石藥集團有限公司

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)

2017

ANNUAL REPORT

Content

Corporate Information

BOARD OF DIRECTORS
Executive Directors:
CAI Dongchen *(Chairman and CEO)*
PAN Weidong *(Vice-Chairman and Rotating CEO)*
WANG Huaiyu
WANG Zhenguo
WANG Jinxu
LU Hua
LI Chunlei
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
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

	2017 *HK$'000*	2016 *HK$'000*	Change in %	Change in % excluding foreign currency effects *(Note)*
Revenue by business units:				
Finished drugs				
Innovative drugs	**6,582,194**	4,773,634	37.9%	39.5%
Common generic drugs	**4,792,219**	4,193,217	14.3%	15.8%
Bulk drugs				
Antibiotics	**1,215,084**	1,333,565	-8.9%	-7.6%
Vitamin C	**1,853,700**	1,308,687	41.6%	43.1%
Caffeine and others	**1,019,332**	759,938	34.1%	36.2%
Total revenue	**15,462,529**	12,369,041	25.0%	26.6%
Gross profit	**9,345,968**	6,308,809	48.1%	49.8%
Operating profit	**3,481,643**	2,649,484	31.4%	33.2%
Profit attributable to shareholders	**2,770,522**	2,100,848	31.9%	33.6%
Basic earnings per share	**HK45.48 cents**	HK35.25 cents	29.0%	
Final dividend per share	**HK15.00 cents**	HK12.00 cents	25.0%	
Research and development expenditure	**815,258**	403,140	102.2%	

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 REVIEW AND OUTLOOK

In 2017, a number of medical reform policies were promulgated covering areas from drug research and development to production and from distribution to usage at end-user markets, having a significant impact on the pharmaceutical industry. In particular, reform of the clinical trials administration, acceleration of drug evaluation and approval, promotion of drugs and medical devices innovation and development of generic drugs provide a more favourable environment for the development of innovative drugs. On the other hand, the progress of the quality consistency evaluation of generic drugs will lead to a higher concentration of the pharmaceutical industry. The medical reform has been progressing steadily. Drugs which are urgently needed clinically and of high degree of innovation will gradually be included into the national reimbursement drug list. Transforming from "generics" to "innovative drugs" has become a necessary development path for the traditional pharmaceutical enterprises.

At the same time, the implementation of "two-invoice policy" and "VAT in lieu of business tax" is favourable to streamlining the distribution channels and strengthening drugs supervision, enhancing the regulatory standard of the industry's operating environment. With increasingly tighter control over drug expenditure proportion and medical insurance budget, growth of antibiotic and adjuvant drugs will be under pressure. Whilst innovative drugs and high-quality generic drugs with proven efficacy, significant clinical benefits, high price setting power will have development potential.

The Group has taken advantage of the historical opportunity of industry upgrade and transformation. Leveraging its strength in research and development, innovation and strategy of internationalization, the Group has performed well in the market. For the year of 2017, the Group recorded a profit attributable to shareholders of HK$2,771 million, representing a growth of 31.9% year-on-year, achieving five consecutive years of high profit growth since its business transformation in 2012. Apart from "NBP", the oncology products of the Group also managed to achieve rapid growth with sales increasing by 72.9% to HK$1,032 million in 2017, becoming a new major growth driver. The growth of oncology products is expected to accelerate in the next three years.

The pharmaceutical industry forms an integral part of the national economy. With strong support by government policies and vigorous progression of the pharmaceutical industry reform under the "13th Five-Year Plan", the pharmaceutical industry has become one of the fastest growing industries of the national economy. In 2018, market demand is expected to maintain a steady growth, while the demand for innovative products would remain exuberant. Biopharmaceutical drugs, drugs for cell-based immunotherapy and high-end chemical generic drugs will be gaining a bigger market share. With the fast advancement of technology, more innovative drugs with new targets, new mechanism of action and breakthrough technologies will emerge. Industry policies will be more favorable to the Group's development. The continuous strengthening of industry regulation and improvement of medical reform policies in particular, will provide strong support for the further consolidation of industry as well as the steady and healthy development of the Group.

INDUSTRY REVIEW AND OUTLOOK *(continued)*

Adhering to the strategy of innovation and internationalization, the Group will endeavor to develop the market potential of our major drugs including "NBP"（恩必普）, "Jinyouli"（津優力）, "Xuanning"（玄寧）, "Keaili"（克艾力）(Paclitaxel for injection (albumin-bound)), "Duomeisu"（多美素）and "Oulaining"（歐來寧）and will put more efforts into research and development with focus on the therapeutic areas of cardio-cerebrovascular diseases, oncology, psychiatry and neurology. The Group will also continuously enrich its product line, attract high-caliber talents and strengthen its research and development capability for new drug types.

BUSINESS OUTLOOK

Finished Drug Business

Innovative Drug Products

With more favourable national innovation environment, innovative drugs will continue to embrace greater development opportunities. The Group will actively follow the adjustments in policies and capture the opportunities to expand the innovative drugs business. Investment in new drug development and team incentives will be further increased. Development progress of key products will also be expedited. Based on the clinical disease spectrum and our strength, the Group will speed up the initiation of research study of drugs with new target and market potential. In order to strengthen our research and development capability and expand the scale of the innovative drug business, the Group will adopt the strategy of in-house development, external acquisition and collaboration with domestic and international research centres. With respect to the marketing of new drugs, increased efforts will be made to expand into the untapped markets and hospitals, and the clinical sales force will be expanded so as to leverage the benefits of medical reimbursement for key drug products such as "NBP" and "Jinyouli". For key new drugs such as "Albumin-bound paclitaxel", more investments will be made in the medical research to strengthen the clinical evidence and professional academic-based promotion in order to enhance the recognition of the products by doctors. At the same time, close attention is paid to policy adjustments in respect of national drug reimbursement and the conditions of drug tenders in various provinces, ensuring that the tender prices of key products are stable and under control. In the area of distribution, the Group will seize the opportunity of increasing market concentration under the "two-invoice policy" to expand extensive cooperation with large pharmaceutical distribution companies, exploring the end-user market with each other's strength.

Common Generic Drug Products

Under the policy reform of drug production and distribution, the concentration of generic drugs industry is expected to increase. For large pharmaceutical companies with an integrated production, marketing and distribution, they will be in a better position to gain market opportunities given their advantages of having large operation scale, products of high penetration, good market reputation, strong market coverage and stable cost. The Group will leverage its brand name, channel structure, marketing model, as well as distribution and scale advantages to further develop the low-tier medical market. At the same time, the Group will also continue to enrich its varieties of common generic drugs with new types and formulations, introduce generic drug products such as traditional Chinese medicines and pediatric drugs that are in line with the national policy, nurture and develop well known products with higher growth potential, and establish "branded generic drugs" to ensure the continuous stable growth of this business.

BUSINESS OUTLOOK *(continued)*

Bulk Drug Business

The Group's bulk drugs business, in particular vitamin C and caffeine, has achieved outstanding performance in 2017. In 2018, the Group will continue to upgrade its technology, lower its cost, strive for high-end international accreditation and enhance its market expansion, ensuring that the existing business will continue to maintain its leading position in the global industry. The Group will keep abreast of changes in the relevant policies and market conditions of the global bulk drug industry, and will promptly respond through adjustment of short-term and long-term orders, customer development and product price.

2018 marks the beginning of a new five-year period of the Company. I have confidence in the profit growth for the coming three to five years and will continue to lead the management team to fulfill our duties, work diligently and professionally, strive for innovation, keep our passion and drive to succeed, endeavouring to achieve increasing returns to shareholders year after year, such that we can repay the shareholders and contribute to the community.

