,572**	7,012
Net foreign exchange (gain) loss	**(10,009)**	1,786
Rental expenses	**32,791**	36,577
Reversal of impairment loss on trade receivables	**(4,460)**	—
Impairment loss on trade receivables	**1,972**	9,024
Research and development expenditure recognised as an expense (included in other expenses)	**403,140**	324,505

Note: Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2016 and 2015.

8. INCOME TAX EXPENSE

	2016 HK$'000	2015 HK$'000
Current taxation		
— PRC Enterprise Income Tax ("PRC EIT")	**450,233**	377,464
— PRC withholding tax on dividends distributed by subsidiaries	**41,899**	42,096
	492,132	419,560
Deferred taxation *(note 26)*	**29,975**	12,863
	522,107	432,423

The Company and its subsidiaries incorporated in Hong Kong are subject to 16.5% of the estimated assessable profits under Hong Kong Profits Tax. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The basic tax rate of the Company's PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT law. Certain subsidiaries of the Company are qualified as advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2017.

8. INCOME TAX EXPENSE *(continued)*

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

	2016	2015
	HK$'000	*HK$'000*
Profit before tax	**2,635,332**	2,112,049
Tax at the PRC EIT rate of 25% (2015: 25%)	**658,833**	528,012
Tax effect of income not taxable for tax purpose	**—**	(57)
Tax effect of expenses not deductible for tax purpose	**60,084**	70,376
Tax effect of share of results of an associate	**—**	(35)
Tax effect of share of results of a joint venture	**(6,890)**	(2,666)
Utilisation of tax losses previously not recognised	**—**	(6,151)
Tax effect of tax losses not recognised	**4,673**	27,292
Effect of tax exemption, relief and concessions granted to PRC subsidiaries	**(263,693)**	(245,661)
PRC withholding tax on dividends distributed by subsidiaries	**69,100**	61,313
Income tax expense for the year	**522,107**	432,423

Details of deferred taxation and unused tax losses are set out in note 26.

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 16 (2015: 17) directors were as follows:

2016

	Executive directors									Non-executive director	Independent non-executive directors						
	Cai Dongchen HK$'000 (Chairman and Chief Executive)	Chak Kin Man HK$'000	Pan Weidong HK$'000	Wang Shunlong HK$'000	Wang Huaiyu HK$'000	Lu Jianmin HK$'000	Wang Zhenguo HK$'000	Wang Jinxu HK$'000	Lu Hua HK$'000	Lee Ka Sze, Carmelo HK$'000	Chan Siu Keung, Leonard HK$'000	Wang Bo HK$'000	Lo Yuk Lam HK$'000	Yu Jinming HK$'000	Chen Chuan HK$'000 (note iv)	Chen Shilin HK$'000 (note ii)	Total HK$'000
Fees	60	60	60	–	60	60	60	60	60	350	250	100	120	80	100	–	1,480
Salaries	4,365	2,046	743	–	737	737	737	750	737	–	–	–	–	–	–	–	10,852
Performance bonuses	6,500	2,500	1,781	–	1,781	1,781	1,781	1,188	1,188	–	–	–	–	–	–	–	18,500
Contribution to retirement benefit schemes	403	189	79	–	61	61	61	79	61	–	–	–	–	–	–	–	994
Total emoluments	11,328	4,795	2,663	–	2,639	2,639	2,639	2,077	2,046	350	250	100	120	80	100	–	31,826

2015

	Executive directors											Non-executive director	Independent non-executive directors					
	Cai Dongchen HK$'000 (Chairman and Chief Executive)	Feng Zhenying HK$'000 (note i)	Chak Kin Man HK$'000	Pan Weidong HK$'000	Zhao John Huan HK$'000 (note (iii))	Wang Shunlong HK$'000	Wang Huaiyu HK$'000	Lu Jianmin HK$'000	Wang Zhenguo HK$'000	Wang Jinxu HK$'000	Lu Hua HK$'000 (note i)	Lee Ka Sze, Carmelo HK$'000	Chan Siu Keung, Leonard HK$'000	Wang Bo HK$'000	Lo Yuk Lam HK$'000	Yu Jinming HK$'000	Chen Shilin HK$'000 (note ii)	Total HK$'000
Fees	60	40	60	60	–	–	60	60	60	60	20	350	250	80	120	80	80	1,440
Salaries	4,365	522	2,046	787	–	–	783	783	783	795	261	–	–	–	–	–	–	11,125
Performance bonuses	6,500	–	2,500	1,781	–	–	1,781	1,781	1,781	1,188	396	–	–	–	–	–	–	17,708
Contribution to retirement benefit schemes	403	38	186	65	–	–	59	59	59	75	20	–	–	–	–	–	–	964
Total emoluments	11,328	600	4,792	2,693	–	–	2,683	2,683	2,683	2,118	697	350	250	80	120	80	80	31,237

Notes:

(i) Mr. Feng Zhenying resigned and Mr. Lu Hua was appointed as executive director on 7 September 2015.

(ii) Mr. Chen Shilin resigned as independent non-executive directors on 8 January 2016.

(iii) Mr. Zhao John Huan did not offer himself for re-election at the annual general meeting held on 26 May 2015 and accordingly, was not re-elected as executive director.

(iv) Mr. Chen Chuan was appointed as independent non-executive director on 6 June 2016.

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

The performance related incentive payment is determined by the remuneration committee for the year ended 31 December 2016 having regard to the performance of Group, performance and responsibilities of individuals as well as prevailing market practices. No remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived any emoluments in both years.

Mr. Cai Dongchen is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive. The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company, or any of its parent companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group for the year ended 31 December 2016 included 5 (2015: 5) directors and the chief executive of the Company, details of their emoluments are set out in note 9 above.

No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office in both years.

11. EARNINGS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**2,100,848**	1,665,271

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,960,417**	5,908,795
Effect of dilutive potential ordinary shares: Share options granted by the Company	**42,275**	48,879
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,002,692**	5,957,674

12. DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2015 Final, paid — HK11 cents (2015: 2014 Final, paid — HK10 cents) per share	**650,212**	590,802

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK12 cents (2015: final dividend in respect of the year ended 31 December 2015 of HK11 cents) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
COST						
At 1 January 2015	2,292,130	3,509,253	137,741	25,196	432,396	6,396,716
Exchange adjustments	(114,669)	(174,403)	(8,775)	(1,186)	(26,720)	(325,753)
Additions	15,794	67,871	12,828	1,865	825,891	924,249
Transfers	255,914	349,487	38,420	—	(643,821)	—
Disposals	—	(16,689)	(1,866)	(749)	—	(19,304)
At 31 December 2015	**2,449,169**	**3,735,519**	**178,348**	**25,126**	**587,746**	**6,975,908**
Exchange adjustments	**(168,407)**	**(253,459)**	**(12,182)**	**(1,586)**	**(54,486)**	**(490,120)**
Additions	**15,033**	**65,314**	**8,170**	**4,376**	**1,041,362**	**1,134,255**
Transfers	**235,935**	**422,607**	**7,170**	**(34)**	**(665,678)**	**—**
Acquisition of subsidiaries and assets *(note 30)*	**34,105**	**31,006**	**140**	**—**	**7,698**	**72,949**
Disposals	**(8,871)**	**(148,867)**	**(15,348)**	**(3,257)**	**—**	**(176,343)**
At 31 December 2016	**2,556,964**	**3,852,120**	**166,298**	**24,625**	**916,642**	**7,516,649**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2015	359,644	904,932	68,960	14,093	—	1,347,629
Exchange adjustments	(22,055)	(56,312)	(4,329)	(878)	—	(83,574)
Provided for the year	145,630	395,480	24,609	6,317	—	572,036
Eliminated on disposals/write-off	—	(1,379)	(1,295)	(276)	—	(2,950)
At 31 December 2015	**483,219**	**1,242,721**	**87,945**	**19,256**	**—**	**1,833,141**
Exchange adjustments	**(37,123)**	**(89,409)**	**(6,784)**	**(1,264)**	**—**	**(134,580)**
Provided for the year	**146,855**	**380,303**	**19,733**	**3,822**	**—**	**550,713**
Eliminated on disposals	**(3,972)**	**(138,603)**	**(2,185)**	**(2,897)**	**—**	**(147,657)**
At 31 December 2016	**588,979**	**1,395,012**	**98,709**	**18,917**	**—**	**2,101,617**
CARRYING VALUES						
At 31 December 2016	**1,967,985**	**2,457,108**	**67,589**	**5,708**	**916,642**	**5,415,032**
At 31 December 2015	1,965,950	2,492,798	90,403	5,870	587,746	5,142,767

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2016, the aggregate carrying value of buildings in the PRC for which the Group has not been granted formal title amounted to approximately HK$60,378,000 (2015: HK$69,439,000). In the opinion of the directors of the Company, as the buildings are currently in use and generate economic benefits to the Group, there is no impairment of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	Over the shorter of the relevant lease, or 20 to 25 years
Plant and machinery	5% — 10%
Furniture, fixtures and office equipment	20% — 33.33%
Motor vehicles	20%

14. PREPAID LEASE PAYMENTS

	2016	2015
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Current asset	**16,419**	15,057
Non-current asset	**526,712**	467,785
	543,131	482,842

Prepaid lease payments comprise medium-term leasehold land in the PRC.

15. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1 January 2015	125,060
Exchange adjustments	(5,672)
At 31 December 2015	**119,388**
Exchange adjustments	**(7,603)**
At 31 December 2016	**111,785**

For the purpose of impairment testing, goodwill has been allocated to two individual cash-generating units ("CGUs"). The carrying amounts of goodwill as at 31 December 2016 allocated to these units are as follows:

	2016	2015
	HK$'000	*HK$'000*
OYY Group	**91,813**	98,058
Baike Group	**19,972**	21,330
	111,785	119,388

During the years ended 31 December 2016 and 2015, management of the Group determines that there is no impairment of any of its CGUs containing goodwill.

15. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL *(continued)*

The recoverable amounts of OYY (as defined in note 38) and its subsidiary (collectively referred to as "OYY Group") and Baike Yantai (as defined in note 38) and its subsidiaries (collectively referred to as "Baike Group") have been determined based on value in use calculations. Their recoverable amounts are based on certain similar key assumptions. Both value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. The rates used to discount the projected cash flows of OYY Group and Baike Group are 12% and 15% (2015: 12% and 18%) per annum respectively. Both sets of cash flows beyond the 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible changes in any of these assumptions would not cause the carrying amount of OYY Group and Baike Group to exceed the recoverable amount of each unit.

16. OTHER INTANGIBLE ASSETS

	License and patent *HK$'000*	Development costs *HK$'000*	Total *HK$'000*
COST			
At 1 January 2015	97,554	50,961	148,515
Exchange adjustments	(5,279)	(1,720)	(6,999)
Addition	—	7,852	7,852
At 31 December 2015	**92,275**	**57,093**	**149,368**
Exchange adjustments	**(5,877)**	**(3,924)**	**(9,801)**
Addition	**3,586**	**3,039**	**6,625**
At 31 December 2016	**89,984**	**56,208**	**146,192**
AMORTISATION AND IMPAIRMENT			
At 1 January 2015	13,432	23,794	37,226
Exchange adjustments	(704)	(1,664)	(2,368)
Provided for the year	9,667	8,763	18,430
At 31 December 2015	**22,395**	**30,893**	**53,288**
Exchange adjustments	**(1,957)**	**(2,167)**	**(4,124)**
Provided for the year	**9,097**	**8,699**	**17,796**
At 31 December 2016	**29,535**	**37,425**	**66,960**
CARRYING VALUES			
At 31 December 2016	**60,449**	**18,783**	**79,232**
At 31 December 2015	69,880	26,200	96,080

16. OTHER INTANGIBLE ASSETS *(continued)*

Development costs mainly represent costs internally generated or techniques and formulae acquired from third parties for the development of products and production technology. License and patent were acquired from third parties.

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

License and patent	3 to 10 years
Development costs	5 to 10 years

17. INTERESTS IN JOINT VENTURES

Details of the Group investments in joint ventures are as follows:

	2016	2015
	HK$'000	*HK$'000*
Cost of investment in joint ventures	**70,157**	36,495
Share of post-acquisition profit (losses)	**14,839**	(6,775)
Exchange adjustments	**(4,907)**	(2,134)
	80,089	27,586

On 7 December 2016, the Group established Yantai Jiashi Pharmaceutical Technology Co., Ltd. ("Yantai Jiashi"), a sino-foreign equity joint venture company in the PRC with a joint venture partner. Details of the Group's joint ventures at the end of the reporting period are as follows:

Name of company	Kind of legal status	Place of incorporation and principal place of business	Portion of ownership interest held by the Group		Principal activities
			2016	2015	
1. Hebei Huarong Pharmaceutical Co., Ltd. ("Huarong")	Sino foreign equity joint venture	The PRC	**50%**	50%	Manufacture and sale of Vitamin B12 product
2. Yantai Jiashi	Sino foreign equity joint venture	The PRC	**50%**	—	Pharmaceutical research and development and technology consultancy

Since the joint ventures are not significant individually, summarised aggregate financial information in respect of the Group's joint ventures are set out below. The aggregate summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

17. INTERESTS IN JOINT VENTURES *(continued)*

The joint ventures are accounted for using the equity method in these consolidated financial statements.