CAI Dongchen
Chairman

Hong Kong, 19 March 2018

Management Discussion And Analysis

RESULTS

For the year ended 31 December 2017, the Group recorded turnover of approximately HK$15,463 million, representing a 25.0% growth (or a 26.6% growth on a constant currency basis) year-on-year; and profit attributable to shareholders of approximately HK$2,771 million, representing a 31.9% growth (or a 33.6% growth on a constant currency basis) year-on-year. Both basic earnings per share and diluted earnings per share are HK45.48 cents. The Board of Directors ("The Board") has proposed the payment of a final dividend of HK15 cents per share.

FINISHED DRUG BUSINESS

The finished drug business continued to achieve satisfactory growth in 2017, with sales reaching approximately HK$11,374 million, representing a 26.8% growth (or a 28.4% 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 endeavouring to expand the hospital network. In addition, more provincial drug tenders were completed. The gradual implementation of the new tender results and the inclusion of "NBP" injection and "Jinyouli" into the new national reimbursement drug list released in 2017 (the "New NRDL") also added growth momentum to the innovative drug products. With these efforts and favourable operating conditions, the innovative drug products managed to continue its robust growth, along with further expansion of market share. Sales of innovative drug products for the year reached approximately HK$6,582 million, representing a 37.9% growth (or a 39.5% growth on a constant currency basis) year-on-year.

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

"NBP"（恩必普）

"NBP" 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. Both its soft capsule and injection formulations have been included into the New 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)", which serves to recognize the clinical efficacy of "NBP" in treating acute ischemic stroke, hence providing a solid basis for its academic-based promotion. As both formulations are reimbursable, it is especially favourable to the promotion of sequential treatment with injection and soft capsule. "NBP" was also newly included into the "Guidelines for the Diagnosis and Treatment of Acute Ischemic Stroke in China" and "Guidelines for the Assessment and Treatment of Cerebral Collateral Circulation in Ischemic Stroke (2017)" during 2017, further strengthening the clinical evidence of "NBP".

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"NBP"（恩必普） *(continued)*

"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)" published in 2016 also mentions the effectiveness of "NBP" in improving the cognitive function and ability in managing daily activities of patients with ischemic subcortical non-dementia-type vascular cognitive dysfunction. In 2017, butylphthalide was also listed as category IIb recommendation and category B evidence for treatment of post-stroke cognitive impairment in "Specialists' Consensus on Post-stroke Cognitive Impairment Management".

Apart from vascular dementia, a number of other clinical studies including using "NBP" for the treatment of cerebrovascular disease, mild cognitive impairment and cognitive impairment of middle to late stage of Parkinson's disease after deep brain stimulation have also commenced. In March, 2018, "Butylphthalide soft capsules" was even granted orphan drug designation for the treatment of amyotrophic lateral sclerosis (ALS) by the U.S. Food and Drug Administration ("U.S. FDA"). This indication has also been undergoing a clinical study in China since July 2015. The studies on new indications will bring new market potentials and opportunities to "NBP".

In recent drug tenders, the new tender prices of "NBP" are largely stable. With the implementation of the new tender results and inclusion of "NBP" into the New NRDL, there will be more market opportunities for "NBP" injections. Apart from continuous expansion in the high-end market, the Group will also 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 enhance experts' recognition of the product.

"Oulaining"（歐來寧）

"Oulaining" 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)". In the "Guidelines for Diagnosis and Treatment of Dementia and Cognitive Impairment in China (2015)" published in 2016, description and evidence were given on the efficacy of oxiracetam on Alzheimer's disease, vascular dementia and cognitive impairment. In recent drug tenders, products of the "Oulaining" series were able to win at relatively desirable tender prices. Moreover, the new inclusion of "Oulaining" capsule into the drug reimbursement list of Guizhou Province and the new inclusion of "Oulaining" injection into the drug reimbursement list of Jilin Province further enhanced the expansion of the oxiracetam market. The Group will strengthen the clinical research of oxiracetam and enhance experts' support. In addition, more efforts will be put into professional academic-based promotions to communicate the clinical benefits of the products, ensuring continuous and stable growth.

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Xuanning"（玄寧）

"Xuanning" 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)" and is included in the new edition of the "Guidelines for the Rational Use of Drugs for Hypertension" in 2017. In 2017, a study of comparing levamlodipine maleate ("Xuanning") and amlodipine besylate in the treatment of hypertension was released. The research study was a major project in the "12th Five-Year Plan", participated by 110 research units in 21 cities in China, with a sample size of over 10,000 cases. The results of the study indicate that "Xuanning" is comparable with the imported amlodipine besylate in terms of efficacy and effectiveness in the prevention of coronary heart disease and stroke, for which hypertension is the leading cause. The compound prevalence for cardio-cerebrovascular events for two years is 5.0% for the imported drug and 4.6% for "Xuanning" ($P > 0.05$). The results of the study also indicate that the occurrence of adverse reaction of "Xuanning" is remarkably lower than that of the imported drug. The occurrence rates of swelling and headache for "Xuanning" are 1.1% and 0.7% respectively; and those of the imported drug are 2.8% and 1.1% respectively. The results of the study will also provide statistical support for the new drug application of "Xuanning" in the U.S.. Leveraging the competitive advantage of product differentiation, the Group is committed to developing "Xuanning" as the leading brand in domestically manufactured amlodipine, and at the same time expanding its coverage in the low-tier end-user market to achieve rapid growth.

"Duomeisu"（多美素）

"Duomeisu" (doxorubicin hydrochloride liposome injection) is used as a chemotherapy drug. The drug has been recommended by the "National Comprehensive Cancer Network (NCCN) Guidelines" for the first-line treatment of lymphoma, multiple myeloma, ovarian cancer and second-line treatment of various cancers such as breast cancer, bone and soft tissue sarcoma and AIDS-related Kaposi sarcoma with improving progress. 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.

Since product launch, the Group has adhered to the marketing strategies of conducting clinical studies and holding academic conferences to enhance the recognition of "Duomeisu" by clinical doctors. The Group also works with experts in initiating large-scale clinical study projects to expand the scope of application and applicable population of "Duomeisu". The Group also cooperates with various clinical societies to support the academic-based promotion of Duomeisu. After years of promotion, "Duomeisu" has become the leading brand of doxorubicin hydrochloride liposome injection in China, and the implementation of new tender results also provides "Duomeisu" with a larger room for market development.

FINISHED DRUG BUSINESS *(continued)*

Innovative Drug Products *(continued)*

"Jinyouli"（津優力）

"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 low white blood cell count in patients receiving chemotherapy, thus ensuring the administration of standardized dosage for chemotherapy. "Jinyouli" is well supported by evidence with its phase IV clinical study being included in the "Significant New Drug Innovation" major technology project in the 12th Five-Year Plan. It has the largest sample size in respect of clinical study of long-acting granulocyte-stimulating factor in China. The study has involved 1,537 cases covering lung cancer, breast cancer, lymphoma and other type of cancers. The efficacy and safety of "Jinyouli" were clinically proven with domestic and foreign guidelines unanimously recommending its application. The quality of "Jinyouli" is highlighted by the "Golden Award for Outstanding Chinese Patented Invention", the highest government award in the area of patents in China, it received in 2017, further enhancing its competitive advantage. With the implementation of the new tender results and its inclusion into the New NRDL, the market prospect of "Jinyouli" has become more promising.

"Ailineng"（艾利能）

"Ailineng" (elemene injection) is a China-developed anti-tumour drug mainly used for the treatment of nerve glioma, brain metastases, and adjuvant treatment of malignant pleural and peritoneal effusion. The product can be used in combination with chemotherapy and radiotherapy to boost the clinical efficacy of oncology therapies. After years of clinical use, it has been widely recognized by the medical market. 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, and thus the rate of adverse clinical reaction is significantly reduced. The Group is now cooperating with oncologists in China to strengthen the development of clinical evidence of "Ailineng", and will continue to strive for annual expansion of market share through marketing strategies of market segmentation and academic-based promotion.

"Nuolining"（諾利寧）

"Nuolining" (imatinib mesylate tablets) was launched in 2015 as the Group's first approved small molecule targeted cancer drug. It is mainly used for the treatment of Philadelphia chromosome-positive chronic myelocytic leukemia (Ph+CML), Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ALL) and gastrointestinal stromal tumour. According to the recommendation of various domestic and foreign guidelines, imatinib is a first-line drug for the above diseases. Since product launch, the Group has continued to strengthen the academic-based promotion and team building, and has gradually established its own sales team. The patients using "Nuolining" for its main indications are required to use it on a long-term basis, the accumulation of patients continues to boost the market potentials of imatinib. With the tender prices of "Nuolining" being largely stable and its inclusion into the New NRDL, "Nuolining" is expected to grow continuously.

FINISHED DRUG BUSINESS *(continued)*

Common Generic Drug Products

During the year, the Group actively pushed forward with the quality consistency evaluation and took the opportunity to strengthen strategic cooperation with core distributors. Efforts were put into academic-based promotions and enhancement of medical standard in the lower-tier market, reinforcing the good reputation of the Group's common generic drugs. At the same time, the Group also organised the chain pharmacies across the country to launch marketing activities and promote the sales of chronic diseases products.

The Group continued with the strategy of enhancing its sales mix by strengthening the promotion of non-antibiotic drugs. Products with relatively higher sales growth during the year included "Ouyi"（歐意）(aspirin enteric-coated tablets), "Ouyi"（歐意）(omeprazole capsules/injections), "Linmeixin"（林美欣）(glimepiride dispersible tablets) and "Ouwei"（歐維）(mecobalamin tablets). 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 tablets) have also recorded rapid growth during the year. At present, a number of products of the Group have obtained the U.S. Abbreviated New Drug Application ("ANDA") approvals, and some of them have begun marketing in the U.S., gradually becoming another major growth driver.

In 2017, sales of common generic drug products maintained stable growth with sales reaching approximately HK$4,792 million, representing a 14.3% growth (or a 15.8% growth on a constant currency basis) year-on-year.

BULK DRUG BUSINESS

Antibiotics

Sales volume has declined during the year as market demand has shrunk due to the policies of restricted use of antibiotics in the end-user market. It is expected that the overall sluggish market conditions will not have an obvious recovery in the short term. 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 increase market competitiveness.

Vitamin C

Overcapacity in the vitamin C market still lingered, yet product prices rebounded as market supply was restrained due to environmental protection concern, thus business performance in 2017 significantly improved. Apart from the efforts to attain quality improvement and production cost reduction, the Group will also develop high-quality and high-end customers, adjust customer structure and expand end-user market share in order to improve product's profitability.

BULK DRUG BUSINESS *(continued)*

Caffeine and Others

The market conditions of caffeine remained stable with a slight increase in product price during the year. Through promotion of products with new specification, the Group recorded an increase in sales volume during the year and the overall business achieved a satisfactory growth.

The overall growth of this segment is also attributable to the contribution from the glucose business acquired last year.

RESEARCH AND DEVELOPMENT

The Group continued to increase its investment in the research and development of new products. Currently there are approximately 200 new products in the pipeline, primarily focusing on the therapeutic areas of cardio-cerebrovascular diseases, metabolic diseases (such as diabetes), oncology, psychiatry and neurology. Among these product candidates, there are 25 in the areas of new target big molecule biologics, cell-based immunotherapy and stem cell therapy; 12 new small molecule drugs and 55 Class 3 new drugs (classified as Class 3 or 4 under the new system) (48 of which have obtained approval for clinical trials).

The progress of the Group's drug applications in China during the year is as follows:

1. Obtained additional indication approval of gastrointestinal stromal tumour for "Imatinib mesylate tablets"; and production approval for "Paclitaxel for injection (albumin-bound)" in February 2018;

2. Obtained clinical trial approval for 6 drugs with clinical trials commenced, including "Baicalein tablets", "HA121-28 tablets", "CSPCHA115 capsules" and "Alprostadil liposome for injection";

3. Submitted production applications for 11 drugs, including "Ticagrelor tablets", "Sunitinib malate capsules" and "Pramipexole hydrochloride tablets";

4. 26 drugs currently pending production approval, including "Dronedarone hydrochloride tablets", "Bortezomib for injection", "Clopidogrel hydrogen sulfate tablets", "Metformin hydrochloride tablets", "Metformin hydrochloride extended-release tablets", "Montelukast sodium tablets", "Montelukast sodium chewable tablets" and "Doxofylline sodium chloride for injection"; and

5. 20 drugs undergoing bioequivalence studies or clinical trials (including 9 Class 1 new drugs), including "DBPR108 tablets", "SKLB1028 capsules", "Ammuxetine hydrochloride tablets", "Butylphthalide soft capsules (indication: vascular dementia)", "Mitoxantrone hydrochloride liposome for injection", "Istradefylline tablets", "Benzonatate soft capsules" and "Amphotericin B cholesteryl sulfate complex for injection".

RESEARCH AND DEVELOPMENT *(continued)*

The progress of the Group's drug applications in the U.S. during the year is as follows:

1. Obtained ANDA approval for 8 products, namely "Clopidogrel hydrogen sulfate tablets", "Montelukast sodium tablets", "Montelukast sodium chewable tablets", "Gabapentin tablets", "Azithromycin tablets", "Cefadroxil capsules", "Benzonatate soft capsules (100 mg)" and "Celecoxib capsules";

2. 5 drugs currently pending ANDA approval, including "Memantine hydrochloride tablets", "Pregabalin capsules" and "Duloxetine hydrochloride extended-release capsules"; and

3. The phase II clinical trial of "Butylphthalide soft capsules" in the U.S. has passed the ethical evaluation of 3 clinical centres. It is expected that 80 subjects will be enrolled in 2018. "Xuanning", "Mitoxantrone hydrochloride liposome for injection" and "Irinotecan hydrochloride liposome for injection" have also been approved by the U.S. FDA to commence clinical trials. In addition, "Mitoxantrone hydrochloride liposome injection", antibody-drug conjugate (ADC) drug "DP303c" and "butylphthalide soft capsules" (indication: ALS) have been granted the orphan drug designation by the U.S. FDA.

The ANDA approval can give the drugs access to international market (including the U.S.), and can also facilitate the granting of priority review designation and the progress and designation of quality consistency evaluation in China.

During the year, the Group increased investment in biopharmaceuticals. In order to attract overseas talents in high-end research and development for biopharmaceuticals, research and development centres for antibody drugs have been set up in California, Texas and New Jersey in the U.S. respectively, focusing on the research of new target screening for antibody drugs and site-specific antibody conjugate platform. In addition, the Group has acquired certain equity interest in Wuhan YZY Biopharma Co., Ltd. during the year, which is a leading enterprise in research for bispecific antibodies in China. It has obtained clinical trial approval for 2 bispecific antibodies in China and has 8 other products under clinical research. The Group will continue to look for acquisition targets with strong research and development capability in biopharmaceutical field. The future acquisition efforts will mainly focus on drugs of new small or big molecules which are close to product approval and launch so as to supplement the pipeline of product launch in the next three years and leverage the Group's strong marketing and market development capabilities to achieve rapid growth of the new products.