	2016	2015
	HK$'000	*HK$'000*
Current assets	**328,824**	151,068
Non-current assets	**93,784**	118,614
Current liabilities	**(247,208)**	(189,303)
Non-current liabilities	**(15,222)**	(25,207)

The above amounts of assets and liabilities include the following:

	2016	2015
	HK$'000	*HK$'000*
Cash and cash equivalents	**67,581**	17,492
Current financial liabilities (excluding trade and other payables and provisions)	**(33,520)**	(35,800)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(9,311)**	(17,900)
Revenue	**478,695**	409,341
Profit for the year	**55,117**	21,326
Other comprehensive expenses for the year	**(5,546)**	(2,487)
Total comprehensive income for the year	**49,571**	18,839

17. INTEREST IN JOINT VENTURES *(continued)*

The above profit for the year includes the following:

	2016 HK$'000	2015 HK$'000
Depreciation and amortisation	**(20,131)**	(22,524)
Interest income	**261**	121
Finance costs	**(2,339)**	(3,963)
Income tax expense	**(12,468)**	(593)

Reconciliation of the above summarised financial information to the carrying amount of the interests in joint ventures recognised in the consolidated financial statements:

	2016 HK$'000	2015 HK$'000
Net assets of joint ventures	**160,178**	55,172
Proportion of the Group's ownership interests in joint ventures	**50%**	50%
Carrying amount of the Group's interests in joint ventures	**80,089**	27,586

18. AVAILABLE-FOR-SALE INVESTMENTS

	2016 HK$'000	2015 HK$'000
Unlisted investments — equity interests in partnerships	**91,732**	—

On 22 November 2016, CSPC NBP Pharmaceutical Co., Ltd. ("NBP"), an indirect wholly-owned subsidiary of the Company, entered into contracts with independent third parties to establish two partnership enterprises (the "Partnership Enterprise(s)") in the PRC which specialise in making equity investment in the PRC. NBP holds over 50% interest in each of the Partnership Enterprises as at 31 December 2016 and NBP has an intention of holding them as long term investments.

18. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

According to the Partnership Enterprise agreements, each Partnership Enterprise is managed by unrelated general partner which also acts as managing partner of the Partnership Enterprise. NBP participates in the Partnership Enterprises as one of the limited partners whom does not have power on selection nor removal of assets manager or general partner of the Partnership Enterprise. In addition, NBP does not have any right on making operating, investing and financing decision of the Partnership Enterprises. The directors of the Company are of the opinion that NBP does not have any control nor significant influence to affect the variable returns through its investment in the Partnership Enterprises and therefore these investments are accounted for as AFS financial assets.

As at 31 December 2016, the Partnership Enterprises mainly invested in unlisted equity investments issued by private entities incorporated in the PRC and liquid financial assets (including cash and cash equivalents). The investments in the Partnership Enterprises are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

19. INVENTORIES

	2016	2015
	HK$'000	*HK$'000*
Raw materials	**395,663**	246,401
Work in progress	**229,847**	167,825
Finished goods	**1,307,637**	1,405,002
	1,933,147	1,819,228

20. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**1,492,855**	1,560,948
Less: allowance for doubtful debts	**(10,423)**	(13,181)
	1,482,432	1,547,767
Prepayment for purchase of raw materials	**150,585**	176,527
Deposits and prepayment for utilities	**51,720**	62,798
Other tax recoverable	**46,891**	29,325
Others	**103,638**	61,200
	1,835,266	1,877,617

20. TRADE AND OTHER RECEIVABLES *(continued)*

The Group allows a general credit period of up to 90 days to its trade customers. The following is an aged analysis of trade receivables (net of allowance for doubtful debts) at the end of the reporting period presented based on invoice dates which approximated the respective revenue recognition dates:

	2016	2015
	HK$'000	*HK$'000*
0 to 90 days	**1,357,953**	1,375,675
91 to 180 days	**114,647**	129,875
181 to 365 days	**9,832**	42,217
	1,482,432	1,547,767

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Included in the Group's trade receivable balance are debtors with aggregate amount of HK$124,479,000 (2015: HK$172,092,000) which are past due as at the reporting date for which the Group has not provided for impairment loss because there had not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the group to the counterparty.

Ageing of trade receivables which are past due but not impaired

	2016	2015
	HK$'000	*HK$'000*
91 to 180 days	**114,647**	129,875
181 to 365 days	**9,832**	42,217
	124,479	172,092

20. TRADE AND OTHER RECEIVABLES *(continued)*

Movements in the allowance for doubtful debts

	2016	2015
	HK$'000	*HK$'000*
Balance at beginning of the year	**13,181**	4,395
Impairment loss recognised	**1,972**	9,024
Reversal of impairment loss	**(4,460)**	—
Exchange adjustments	**(270)**	(238)
Balance at end of the year	**10,423**	13,181

As at 31 December 2016, the Group's trade receivables denominated in United States Dollar ("USD") is approximately HK$449,193,000 (2015: HK$480,808,000).

21. BILLS RECEIVABLES

Bills receivables represent bills on hand. All bills receivables of the Group are with a maturity period of less than 180 days (2015: 180 days) and not yet due at the end of the reporting period, and management considers the default rate is low based on historical information and experience.

22. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits carry interest at market interest rates, ranging from 0.01% to 1.35% (2015: 0.01% to 1.3%) per annum.

As at 31 December 2016 and 2015, restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade and other payables and are classified as current assets. The restricted bank deposits will be released upon settlement of relevant short term bank facilities.

The bank balances and restricted bank deposits that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2016	2015
	HK$'000	*HK$'000*
HK$	**11,941**	3,873
USD	**307,469**	95,043

23. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**1,113,908**	752,256
Customer deposits and advance from customers	**547,937**	441,063
Other tax payables	**86,518**	113,088
Freight and utilities charges payable	**79,299**	70,562
Construction cost and acquisition of property, plant and equipment payable	**678,108**	678,785
Government grants *(note 27)*	**126,114**	109,537
Staff welfare payable	**109,749**	111,950
Selling expense payable	**115,388**	145,430
Others	**80,872**	65,974
	2,937,893	2,488,645

The following is an aged analysis of trade payables at the end of the reporting period presented based on the invoice dates:

	2016	2015
	HK$'000	*HK$'000*
0 to 90 days	**1,008,024**	613,893
91 to 180 days	**45,290**	65,471
More than 180 days	**60,594**	72,892
	1,113,908	752,256

The general credit period on purchases of goods is up to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

24. BILLS PAYABLES

All bills payables of the Group are aged within 180 days (2015: 180 days) and not yet due at the end of the reporting period.