Management Discussion And Analysis

FINANCIAL REVIEW

Results

	2017	2016	Change
Revenue *(HK$'000)*			
Finished drugs	**11,374,413**	8,966,851	26.8%
Bulk drugs	**4,088,116**	3,402,190	20.2%
Total	**15,462,529**	12,369,041	25.0%
Operating profit *(HK$'000)*	**3,481,643**	2,649,484	31.4%
Operating profit margin	**22.5%**	21.4%	
Profit attributable to shareholders *(HK$'000)*	**2,770,522**	2,100,848	31.9%
Net profit margin	**17.9%**	17.0%	
Basic earnings per share *(HK cents)*	**45.48**	35.25	29.0%

Finished drug business continued to be a major growth driver to the Group, with sales increasing by 26.8% to HK$11,374 million for the current year. Innovative drugs of the Group, in particular, delivered a strong growth with aggregate sales reaching approximately HK$6,582 million, representing a growth of 37.9%. Revenue from innovative drugs as a percentage of total revenue of the Group further increased from 38.6% in 2016 to 42.6% in the current year. Product prices of vitamin C recovered strongly during 2017, as a result the profitability of vitamin C business for the current year greatly increased. With this outstanding business performance, profit attributable to the shareholders increased by 31.9% to HK$2,771 million in 2017.

Liquidity and Financial Position

For the financial year of 2017, the Group's operating activities generated a cash inflow of HK$3,288 million (2016: HK$2,916 million). Average turnover period of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) slightly decreased from 41 days in 2016 to 40 days. Average turnover period of inventories (ratio of balance of inventories to cost of sales) increased from 116 days in 2016 to 173 days, reflecting the expanding scale of production and a higher inventory level required to meet the increasing market demand. Current ratio of the Group was 2.4 as at 31 December 2017, higher than 2.1 a year ago. Capital expenditure for the year amounted to HK$1,320 million, which were mainly spent to expand production capacities and improve production efficiency.

FINANCIAL REVIEW *(continued)*

Liquidity and Financial Position *(continued)*

The Group's financial position remained solid. As at 31 December 2017, total bank deposits, balances and cash amounted to HK$6,557 million (2016: HK$3,238 million) and total borrowings amounted to HK$987 million (2016: HK$1,138 million), resulting in a net cash positon of HK$5,570 million (2016: HK$2,100 million). Total borrowings comprised bank loans of HK$978 million and loan from a related company of HK$9 million. HK$927 million of the total borrowings are repayable within one year and the remaining HK$60 million are repayable between one to two years. Gearing ratio further reduced from 11.2% a year earlier to 6.4% as at 31 December 2017.

94% of the Group's borrowings are denominated in Renminbi and 6% in United States dollars. 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 2017, the Group had approximately 11,206 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.

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 2017 except the deviation from code provision A.2.1 as set out under "CHAIRMAN AND CHIEF EXECUTIVE OFFICER".

BOARD OF DIRECTORS

As at the date of this report, the Board comprises eight 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 33 to 36 of this annual report.

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 2017. Individual attendance of each director at the regular board meetings and committee meetings in 2017 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			2/2
Pan Weidong *(Vice-Chairman and Rotating CEO)*	4/4			
Wang Huaiyu	4/4			
Wang Zhenguo	4/4			
Wang Jinxu	4/4			
Lu Hua	4/4			
Li Chunlei *(appointed on 12 December 2017)*	0/0			
Chak Kin Man	4/4			
Lu Jianmin *(resigned on 5 December 2017)*	1/4			
Wang Shunlong *(retired on 25 May 2017)*	1/1			
Non-Executive Director:				
Lee Ka Sze, Carmelo	3/4	3/4	2/2	
Independent Non-Executive Directors:				
Chan Siu Keung, Leonard	4/4	4/4	2/2	2/2
Wang Bo	3/4	3/4	2/2	
Lo Yuk Lam	4/4			2/2
Yu Jinming	2/4			
Chen Chuan	3/4			

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 2017 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.

Two meetings were held in 2017 to review the appointment of a new 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 2017. At the meetings, the committee discussed and reviewed the following matters:

1. the 2016 annual results, annual report and results announcement;

2. the external auditor's report to the Audit Committee in respect of the 2016 annual audit;

3. the quarterly results for the three months ended 31 March 2017 and results announcement;

4. the 2017 interim results, interim report and results announcement;

5. the external auditor's report to the Audit Committee in respect of the 2017 interim review;

6. the quarterly results for the nine months ended 30 September 2017 and results announcement;

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

8. connected transactions during the year ended 31 December 2016; 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 2017.

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 *(Vice-Chairman and Rotating CEO)*	✓	✓
Wang Huaiyu	✓	✓
Wang Zhenguo	✓	✓
Wang Jinxu	✓	✓
Lu Hua	✓	✓
Li Chunlei	✓	✓
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	✓	✓

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 2017, 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 2017, 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$3,640,000 for audit services and HK$3,604,000 for non-audit services. The non-audit services consist of review of half-yearly financial statements and continuing connected transactions, and acting as reporting accountant for a proposed spin-off and separate listing of a subsidiary of the Company.

FINANCIAL REPORTING

The directors' responsibilities for the financial statements are set out on page 46 and the responsibilities of the external auditor are set out on page 47 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 2017, 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 2017, 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", "Best Investors Relations Program (Overall) – First Place" and "Best Analyst Days (Overall) – First Place" in the Healthcare and Pharmaceutical sector in the 2017 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.

Corporate Governance Report

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.

2017 GENERAL MEETINGS

At the 2017 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 2017 annual general meeting to ensure effective communication with shareholders. The attendance record of the directors at the 2017 general meeting is set out below:

	General meeting attended/held
Directors	
Executive Directors:	
Cai Dongchen *(Chairman and CEO)*	1/1
Pan Weidong *(Vice-Chairman and Rotating CEO)*	0/1
Wang Huaiyu	0/1
Wang Zhenguo	0/1
Wang Jinxu	0/1
Lu Hua	0/1
Li Chunlei *(appointed on 12 December 2017)*	0/0
Chak Kin Man	1/1
Lu Jianmin *(resigned on 5 December 2017)*	0/1
Wang Shunlong *(retired on 25 May 2017)*	0/1
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	0/1

CONSTITUTIONAL DOCUMENTS

For the purpose of bringing the Company's Articles of Association in line with the provisions of the Hong Kong Companies Ordinance (Cap. 622), the Company adopted a new articles of association at the annual general meeting of the Company held on 25 May 2017. The New Articles of Association is available on both the Company's website and the Stock Exchange's website.

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 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and joint ventures are set out in notes 40 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 2017, each of Mr. Cai Dongchen, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Wang Zhenguo, Mr. Wang Jinxu, Mr. Lu Hua and Mr. Li Chunlei, all being directors of the Company, had an indirect interest in one of the Group's five largest customers. 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 73.6% and 26.4% of the Group's revenue for the year 2017, 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 200 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 11,000 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. 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 2017 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 2017.

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 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 49.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK15 cents (2016: final dividend in respect of the year ended 31 December 2016 of HK12 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 Friday, 15 June 2018 to shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 5 June 2018.

DIRECTORS' REPORT

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 18 May 2018 to Friday, 25 May 2018, 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 Friday, 25 May 2018, 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, 17 May 2018.

The register of members of the Company will be closed from Friday, 1 June 2018 to Tuesday, 5 June 2018, 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, 31 May 2018.

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 136 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 2017 amounted to approximately HK$957,368,000 (2016: HK$756,422,000).

FIXED ASSETS

During the year, the Group continued to upgrade its production facilities and acquired new property, plant and equipment of approximately HK$1,319,944,000. 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 29 and 30 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 *(Vice-Chairman and Rotating CEO)*
Wang Huaiyu
Wang Zhenguo
Wang Jinxu
Lu Hua
Li Chunlei *(appointed on 12 December 2017)*
Chak Kin Man
Lu Jianmin *(resigned on 5 December 2017)*
Wang Shunlong *(retired on 25 May 2017)*

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Chan Siu Keung, Leonard
Wang Bo
Lo Yuk Lam
Yu Jinming
Chen Chuan

Mr. Li Chunlei was appointed as an executive director of the Company on 12 December 2017. In accordance with Article 92 of the Company's Articles of Association, Mr. Li Chunlei 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. Wang Huaiyu, Wang Zhenguo, Lu Hua, Lo Yuk Lam and Yu Jinming shall retire by rotation at the forthcoming annual general meeting. All the retiring directors are eligible and offer themselves for re-election at the forthcoming annual general meeting.

Mr. Wang Shunlong retired as a director at the annual general meeting held on 25 May 2017 in pursuit of his career development and Mr. Lu Jianmin resigned as a director due to retirement on 5 December 2017.

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. Sun Jumin, Mr. Liu Jian, Mr. Yao Bin, Ms. Bi Sixin, Mr. Zhao Yongzheng, Ms. Kang Yueju, Mr. Qu Buqing, Mr. Ji Mengwei, Mr. Liu Fang, Mr. Yuan Xichen, Mr. Zhang Cuilong, Mr. Guo Yumin, Mr. Han Feng, Mr. Wang Hua, Mr. Li Yingui, Mr. Guo Shun Xing, Mr. Geng Lixiao, Mr. Xu Yimin , Ms. Tian Yumiao, Mr. Liang Guanjun, Mr. Yuan Guogiang, Mr. Pang Zhenhai, Mr. Min Longgang, Mr. Gao Jiapan, Mr. Wang Yanbin, Mr. Wang Zhenyu, Mr. Zhang Ziren, Mr. Wang Yanjun, Mr. Hou Shengjun, Mr. Zhang Hongbin, Mr. Hao Jinheng, Mr. Chen Yingxin, Mr. Guo Junchen, Mr. Liu Qin, Mr. Wang Hongbin, Mr. WangQingxi, Mr. Zhang Heming, Mr. Yang Kai, Mr. Zhang Yu, Mr. Lei Ming, Mr. Li Han, Ms. Jiang Xin and Mr. Zhao Shiqiang.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dongchen

Mr. Cai, aged 64, 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 substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO").

PAN Weidong

Mr. Pan, aged 48, Vice-Chairman and Rotating Chief Executive Officer of the Company, 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, accounting and investment.

WANG Huaiyu

Mr. Wang, aged 54, 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.

WANG Zhenguo

Mr. Wang, aged 48, 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.

WANG Jinxu

Mr. Wang, aged 47, 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 technical and management experience in the pharmaceutical industry.

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

LU Hua

Mr. LU, aged 46, 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.

LI Chunlei

Mr. LI, aged 41, was appointed as an executive director of the Company in 2017. Mr. Li is currently the Chief Scientist of the Group in charge of research and development. Mr. Li is also the general manager of a subsidiary of the Company, deputy director of the Novel Pharmaceutical Preparations and Excipients State Key Laboratory and director of the Hebei Pharmaceutical Engineering Technology Centre. Mr. Li holds a bachelor's degree in engineering (biological pharmaceutics) from Jilin University and Shenyang Pharmaceutical University, a master's degree in science (microbial and biochemical pharmaceutics) from Jilin University and a doctorate in science (pharmaceutical science) from Shenyang Pharmaceutical University. Mr. Li is mainly engaged in the research, development and commercialisation of nano drugs, and has been responsible for the research and development of approximately 20 nano drugs including "Duomeisu" (doxorubicin hydrochloride liposome injection) and paclitaxel albumin-bound nano particles.

CHAK Kin Man

Mr. Chak, aged 52, 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 relations.

LEE Ka Sze, Carmelo

Mr. Lee, aged 57, 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 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 is currently a member of the SFC (HKEC Listing) Committee and convenor cum member of the Financial Reporting Review Panel of the Financial Reporting Council.

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

CHAN Siu Keung, Leonard

Mr. Chan, aged 60, 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 57, was appointed as an independent non-executive director of the Company in 2012. He is also a member of the Audit Committee and Remuneration Committee of the Company. 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 distinguished researcher of the Research Center of National Drug Policy & Ecosystem.

Mr. Wang is also an independent director of Henan Taloph Pharmaceutical Stock Co., Ltd. (listed on Shanghai Stock Exchange) and Jiuzhitang Co., Ltd. (listed on Shenzhen Stock Exchange).

Mr. Wang retired as an independent director of Hainan Shuangcheng Pharmaceutical Co., Ltd. (listed on Shenzhen Stock Exchange) and Guangxi Liuzhou Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange) on 5 February 2017 and 23 March 2017, respectively.

LO Yuk Lam

Mr. Lo, aged 69, was appointed as an independent non-executive director of the Company in 2014. He is also a member of the Nomination Committee of the Company. 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).

Directors' Report

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

YU Jinming

Mr. Yu, aged 60, 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 54, 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 2017, 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	Percentage of the issued share capital of the Company
Cai Dongchen	Beneficial owner	86,538,000	
	Interest of controlled corporation	1,342,619,120 *(Note)*	
		1,429,157,120	22.89%
Chak Kin Man	Beneficial owner	4,000	0.00006%

Note: The interests comprise 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally and 493,880,000 shares directly held by True Ally. True Ally is directly wholly-owned by 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 2017.

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 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders 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
Cai Dongchen	Beneficial owner	86,538,000	
	Interest in controlled corporation	1,342,619,120 *(Note)*	
		1,429,157,120	22.89%
True Ally Holdings Limited	Beneficial owner	493,880,000	
	Interest in controlled corporation	848,739,120	
		1,342,619,120 *(Note)*	21.51%
Massive Giant Group Limited	Beneficial owner	634,809,620	10.17%
Common Success International Limited	Beneficial owner	423,206,414	6.78%

Note: The interests comprise 213,929,500 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally, 634,809,620 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally and 493,880,000 shares directly held by True Ally. True Ally is directly wholly-owned by Mr. Cai Dongchen.

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 2017.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the Group has entered into certain transactions which constituted connected transactions and/or continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Connected Transactions

(a) On 3 March 2017, the Group entered into an agreement with China Charmaine Pharmaceutical Company Limited to acquire 100% equity interest in Hebei Shiwei Pharmaceutical Trading Co., Ltd. for a consideration of RMB200,030,689. Details of the transaction were set out in the announcement of the Company dated 3 March 2017.

(b) On 9 May 2017, the Group entered into an agreement with CSPC Holdings Company Limited to acquire 100% equity interest in CSPC Dophen Corporation for a consideration of USD9,700,000. Details of the transaction were set out in the announcement of the Company dated 9 May 2017.

(c) On 29 May 2017, the Group entered into an agreement with an independent third party and the General Partner of 3H Health Investment Fund I, L.P. (the "Fund") to acquire certain limited partnership interests in the Fund for a consideration of US$3,720,000. Details of the transaction were set out in the announcement of the Company dated 29 May 2017.

(d) On 11 October 2017, the Group entered into an agreement with Hebei Zhongchengxin Guarantee Co., Ltd. to acquire 1.31% equity interest in CSPC Innovation Pharmaceutical Co., Ltd for a consideration of RMB9,400,000. Details of the transaction were set out in the announcement of the Company dated 11 October 2017.