25. BORROWINGS

	2016 HK$'000	2015 HK$'000
Unsecured		
— floating-rate HK$ bank loans	**277,000**	648,667
— floating-rate USD bank loans	**93,000**	232,500
— floating-rate RMB bank loans	**726,258**	501,194
— fixed-rate RMB loans from a related company (note 36)	**41,899**	80,549
	1,138,157	1,462,910
The carrying amounts of the above borrowings are repayable as follows:		
Within one year	**897,777**	451,966
Within a period of more than one year but not exceeding two years	**240,380**	791,659
Within a period of more than two years, but not exceeding five years	**—**	219,285
	1,138,157	1,462,910
Less: Amounts due within one year shown under current liabilities	**(897,777)**	(451,966)
Amounts shown under non-current liabilities	**240,380**	1,010,944

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

Effective interest rate:	2016	2015
Floating-rate HK$ bank loans	**From 2.03% to 2.98% per annum**	From 2.19% to 2.82% per annum
Floating-rate USD bank loans	**From 2.44% to 3.12% per annum**	From 2.45% to 2.75% per annum
Floating-rate RMB bank loans	**From 3.15% to 4.085% per annum**	3.15% per annum
Fixed-rate RMB loans from a related company	**4.6% per annum**	4.6% per annum

The floating-rate of HK$, USD and RMB borrowings are subject to interest at Hong Kong Interbank Offered Rate ("HIBOR") plus a spread, London Interbank Offered Rate ("LIBOR") plus a spread and benchmark interest rate of the PRC plus a spread, respectively.

25. BORROWINGS *(continued)*

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2016 HK$'000	2015 HK$'000
HK$	**277,000**	648,667
USD	**93,000**	232,500

At the end of the reporting period, the Group has the following undrawn loan facilities:

	2016 HK$'000	2015 HK$'000
Floating-rate HK$ bank loans	**103,000**	153,000
Floating-rate USD bank loans	**—**	62,000
Floating-rate RMB bank loans	**138,771**	—
	241,771	215,000

26. DEFERRED TAXATION

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

	2016 HK$'000	2015 HK$'000
Deferred tax asset	**27,986**	38,706
Deferred tax liability	**(68,865)**	(46,322)
	(40,879)	(7,616)

26. DEFERRED TAXATION *(continued)*

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	Inventories	Property, plant and equipment	Prepaid lease payments	Other intangible assets	Undistributed profit of subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	30,709	(15,537)	(2,040)	(6,049)	(1,806)	5,277
Credit (charge) to profit or loss	6,869	3,542	279	(4,336)	(19,217)	(12,863)
Exchange adjustments	(1,122)	565	82	445	—	(30)
At 31 December 2015	**36,456**	**(11,430)**	**(1,679)**	**(9,940)**	**(21,023)**	**(7,616)**
Credit (charge) to profit or loss	**(7,613)**	**3,937**	**(369)**	**1,271**	**(27,201)**	**(29,975)**
Acquisition of subsidiaries and assets *(note 30)*	**—**	**(580)**	**(4,799)**	**—**	**—**	**(5,379)**
Exchange adjustments	**(2,488)**	**578**	**338**	**575**	**3,088**	**2,091**
At 31 December 2016	**26,355**	**(7,495)**	**(6,509)**	**(8,094)**	**(45,136)**	**(40,879)**

At the end of the reporting period, the Group has unused tax losses of approximately HK$424,586,000 (2015: HK$477,535,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Most of the unrecognised tax losses will expire in various dates up to 2021.

The unused tax losses will be expired as follow:

	2016	2015
	HK$'000	*HK$'000*
2016	**—**	46,438
2017	**35,939**	38,171
2018	**181,435**	192,704
2019	**101,876**	108,204
2020	**86,638**	92,018
2021	**18,698**	—
	424,586	477,535

26. DEFERRED TAXATION *(continued)*

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. PRC withholding tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries in respect of profits earned from 1 January 2008 onwards to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or a lower tax rate, if applicable.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$3,876,285,000 (2015: HK$3,248,175,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There was no other significant deferred taxation for the year or at the end of the reporting period.

27. GOVERNMENT GRANTS

	2016	2015
	HK$'000	*HK$'000*
Current (included in other payables in note 23)		
— Acquisition of property, plant and equipment *(note a)*	**9,245**	7,647
— Other subsidies *(note b)*	**116,869**	101,890
	126,114	109,537
Non-current		
— Acquisition of property, plant and equipment *(note a)*	**174,964**	185,717
	301,078	295,254

Notes:

(a) Government grants include cash subsidies received from PRC government by the Group which were specific for the purchase of plant and machineries. The Group has complied with the conditions attaching to the grants as at the end of the reporting period and transferred to profit or loss over the useful lives of the related assets. During the year, the Group recognised income of approximately HK$9,030,000 (2015: HK$7,980,000).

(b) Other subsidies are generally provided in relation to development of pharmaceutical products or improvement of production efficiency. Since the Group has not complied with the conditions attaching to certain of grants at the end of the reporting period and the grants are refundable in accordance with contract terms, amounts are included as payables. During the year, the Group recognised income of approximately HK$15,946,000 (2015: HK$31,750,000).

28. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Issued and fully paid		
At 1 January 2015	5,908,018,403	9,819,731
Exercise of share options *(note a)*	3,000,000	15,568
At 31 December 2015 and 1 January 2016	**5,911,018,403**	**9,835,299**
Exercise of share options *(note a)*	**141,500,000**	**734,321**
At 31 December 2016	**6,052,518,403**	**10,569,620**

Note:

(a) During the year, the Company issued 141,500,000 (2015: 3,000,000) shares upon exercise of share option by the directors of the Company at an exercise price of $3.98 under the 2004 Scheme (as set out in note 29). These new shares rank pari passu in all respects with other shares in issue.

29. SHARE OPTION SCHEME

(i) 2004 share option scheme

The Company's share option scheme (the "2004 Scheme") was adopted on 6 July 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors. The 2004 Scheme was valid and effective for a period of 10 years from its adoption and has expired on 5 July 2014.

On 17 April 2013, the Company granted a total of 150,000,000 options to its directors and eligible employees. The options granted will fully vest on the first anniversary of the date of grant. The exercise price of the options and closing price of the Company's shares on 17 April 2013, the date of grant, was HK$3.98. The share options granted on 17 April 2013 are exercisable from 17 April 2014 to 16 April 2023. The fair values of the options determined at the date of grant using the Binomial model were approximately HK$181,433,000. Details of the fair value measurements are set out in the Group's consolidated financial statements for the year ended 31 December 2013.

During the year, except that the grantees exercised 141,500,000 (2015: 3,000,000) options and 1,000,000 (2015: 3,000,000) options granted have not been exercised and hence forfeited upon resignation of grantees, no other share options have been exercised, granted nor lapsed during both years. As at 31 December 2016, the number of share options outstanding is 1,500,000 (2015: 144,000,000).

In respect of the share options exercised during the year, the weighted average share price at the dates on which the share options were exercised was HK$7.75.