Continuing Connected Transactions

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)*	415,243
	Rental expenses *(note b)*	1,911
	Rental expenses *(note c)*	21,207
	Purchase of steam *(note d)*	14,268
	Purchase of steam *(note e)*	8,741
	Warehouse service income *(note f)*	7,945

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 20 July 2002, CSPC Hebei Zhongnuo Pharmaceutical (Shijiazhuang) Co. Ltd ("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 remained unchanged at RMB138,033 upon review on 1 August 2017.

(c) 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 with an aggregate rental of RMB18,379,900 per annum.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

(d) On 29 August 2014, CSPC XNW Pharmaceutical Joint Stock Company Limited ("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. On 29 August 2017, the agreement was renewed for a term of three years. Details of the transaction are set out in the announcement of the Company dated 29 August 2017.

(e) On 13 June 2016, Hebei Shengxue Glucose Limited Liability Company ("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.

(f) On 14 November 2014, CSPC Zhongcheng Pharmaceutical Logistic Company Limited ("Zhongcheng Logistic") entered into a warehouse storage service agreement with CSPC Hebei Zhongcheng Pharmaceutical Company Limited ("Hebei Zhongcheng") (a non-wholly owned subsidiary of CHL) whereby Zhongcheng Logistic would provide warehouse storage service to Hebei Zhongcheng for a term of three years commencing on 14 November 2014.

Mr. Cai Dongchen, a substantial shareholder of the Company, is indirectly interested in CHL through a series of corporations. 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. In addition, each of Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Wang Zhenguo, Mr. Wang Jinxu, Mr. Lu Hua and Mr. Li Chunlei, all being directors of the Company, is also indirectly interested in CHL.

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.

RELATED PARTY TRANSACTIONS

The significant related party transactions which were undertaken in the normal course of business are set out in note 38 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "Connected transactions and continuing connected transactions") under the Listing Rules, these transactions are exempt from reporting, annual review and independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

INTERESTS IN COMPETITOR

CHL holds certain equity 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.

Each of Mr. Cai Dongchen, Mr. Pan Weidong, Mr. Wang Huaiyu, Mr. Wang Zhenguo, Mr. Wang Jinxu, Mr. Lu Hua and Mr. Li Chunlei, all being directors of the Company, had an indirect interest in CHL.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 30 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:

				Number of Share Options					
Category	Date of grant	Exercise price (HK$)	Exercisable period	As at 1 January 2017	Granted	Exercised	Cancelled	Lapsed	As at 31 December 2017
Directors									
Chak Kin Man	17 April 2013	3.98	17 April 2014 — 16 April 2023	1,500,000	–	(1,500,000)	–	–	–
Employees									
In aggregate	17 April 2013	3.98	17 April 2014 — 16 April 2023	–	–	–	–	–	–
Total				1,500,000	–	(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$10.04.

As at 31 December 2017, no options under the said share option scheme were outstanding 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.

Directors' Report

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 2017.

DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$5,089,000.

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, 19 March 2018

INDEPENDENT AUDITOR'S REPORT

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 49 to 135, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Key audit matter	How our audit addressed the key audit matter
Estimated allowance of trade receivables	
We identified the estimated allowance of trade receivables as a key audit matter due to the use of significant judgement and estimates with respect to the recoverability of overdue trade receivables. As detailed in notes 4 and 20 to the consolidated financial statements, 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 2017, the carrying amount of trade receivables is HK$1,850,409,000 (net of allowance for doubtful debts of HK$13,491,000).	Our procedures in relation to the estimated allowance of trade receivables included: • understanding how allowance for doubtful debts is estimated by the management; • testing the subsequent settlements of trade receivables, on a sample basis, to the source documents including bank statements and bank-in slips; • discussing with the management and evaluating the basis of trade debtors that are overdue and without/with little settlements subsequent to the end of the reporting period identified by the management and their assessment on the recoverability of overdue trade receivables; and • performing retrospective review of the accuracy of management judgements and assumptions relating to the allowance for doubtful debts made in the prior year.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Estimated provision for inventories	
We identified the estimated provision for inventories as a key audit matter due to the magnitude of the inventories and the significant judgement and estimates with respect to the net realisable value of inventories. As detailed in note 4 to the consolidated financial statements, the Group estimates the provision for inventories based on the ageing of the inventories to identify slow-moving and obsolete inventories. Provision for inventories will be made for an item of inventory which has a net realisable value lower than its carrying amount. At 31 December 2017, the carrying amount of inventories is HK$2,900,781,000 (net of provision for inventories of HK$7,057,000).	Our procedures in relation to the estimated provision for inventories included: • identifying and assessing aged and obsolete inventories when attending physical inventory counts; • understanding and evaluating the basis of how slow-moving or obsolete inventories are identified by the management and their assessment of the net realisable value of inventories; • testing the accuracy of the inventory ageing and assessing whether allowance is properly provided for aged inventories or inventories close to expiry dates; • testing the net realisable values of inventories by reference to current and subsequent selling price and quantity and assessing whether allowance is properly provided for, if required; and • performing retrospective review of the accuracy of management judgements and assumptions relating to the provision for inventories made in the prior year.

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 Au Chun Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**15,462,529**	12,369,041
Cost of sales		**(6,116,561)**	(6,060,232)
Gross profit		**9,345,968**	6,308,809
Other income		**120,478**	106,970
Selling and distribution expenses		**(4,374,637)**	(2,788,160)
Administrative expenses		**(682,011)**	(553,694)
Other expenses		**(928,155)**	(424,441)
Operating profit		**3,481,643**	2,649,484
Finance costs	6	**(26,631)**	(41,711)
Share of results of joint ventures	17	**10,277**	27,559
Profit before tax		**3,465,289**	2,635,332
Income tax expense	8	**(685,245)**	(522,107)
Profit for the year	7	**2,780,044**	2,113,225
Other comprehensive income (expense):			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements to presentation currency		**816,415**	(658,279)
Share of exchange differences of joint ventures arising on translation of financial statements to presentation currency		**6,780**	(2,773)
Item that may be reclassified subsequently to profit or loss:			
Fair value gain on the available-for-sale investments		**3,177**	—
Other comprehensive income (expense) for the year, net of income tax		**826,372**	(661,052)
Total comprehensive income for the year		**3,606,416**	1,452,173

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Profit for the year attributable to:			
Owners of the Company		**2,770,522**	2,100,848
Non-controlling interests		**9,522**	12,377
		2,780,044	2,113,225
Total comprehensive income attributable to:			
Owners of the Company		**3,591,527**	1,445,017
Non-controlling interests		**14,889**	7,156
		3,606,416	1,452,173
		HK cents	*HK cents*
Earnings per share			
Basic	11	**45.48**	35.25
Diluted	11	**45.48**	35.00

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	13	**6,662,523**	5,415,032
Prepaid lease payments	14	**573,080**	526,712
Goodwill	15	**121,736**	111,785
Other intangible assets	16	**103,176**	79,232
Interests in joint ventures	17	**109,978**	80,089
Available-for-sale investments	18	**316,742**	91,732
Deferred tax assets	27	**20,721**	27,986
		7,907,956	6,332,568
Current assets			
Inventories	19	**2,900,781**	1,933,147
Trade and other receivables	20	**2,334,279**	1,835,266
Bills receivables	21	**1,477,001**	1,215,156
Trade receivables due from related companies	38(i)	**69,536**	73,570
Amounts due from joint ventures	38(ii)	**276,830**	115,986
Prepaid lease payments	14	**18,263**	16,419
Held for trading investments		**732**	521
Structured bank deposits	22	**1,315,789**	—
Restricted bank deposits	23	**3,480**	2,875
Bank balances and cash	23	**5,238,033**	3,234,678
		13,634,724	8,427,618
Current liabilities			
Trade and other payables	24	**4,513,383**	2,937,893
Bills payables	25	**59,809**	100,559
Trade payable due to a joint venture	38(ii)	**9,319**	—
Amounts due to related companies	38(i)	**43,419**	657
Tax liabilities		**206,685**	147,769
Borrowings	26	**927,282**	897,777
		5,759,897	4,084,655
Net current assets		**7,874,827**	4,342,963
Total assets less current liabilities		**15,782,783**	10,675,531

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Deferred tax liabilities	27	**131,602**	68,865
Borrowings	26	**59,809**	240,380
Government grants	28	**183,976**	174,964
		375,387	484,209
Net assets		**15,407,396**	10,191,322
Capital and reserves			
Share capital	29	**12,922,199**	10,569,620
Reserves		**2,400,174**	(461,994)
Equity attributable to owners of the Company		**15,322,373**	10,107,626
Non-controlling interests		**85,023**	83,696
Total equity		**15,407,396**	10,191,322

The consolidated financial statements on pages 49 to 135 were approved and authorised for issue by the Board of Directors on 19 March 2018 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 2017

	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)*	Investments revaluation reserve HK$'000	Share options reserve HK$'000 *(note 30)*	Translation reserve HK$'000	Accumulated profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 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 (expense) 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 reserves	–	–	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 32)*	–	–	–	–	–	–	16	(16)	–	(348)	(348)
Acquisition of subsidiaries and assets *(note 31)*	–	–	–	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 and 1 January 2017	**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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,770,522**	**2,770,522**	**9,522**	**2,780,044**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**3,177**	**–**	**817,828**	**–**	**821,005**	**5,367**	**826,372**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**3,177**	**–**	**817,828**	**2,770,522**	**3,591,527**	**14,889**	**3,606,416**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,495)**	**(3,495)**
Dividends recognised as distribution *(note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(726,482)**	**(726,482)**	**–**	**(726,482)**
Transfer to statutory reserves	**–**	**–**	**275,169**	**–**	**–**	**–**	**–**	**(275,169)**	**–**	**–**	**–**
Exercise of share options	**7,784**	**–**	**–**	**–**	**–**	**(1,814)**	**–**	**–**	**5,970**	**–**	**5,970**
Shares issued *(note 29)*	**2,351,160**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,351,160**	**–**	**2,351,160**
Transaction costs attributable to the issuance of new shares	**(6,365)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,365)**	**–**	**(6,365)**
Acquisition of a subsidiary *(note 31)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,927**	**8,927**
Acquisition of additional interests in subsidiaries *(note d)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,063)**	**(1,063)**	**(18,994)**	**(20,057)**
At 31 December 2017	**12,922,199**	**(5,523,729)**	**1,044,984**	**57,443**	**3,177**	**–**	**(223,394)**	**7,041,693**	**15,322,373**	**85,023**	**15,407,396**

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 38, which comprises 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 of approximately RMB11,879,000 arising as a result of the acquisition of CSPC Shengxue Glucose Co., Ltd ("Shengxue") in 2016.

(d) In August 2016, February 2017 and October 2017, the Group entered into equity transfer agreements with an independent third party to acquire the remaining 6.82% of Shengxue and with related parties to acquire the remaining 10% of Hebei Union Pharmaceutical Co., Ltd ("Union") and 1.31% of CSPC Innovation Pharmaceutical Co., Ltd ("XNW"), respectively. The transactions were completed 25 August 2016, 27 February 2017 and 11 October 2017, respectively. Upon completion of these acquisitions, Shengxue, Union and XNW 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 2017

	2017	2016
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before tax	**3,465,289**	2,635,332
Adjustments for:		
Amortisation of other intangible assets	**86,186**	17,796
Amortisation of prepaid lease payments	**17,483**	19,218
Depreciation of property, plant and equipment	**612,856**	550,713
Finance costs	**26,631**	41,711
Gain on disposal of a subsidiary	**—**	(26)
Government grant income	**(34,353)**	(24,976)
(Gain) loss on fair value change of held for trading investments	**(169)**	49
Interest income	**(25,148)**	(13,005)
Loss on disposal of property, plant and equipment	**19,947**	20,572
Impairment loss on trade receivables	**3,417**	1,972
Reversal of impairment loss of trade receivables	**(797)**	(4,460)
Share of results of joint ventures	**(10,277)**	(27,559)
Operating cash flows before movements in working capital	**4,161,065**	3,217,337
Increase in inventories	**(774,399)**	(197,427)
Increase in trade and other receivables	**(256,977)**	(70,446)
(Increase) decrease in bills receivables	**(159,670)**	91,206
Decrease in trade receivables due from related companies	**8,876**	81,975
Increase in trade and other payables	**914,861**	545,143
Decrease in bills payables	**(46,030)**	(279,754)
Decrease in trade payables due to related companies	**—**	(1,086)
Increase (decrease) in trade payable due to a joint venture	**8,965**	(1,559)
Increase in government grants	**34,669**	50,757
Cash generated from operations	**3,891,360**	3,436,146
Income tax paid	**(575,073)**	(479,161)
Interest paid	**(28,143)**	(40,684)
NET CASH FROM OPERATING ACTIVITIES	**3,288,144**	2,916,301

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES			
Placement of structured bank deposits		**(1,265,822)**	—
Purchase of property, plant and equipment		**(1,177,248)**	(1,099,142)
Acquisition of subsidiaries and assets	31	**(379,853)**	(25,270)
Purchase of available-for-sale investments		**(221,833)**	(91,732)
Advances to joint ventures		**(140,683)**	(39,611)
Purchase of others intangible assets		**(35,295)**	(6,625)
Placement of bank deposits with more than three months to maturity		**(71,844)**	—
Capital injection to joint ventures		**(21,240)**	—
Prepaid lease payments paid		**(7,101)**	(80,253)
Placement of restricted bank deposits		**(4,990)**	—
Acquisition of a joint venture		**—**	(33,662)
Disposal of a subsidiary	32	**—**	26,377
Interest received		**20,397**	13,005
Proceeds on disposal of property, plant and equipment		**13,601**	8,114
Withdrawal of restricted bank deposits		**4,603**	1,446
NET CASH USED IN INVESTING ACTIVITIES		**(3,287,308)**	(1,327,353)
FINANCING ACTIVITIES			
Repayment of borrowings		**(1,717,183)**	(702,114)
Dividends paid		**(726,482)**	(650,212)
Repayment to related companies		**(96,550)**	(82,489)
Acquisition of non-controlling interests in subsidiaries		**(20,057)**	(4,259)
Expenses on issuance of shares		**(6,365)**	—
Dividends paid to non-controlling interests		**(3,495)**	—
Proceeds from issuance of shares		**2,351,160**	—
New borrowings raised		**1,524,045**	419,248
Advances from related companies		**320,369**	—
Receipt on issuance of shares upon exercise of share options		**5,970**	563,170
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**1,631,412**	(456,656)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,632,248**	1,132,292
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**3,234,678**	2,299,468
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**296,427**	(197,082)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**5,163,353**	3,234,678
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash in the consolidated statement of financial position		**5,238,033**	3,234,678
Bank deposits with more than three months to maturity upon placement		**(74,680)**	—
Cash and cash equivalents in the consolidated statement of cash flows		**5,163,353**	3,234,678

1. GENERAL

CSPC Pharmaceutical Group Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

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 (hereinafter together with the Company collectively referred to as the "Group") are principally engaged in the manufacture and sale of pharmaceutical products. Details of the subsidiaries are set out in note 40.