29. SHARE OPTION SCHEME *(continued)*

(ii) 2015 share option scheme

Following the expiry of the 2004 Scheme, the shareholders of the Company approved the adoption of a new 2015 share option scheme (the "2015 Scheme") at an extraordinary general meeting on 9 December 2015. The purpose of 2015 Scheme is to provide the Company with a flexible means of giving incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors. The 2015 Scheme shall be valid and effective for a period of 10 years from its adoption.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2015 Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the 2015 Scheme unless the Company obtains a fresh approval from its shareholders. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant in aggregate exceeding 0.1% of the total number of shares in issue and having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such proposed grant must be approved by the shareholders of the Company by poll in general meeting.

Options granted have to be taken up within an acceptable period from the date of offer to such date as the Board may determine and specify in the letter of offer (both dates inclusive) upon payment of HK$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date which must be a business day; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options. No share options were granted under 2015 Scheme during both years.

30. ACQUISITION OF SUBSIDIARIES AND ASSETS

In April and August 2016, the Group entered into agreements with CHL to acquire 93.18% equity interest in CSPC Shengxue Glucose Co., Ltd ("Shengxue") and 60% equity interest in Hebei Jialing Pharmaceutical Limited ("Jialing") for a cash consideration of RMB36,440,000 (equivalent to approximately HK$42,620,000) and RMB3,000,000 (equivalent to approximately HK$3,484,000) respectively.

(i) Business combination

The acquisition of Shengxue was completed on 7 June 2016 and accounted for using the acquisition method of accounting. The amount of deemed capital contribution from this acquisition was approximately HK$11,879,000. Shengxue is engaged in the manufacture and sale of pharmaceutical products processed from corn, such as dextrose, starch, starch sugar, sorbitol and xylitol and was acquired so as to further strengthen the Group's innovative drug business and its product portfolio.

Acquisition-related costs amounting to approximately HK$120,000 were excluded from the consideration transferred and were recognised as an expense in the current period and included in the 'other expense' line item in the condensed consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Non-current assets	
Property, plant and equipment	72,894
Prepaid lease payments	34,285
Current assets	
Inventories	43,103
Trade and other receivables	28,728
Bills receivables	1,346
Bank balances and cash	17,050
Current liabilities	
Trade and other payables	(49,501)
Amount due to a related company	(80,178)
Bank borrowings	(3,860)
Non-current liability	
Deferred tax liabilities	(5,379)
	58,488

30. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

(i) Business combination *(continued)*

Assets acquired and liabilities recognised at the date of acquisition *(continued)*

The fair values of trade and other receivables of Shengxue at the date of acquisition amounted to approximately HK$28,728,000. The gross contractual amounts of those trade and other receivables acquired amounted to approximately HK$40,287,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to approximately HK$11,559,000.

The fair values of property, plant and equipment and prepaid lease payments were estimated by applying depreciated replacement cost approach and cost approximation approach, respectively.

Deemed capital contribution

	HK$'000
Consideration transferred	42,620
Plus: Non-controlling interests (6.82% in Shengxue)	3,989
Less: Recognised amount of identifiable net assets acquired	(58,488)
Deemed capital contribution	(11,879)

Since the consideration is with reference to carrying amount of assets of Shengxue, the deemed capital contribution arose in the acquisition mainly due to the fair value adjustments on operating land lease held by Shengxue at the date of completion of the acquisition and was recognised as capital contribution from CHL during the period in the consolidated statement of changes in equity.

Non-controlling interests

The non-controlling interests in Shengxue recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets of Shengxue and amounted to approximately HK$3,989,000.

Net cash outflow on acquisition of Shengxue

	HK$'000
Cash consideration paid	42,620
Less: Bank balances and cash acquired	(17,050)
Net cash outflow	25,570

30. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

(i) Business combination *(continued)*

Impact of acquisition on the results of the Group

Shengxue did not have any significant contribution to the Group's revenue or results for the year ended 31 December 2016.

Had the acquisition of Shengxue been completed on 1 January 2016, total amount of the Group's revenue for the year would have been approximately HK$12,405,401,000, and the profit for the year would have been approximately HK$2,113,441,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

(ii) Assets acquisition

The acquisition of Jialing was completed on 25 August 2016. As Jialing did not operate any business prior to the date of acquisition. The acquisition has been accounted for as an acquisition of asset.

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Non-current asset	
Property, plant and equipment	55
Current assets	
Other receivables	3,245
Amounts due from the Group's subsidiaries	2,793
Bank balances and cash	3,784
Current liability	
Other payables	(4,070)
	5,807

Non-controlling interests

The non-controlling interests in Jialing recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the recognised amount of the net assets of Jialing and amounted to approximately HK$2,323,000.

30. ACQUISITION OF SUBSIDIARIES AND ASSETS *(continued)*

(ii) Assets acquisition *(continued)*

Net cash outflow on acquisition of Jialing

	HK$'000
Cash consideration paid	3,484
Less: Bank balances and cash acquired	(3,784)
Net cash inflow	(300)

31. DISPOSAL OF A SUBSIDIARY

On 25 August 2016, the Group entered into an agreement with an independent third party to dispose of its 99% equity interest in an indirect non-wholly owned subsidiary, CSPC Hebei Guoweikang Medicines & Health Products Co., Ltd. at a consideration of RMB29,700,000 (equivalent to approximately HK$34,495,000) to an independent third party, with a gain on disposal of HK$26,000.

Consideration received

	HK$'000
Cash	34,495

Assets and liabilities at the date of disposal

	HK$'000
Current assets	
Other receivables *(Note)*	26,713
Bank balances and cash	8,118
Current liabilities	
Other payables	(14)
	34,817

Gain on disposal of subsidiary

	HK$'000
Consideration transferred	34,495
Net assets disposed of	(34,817)
Non-controlling interests	348
Gain on disposal	26

31. DISPOSAL OF A SUBSIDIARY *(continued)*

Net cash inflow arising on disposal

	HK$'000
Cash consideration	34,495
Less: Bank balances and cash disposed of	(8,118)
Net cash inflow	26,377

Note: Amounts due from the Group's subsidiaries of approximately HK$15,099,000 are included in the other receivables.

The subsidiary disposed of during the year did not have any significant contribution to the results and cash flow of the Group during the period prior to the disposal.

32. OPERATING LEASE COMMITMENTS

The Group as lessee

	2016 **HK$'000**	2015 HK$'000
Minimum lease payments paid under operating leases during the year	**32,791**	36,577

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**27,841**	26,025
In the second to fifth years inclusive	**40,801**	13,669
Over five years	**3,303**	4,394
	71,945	44,088

Operating lease payments represent rentals payable by the Group for certain of its warehouses and office premises. Leases are negotiated and rentals are fixed for an average of four years.

33. CAPITAL AND OTHER COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2016	2015
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**643,254**	526,512
Other commitments *(note)*	**132,782**	141,296

Note: Amount refers to commitments arising from research and development projects.

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings as disclosed in note 25 and amounts due to related companies in note 36 net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the redemption of existing debt.

35. FINANCIAL INSTRUMENTS

35a. Categories of financial instruments

	2016	2015
	HK$'000	*HK$'000*
Financial assets		
FVTPL		
— held for trading investments	**521**	606
Loans and receivables (including cash and cash equivalents)	**6,124,697**	5,568,133
Available-for-sale investments	**91,732**	—
Financial liabilities		
Amortised cost	**3,370,684**	3,823,191

35. FINANCIAL INSTRUMENTS *(continued)*

35b. Financial risk management objectives and policies

The major financial instruments of the Group include available-for-sale investments, trade and other receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, held for trading investments, restricted bank deposits, bank balances and cash, trade and other payables, bills payables, trade payables due to related companies, trade payable due to a joint venture, amounts due to related companies and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in United States dollars ("USD"), and bank balances and cash denominated in USD and HK$, and the Company has raised HK$ bank loans and USD bank loans, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

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

	Liabilities		Assets	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**277,000**	654,686	**11,941**	3,873
USD	**93,000**	232,500	**756,662**	575,851

35. FINANCIAL INSTRUMENTS *(continued)*

35b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to HK$ and USD.

The following table details the sensitivity of the Group to a 5% (2015: 5%) increase and decrease in RMB against HK$ and USD. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% (2015: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% (2015: 5%) against the relevant currency. For a 5% (2015: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

	HK$ Impact (i)		**USD Impact (ii)**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Post-tax profit	**10,602**	25,870	**(26,546)**	(13,648)

(i) This is mainly attributable to the exposure outstanding on HK$ bank balances and bank loans as at year-end.

(ii) This is mainly attributable to the exposure outstanding on USD bank balances, bank loans, trade and other receivables as at year-end.

(ii) Interest rate risk

The Group is also exposed to fair value interest rate risk primarily in relation to the fixed-rate borrowings (see note 25 for details of these loans), which were raised from the banks in PRC.

The Group is exposed to cash flow interest rate risk in relation to the floating-rate bank borrowings (see note 25 for details of these borrowings). It is the policy of the Group to, wherever possible, incur borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Floating-rate bank balances expose the Group to cash flow interest rate risk due to the fluctuation of the prevailing interest rates. The directors of the Company consider the Group's exposure is not significant as the bank deposit interest rates have no material fluctuation during the year.

35. FINANCIAL INSTRUMENTS *(continued)*

35b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk (continued)

The exposures to interest rates on financial liabilities of the Group are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group is mainly concentrated on the fluctuation of HIBOR, LIBOR and benchmark interest rate of the PRC arising from the Group's HK$ loans, USD loans raised by the Company and RMB loans raised by certain subsidiaries of the Company, respectively.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating-rate bank borrowings. The analysis is prepared assuming the financial liabilities outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2015: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For the year ended 31 December 2016 and 2015, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase by approximately HK$4,385,000 (2015: HK$5,495,000).

(iii) Other price risk

The Group is exposed to equity price risk through its investments in held for trading listed equity investments. The directors consider the effect of changes in equity prices on the Group is insignificant and therefore, no sensitivity analysis is presented.

Credit risk

As at 31 December 2016, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue trade debts. In addition, the Group reviews the recoverable amount of each individual trade debt and receivables from related companies and joint ventures at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

35. FINANCIAL INSTRUMENTS *(continued)*

35b. Financial risk management objectives and policies *(continued)*

Credit risk *(continued)*

The Group's concentration of credit risk by geographical locations on trade receivables, bills receivables, trade receivables due from related companies, amounts due from joint ventures, restricted bank deposits and bank balances and cash is mainly in the PRC. The Group has no other significant concentration of credit risk with exposure spread over a number of counterparties.

The credit risk on liquid funds of the Group is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2016, the Group have available unutilised bank loan facilities of HK$241,771,000 (2015: HK$215,000,000). Details of which are set out in note 25.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

35. FINANCIAL INSTRUMENTS *(continued)*

35b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

As at 31 December 2016

	Weighted average effective interest rate %	Less than 1 month or on demand *HK$'000*	1-3 months *HK$'000*	3 months to 1 year *HK$'000*	1-3 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31.12 2016 *HK$'000*
Non-derivative financial liabilities							
Trade and other payables	—	1,459,296	672,015	—	—	2,131,311	2,131,311
Bills payables	—	33,520	—	67,039	—	100,559	100,559
Amounts due to related companies	—	657	—	—	—	657	657
Borrowings							
— floating-rate	3.01	115,452	9,546	766,093	238,133	1,129,224	1,096,258
— fixed-rate	4.60	—	—	35,061	8,765	43,826	41,899
		1,608,925	681,561	868,193	246,898	3,405,577	3,370,684

As at 31 December 2015

	Weighted average effective interest rate %	Less than 1 month or on demand *HK$'000*	1-3 months *HK$'000*	3 months to 1 year *HK$'000*	1-3 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31.12 2015 *HK$'000*
Non-derivative financial liabilities							
Trade and other payables	—	1,925,561	23,314	12,819	—	1,961,694	1,961,694
Bills payables	—	—	92,745	300,083	—	392,828	392,828
Trade payables due to related companies	—	1,108	—	—	—	1,108	1,108
Trade payable due to a joint venture	—	1,591	—	—	—	1,591	1,591
Amounts due to related companies	—	3,060	—	—	—	3,060	3,060
Borrowings							
— floating-rate	2.94	39,460	20,588	368,356	1,000,976	1,429,380	1,382,361
— fixed-rate	4.60	—	9,362	28,085	46,809	84,256	80,549
		1,970,780	146,009	709,343	1,047,785	3,873,917	3,823,191

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

35. FINANCIAL INSTRUMENTS *(continued)*

35c. Fair value measurement of financial instruments

The fair value of the Group's financial assets that are measured at fair value on a recurring basis at the end of each reporting period are determined as set out in the following table.

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)
	31 December 2016 ***HK$'000***	31 December 2015 *HK$'000*		
Held-for-trading comprised of equity securities listed in the PRC	**521**	606	Level 1	Quoted bid prices in an active market

The fair value measurements of held for trading investments at the end of reporting period are categorised into level 1 of the fair value hierarchy.

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

36. RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties. Other than those transactions with related parties as disclosed in the consolidated statement of changes in equity, the Group had also entered into the following transactions. The significant transactions with these companies during the year, and the balances with them at the end of the reporting period, are as follows:

(i) Related companies

Name of company	Nature of transactions/balances	2016	2015
		HK$'000	HK$'000
CHL *(note e)*, and its subsidiaries and associates (the "CHL Group")	Purchase of pharmaceutical products	**110,909**	131,848
	Sale of pharmaceutical products	**371,452**	321,295
	Rental expense	**19,173**	16,314
	Interest on other loans *(note d)*	**3,250**	8,837
	Purchase of steam	**14,302**	11,643
	Warehouse service income	**6,150**	6,121
	Balance due from/to the CHL Group		
	— trade receivables *(note b)*		
	aged 0-90 days	**61,530**	146,248
	aged 90-180 days	**12,040**	15,964
		73,570	162,212
	— trade payables *(note c)*		
	aged 0-90 days	**—**	1,108
	— other payables	**657**	3,060
	— borrowings *(note d)*		
	— current	**33,519**	35,800
	— non-current	**8,380**	44,749
		41,899	80,549

36. RELATED PARTY DISCLOSURES

(ii) Joint ventures

Name of company	Nature of transactions/balances	2016 HK$'000	2015 HK$'000
Huarong	Purchase of raw materials	**9,328**	13,705
	Provision of utility services by the Group	**110,620**	85,921
	Sales of raw materials	**174,523**	174,893
	Balance due from/to Huarong		
	— other receivables *(note a)*	**72,187**	75,179
	— trade payables (aged 0-90 days) *(note c)*	**—**	1,591
Yantai Jiashi	Balance due from/to Yantai Jiashi		
	— other receivables *(note a)*	**43,799**	—

Notes:

a. Amounts are unsecured, non-interest bearing and repayable on demand.

b. The Group allows a general credit period of 90 days to its trade customers.

c. The general credit period on purchases of goods is of 90 days.

d. During the year ended 31 December 2015, the Group obtained new unsecured loans from a related company of approximately HK$300,000,000 which are repayable within 1 to 3 years. The Group repaid part of these loans in the current year of approximately HK$35,088,000 (2015: HK$219,451,000). These loans are unsecured and bear interest rate of 4.6% per annum.

e. Mr. Cai Dongchen, the chairman and Chief executive of the Company, has significance influence over the Company and exercises control over CHL through a series of controlled corporations. CHL and its subsidiaries and associates are related parties of the Group.

(iii) Compensation of key management personnel

In addition, the remuneration of key management personnel, which represents the Company's directors during the year is as follows:

	2016 HK$'000	2015 HK$'000
Short-term benefits	**30,832**	30,273
Post-employment benefits	**994**	964
	31,826	31,237

37. EMPLOYEE RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the contributions made by the Group relating to the above arrangements were HK$100,533,000 (2015: HK$106,812,000), of which HK$888,000 (2015: HK$854,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activity
				Directly %		Indirectly %		
				2016	2015	**2016**	2015	
China Pharmaceutical Group Limited	Hong Kong	Limited liability	HK$3	**100**	100	**—**	—	Inactive
Tin Lon Investment Limited	Hong Kong	Limited liability	HK$2	**100**	100	**—**	—	Investment holding
Dragon Merit Holdings Limited	Hong Kong	Limited liability	HK$1	**—**	—	**100**	100	Investment holding
Robust Sun	The British Virgin Islands	Limited liability	US$2	**100**	100	**—**	—	Investment holding
CSPC Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd	The PRC	Foreign investment enterprise with limited liability	US$27,345,500	**100**	100	**—**	—	Manufacture and sale of pharmaceutical products
CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd	The PRC	Sino-foreign equity joint venture with limited liability	RMB906,300,300	**88.82**	88.82	**10.57**	10.57	Manufacturing and sale of pharmaceutical products
CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	**100**	100	**—**	—	Provision of pharmaceutical research and development services
CSPC Hebei Zhongrun Huanbao Co., Ltd	The PRC	Limited liability	RMB5,000,000	**—**	—	**100**	100	Sewage and pharmaceutical products
Zhongrun Huanbao Technology (Shijiazhuang) Co., Ltd	The PRC	Limited liability	RMB1,000,000	**—**	—	**100**	100	Sewage and pharmaceutical by-products
CSPC Yinhu Pharmaceutical. Co., Ltd	The PRC	Limited liability	RMB150,000,000	**—**	—	**90**	90	Manufacture and sale of pharmaceutical products

38. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activity
				Directly %		Indirectly %		
				2016	2015	**2016**	2015	
Unigene *(note a)*	The PRC	Sino-foreign equity joint venture with limited liability	US$7,000,000	**–**	100	**–**	–	Provision of pharmaceutical research and development services
CSPC Zhongzheng Pharmaceutical Logistic Company Limited	The PRC	Limited liability	RMB50,000,000	**–**	–	**99**	99	Storage, sourcing and distribution
CSPC Zhongnuo Pharmaceutical Import and Export Trading Co., Ltd.	The PRC	Limited liability	RMB1,000,000	**–**	–	**100**	100	Sale of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Limited liability	RMB150,000,000	**–**	–	**100**	100	Manufacture and sale of pharmaceutical products
NBP	The PRC	Foreign investment enterprise with limited liability	RMB413,594,300	**50**	50	**50**	50	Manufacture and sales of pharmaceutical products
CSPC OYY Pharmaceutical Co., Ltd. ("OYY")	The PRC	Foreign investment enterprise with limited liability	RMB150,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Ouyi Pharmaceutical Import and Export Trade Co., Ltd.	The PRC	Limited liability	RMB100,000	**–**	–	**100**	100	Trading of pharmaceutical products
CSPC XNW Pharmaceutical Joint-stock Co., Ltd.	The PRC	Limited liability	RMB150,000,000	**–**	–	**98.69**	98.69	Manufacture and sales of pharmaceutical products
CSPC Huasheng Pharmaceutical Co., Ltd.	The PRC	Sino-foreign equity joint venture with limited liability	RMB4,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Baike (Yantai) Biopharmaceutical Co., Ltd. ("Baike Yantai")	The PRC	Sino-foreign equity joint venture with limited liability	RMB223,000,000	**68.61**	68.61	**31.39**	31.39	Investment and property holding
Baike Shandong	The PRC	Limited liability	RMB161,547,580	**–**	–	**100**	100	Manufacture and sales of pharmaceutical product
Conjupro Bioerapecitics Inc.	United States of America	Limited liability	USD7,513,686	**–**	–	**100**	100	Research and development in Pharmaceutical products
CSPC Medsolution (Ghana) Limited	Ghana	Limited liability	GHS437,400	**–**	–	**100**	100	Sales of pharmaceutical products
Acquired during the year								
Shengxue	The PRC	Foreign investment enterprise with limited liability	RMB26,191,000	**–**	–	**100**	–	Manufacture and sales of pharmaceutical products
Jialing	The PRC	Limited liability	RMB5,000,000	**–**	–	**60**	–	Sales of pharmaceutical products

38. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activity
				Directly %		Indirectly %		
				2016	2015	2016	2015	
Established during the year								
Hebei Zhongnuo GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB43,546,100	–	–	100	–	Manufacture and sales of pharmaceutical products
CSPC Taizhou GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB5,000,000	–	–	100	–	Sales of pharmaceutical products
Shijiazhuang Enpu Anti-oncology Investment Limited	The PRC	Limited liability	RMB50,000,000	–	–	100	–	Manufacture and sales of pharmaceutical products
CSPC Healthcare Limited	United States of America	Limited liability	USD500,000	–	–	100	–	Sales of pharmaceutical products
CSPC Zhongnuo Pharmaceutical (Tianjin) Limited	The PRC	Foreign investment enterprise with limited liability	RMB160,000,000	–	–	100	–	Manufacture and sales of pharmaceutical products
CSPC Huanglu Medical Equipment (Taizhou) Limited	The PRC	Limited liability	RMB2,000,000	–	–	100	–	Sales of pharmaceutical equipments
CSPC Hebei Meiwei Modernised Chinese Medicine Co., Ltd	The PRC	Limited liability	RMB50,000,000	–	–	100	–	Sales of pharmaceutical products
Disposed during the year								
CSPC Hebei Guoweikang Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB30,000,000	–	–	–	99	Inactive

Note:

(a) During the year ended 31 December 2016, Unigene was dissolved and merged with NBP into one company.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

The Group does not have any subsidiary with significant non-controlling interests and accordingly, no details are presented.

39. EVENT AFTER THE REPORTING PERIOD

On 3 March 2017, the Company entered into an equity transfer agreement with a connected person of the Company in relation to the acquisition of the entire equity interest in Hebei Shiwei Pharmaceutical Group Trading Co., Ltd. for a consideration of approximately RMB200,031,000. The management of the Company are still in the process of assessing the financial impact of the acquisition. Details of the acquisition are set out in the Company's announcement dated 3 March 2017.

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016	2015
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	**1,109**	36
Investments in subsidiaries	**9,994,683**	9,994,683
Amount due from a subsidiary	**359,643**	359,643
	10,355,435	10,354,362
Current assets		
Other receivables	**3,384**	6,812
Amounts due from subsidiaries	**1,993,910**	1,807,612
Bank balances and cash	**10,739**	10,137
	2,008,033	1,824,561
Current liabilities		
Other payables	**25,055**	18,751
Amount due to a subsidiary	**440,195**	519,435
Amount due to a related company	**—**	6,019
Tax liabilities	**54,276**	48,747
Unsecured bank loans	**283,251**	416,166
	802,777	1,009,118
Net current assets	**1,205,256**	815,443
Total assets less current liabilities	**11,560,691**	11,169,805
Non-current liabilities		
Unsecured bank loans	**232,000**	465,001
Net assets	**11,328,691**	10,704,804
Capital and reserves		
Share capital	**10,569,620**	9,835,299
Reserves	**759,071**	869,505
Total equity	**11,328,691**	10,704,804

The Company's statement of financial position was approved and authorised for issue by the board of directors on 20 March 2017 and are signed on behalf by:

CAI Dongchen	**CHAK Kin Man**
DIRECTOR	*DIRECTOR*

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movement in the Company's reserves

	Share capital	Other reserve	Share options reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	9,819,731	835	181,433	605,411	10,607,410
Profit for the year	—	—	—	676,257	676,257
Dividend recognised as distribution	—	—	—	(590,802)	(590,802)
Exercise of share options	15,568	—	(3,629)	—	11,939
Forfeiture of share options	—	—	(3,629)	3,629	—
At 31 December 2015 and 1 January 2016	**9,835,299**	**835**	**174,175**	**694,495**	**10,704,804**
Profit for the year	**—**	**—**	**—**	**710,929**	**710,929**
Dividend recognised as distribution	**—**	**—**	**—**	**(650,212)**	**(650,212)**
Exercise of share options	**734,321**	**—**	**(171,151)**	**—**	**563,170**
Forfeiture of share options	**—**	**—**	**(1,210)**	**1,210**	**—**
At 31 December 2016	**10,569,620**	**835**	**1,814**	**756,422**	**11,328,691**

Financial Summary

	For the year ended 31 December				
	2012 *HK$'000*	2013 *HK$'000*	2014 *HK$'000*	2015 *HK$'000*	**2016** ***HK$'000***
Results					
Revenue	4,146,444	9,949,103	10,955,077	11,393,726	**12,369,041**
Cost of sales	(2,341,104)	(6,816,042)	(6,767,724)	(6,172,848)	**(6,060,232)**
Gross profit	1,805,340	3,133,061	4,187,353	5,220,878	**6,308,809**
Other income	38,693	211,402	134,558	86,561	**106,970**
Selling and distribution expenses	(757,297)	(1,300,739)	(1,788,032)	(2,266,958)	**(2,788,160)**
Administrative expenses	(235,363)	(620,291)	(551,697)	(534,881)	**(553,694)**
Other expenses	(87,797)	(243,455)	(307,814)	(339,147)	**(424,441)**
Operating profit	763,576	1,179,978	1,674,368	2,166,453	**2,649,484**
Finance costs	(60,090)	(72,537)	(54,358)	(56,335)	**(41,711)**
Share of results of					
— an associate	—	—	375	141	**—**
— a joint venture	(3,981)	(14,045)	588	10,663	**27,559**
Loss on disposal of an associate	—	—	—	(8,873)	**—**
Gain on disposal of subsidiaries	—	154,228	511	—	**—**
Recognition of fair values of financial guarantee contracts issued	(5,130)	—	—	—	**—**
Amortisation of financial guarantee liabilities	18,485	—	—	—	**—**
Changes in fair value of convertible bonds	(222,739)	—	—	—	**—**
Gain on bargain purchase	1,810,702	—	—	—	**—**
Profit before tax	2,300,823	1,247,624	1,621,484	2,112,049	**2,635,332**
Income tax expense	(131,975)	(258,324)	(337,153)	(432,423)	**(522,107)**
Profit for the year	2,168,848	989,300	1,284,331	1,679,626	**2,113,225**
Profit for the year attributable to:					
Owners of the Company	2,162,235	972,751	1,268,446	1,665,271	**2,100,848**
Non-controlling interests	6,613	16,549	15,885	14,355	**12,377**
	2,168,848	989,300	1,284,331	1,679,626	**2,113,225**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
Earnings per share					
Basic	147.78	17.49	21.47	28.18	**35.25**
Diluted	52.04	16.54	21.26	27.95	**35.00**

Financial Summary

	As at 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Assets and liabilities					
Total assets	13,698,711	12,200,547	12,501,230	13,539,851	**14,760,186**
Total liabilities	(6,934,966)	(4,603,747)	(4,349,702)	(4,727,244)	**(4,568,864)**
Net assets	6,763,745	7,596,800	8,151,528	8,812,607	**10,191,322**
Equity attributable to owners of the Company	6,586,760	7,452,620	8,079,154	8,738,055	**10,107,626**
Non-controlling interests	176,985	144,180	72,374	74,552	**83,696**
Total equity	6,763,745	7,596,800	8,151,528	8,812,607	**10,191,322**