The functional currency of the Company is Renminbi ("RMB") and 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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle

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

Amendments to HKAS 7 Disclosure Initiative

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

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

Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

Amendments to HKAS 7 Disclosure Initiative *(continued)*

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

A reconciliation between the opening and closing balances of these items is provided in note 37. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 37, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

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

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

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

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

Except for the new and revised HKFRSs mentioned below, the directors of the Company (the "Directors") anticipate that the application of all other new and revised HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 Financial Instruments

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

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

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

- 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* ("HKAS 39"). The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

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

HKFRS 9 Financial Instruments *(continued)*

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Debt instruments classified as loan receivables carried at amortised cost as disclosed in note 36(a): these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in note 18: these securities qualified for designation as measured at FVTOCI under HKFRS 9; however, the fair value gains or losses accumulated in the investments revaluation reserve amounting to HK$3,177,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 18: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of HKFRS 9, the fair value gain relating to these securities would be adjusted to investments revaluation reserve as at 1 January 2018; and

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

Impairment

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

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables, bills receivables, trade receivables from related companies and amounts due from joint ventures. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits at 1 January 2018.

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

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

HKFRS 16 Leases

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 ("HKAS 17") and the related interpretations when it becomes effective.

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

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

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

HKFRS 16 Leases *(continued)*

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$51,341,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$756,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets; accordingly, the carrying amount of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies 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, 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* ("HKAS 36").

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

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

- has power over the investee;
- is exposed, or has 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 this 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 intragroup 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 and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

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

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

Business combinations

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

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (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 are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

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

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal or any of the CGU within group of CGUs in which the Group monitors goodwill.

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 joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of 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 the 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 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 the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

The Group continues to use the equity method when an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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 is not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Dividend income from investments is recognised when the 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.

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.

Leasehold land and building

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are 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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants *(continued)*

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.

Short-term employee benefits

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

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

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 30.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions 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 estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimate, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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.

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 sale 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 lives 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

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. Gain and loss 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 relevant 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 CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) 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 CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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).

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 ("FVTPL")) 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 FVTPL are recognised immediately in profit or loss.

Financial assets

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

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in other income or other expenses. Fair value is determined in the manner described in note 36c.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

AFS financial assets (continued)

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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.

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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

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

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 have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors 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.

Estimated allowance of trade receivables

In determining the recoverability of trade receivables, 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.

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 2017, the carrying amount of the Group's trade receivables is approximately HK$1,850,409,000 (2016: HK$1,482,432,000), net of allowance for doubtful debts of approximately HK$13,491,000 (2016: HK$10,423,000).

Impairment assessment of property, plant, and equipment

The Group evaluates whether there is any events or changes 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 estimates the recoverable amount by considering the value in use. The value in use is determined based on the cash flow projection for the CGU of which the asset is belonged to and requires the estimation of key assumptions. As at 31 December 2017, the carrying amount of property, plant and equipment of the Group was approximately HK$6,662,523,000 (2016: HK$5,415,032,000). Details of the movements for property, plant and equipment of the Group are disclosed in note 13. No impairment loss was recognised for the year ended 31 December 2017 (2016: Nil).

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU 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 CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows, a material impairment loss/further impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill was approximately HK$121,736,000 (2016: HK$111,785,000). Details of the recoverable amount calculation are disclosed in note 15.

Estimated provision for inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews the ageing of the inventories to identify slow-moving and obsolete inventories. When the Group identifies an item of inventory which has a net realisable value lower than its carrying amount or is slow-moving or obsolete, the Group would write down inventories in that year. As at 31 December 2017, the carrying amount of inventories was approximately HK$2,900,781,000 (2016: HK$1,933,147,000), net of provision for inventories of approximately HK$7,057,000 (2016: HK$6,592,000).

5. REVENUE AND SEGMENT INFORMATION

	2017	2016
	HK$'000	*HK$'000*
Sale of goods	**15,462,529**	12,369,041

Information reported to the board of directors, being the chief operating decision maker ("CODM"), for the purposes of resource 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 segments.

For the year ended 31 December 2017

	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	11,374,413	1,215,084	1,853,700	1,019,332	15,462,529	—	15,462,529
Inter-segment sales	—	93,437	39,624	8,060	141,121	(141,121)	—
TOTAL REVENUE	11,374,413	1,308,521	1,893,324	1,027,392	15,603,650	(141,121)	15,462,529
SEGMENT PROFIT	2,724,406	45,336	614,164	200,109	3,584,015		3,584,015
Unallocated income							25,148
Unallocated expenses							(127,520)
Operating profit							3,481,643
Finance costs							(26,631)
Share of results of joint ventures							10,277
Profit before tax							3,465,289

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of interest income, finance costs, central administrative expenses and share of results of joint ventures. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities are not regularly provided to the CODM for review.

5. REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment information

For the year ended 31 December 2017

	Finished drugs	Antibiotics	Vitamin C	Caffeine and others	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation and amortisation	**386,749**	**149,415**	**125,209**	**31,177**	**23,975**	**716,525**

For the year ended 31 December 2016

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

Geographical information

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

	2017	2016
	HK$'000	*HK$'000*
The PRC (country of domicile)	**12,340,123**	9,679,224
Other Asian regions	**1,264,272**	1,228,182
Americas	**851,288**	659,305
Europe	**862,902**	654,555
Others	**143,944**	147,775
	15,462,529	12,369,041

The Group's operations are substantially based in the PRC and substantially 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

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans	**25,025**	38,461
Interest on loans from a related company	**1,606**	3,250
	26,631	41,711

7. PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'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	**1,015,460**	810,800
— contribution to retirement benefit schemes	**109,183**	100,533
Total staff costs	**1,124,643**	911,333
Amortisation of other intangible assets	**86,186**	17,796
Amortisation of prepaid lease payments	**17,483**	19,218
Depreciation of property, plant and equipment	**612,856**	550,713
Total depreciation and amortisation	**716,525**	587,727
Auditor's remuneration	**3,640**	3,500
Government grant income *(note 28)*	**(34,353)**	(24,976)
Interest income	**(25,148)**	(13,005)
Loss on disposal of property, plant and equipment (included in other expenses)	**19,947**	20,572
Net foreign exchange loss (gain)	**36,938**	(10,009)
Rental expenses	**38,543**	32,791
Research and development expenditure recognised as an expense (included in other expenses)	**815,258**	403,140

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 2017 and 2016.

8. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current taxation:		
— PRC Enterprise Income Tax ("PRC EIT")	**546,780**	450,233
— PRC withholding tax on dividends distributed by subsidiaries	**59,950**	41,899
— United States of America ("USA") Federal and State Income tax	**14,989**	—
	621,719	492,132
Deferred taxation *(note 27)*	**63,526**	29,975
	685,245	522,107

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 2020.

The Federal and State income tax rate in the USA are calculated at 35% and 5.5%, respectively for the year ended 31 December 2017. The U.S. Tax Cuts and Jobs Act (the "Act") was executed into law on 22 December 2017. The Act includes significant changes to the U.S. corporate income tax system that are effective on 1 January 2018, including a reduction of the U.S. corporate income tax rate from 35% to 21%.

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:

	2017	2016
	HK$'000	*HK$'000*
Profit before tax	**3,465,289**	2,635,332
Tax at the PRC EIT rate of 25% (2016: 25%)	**866,322**	658,833
Tax effect of expenses not deductible for tax purpose	**153,305**	60,084
Tax effect of share of results of joint ventures	**(2,569)**	(6,890)
Utilisation of tax losses previously not recognised	**(136,267)**	—
Tax effect of tax losses not recognised	**3,827**	4,673
Effect of tax relief and concessions granted to the PRC subsidiaries	**(321,743)**	(263,693)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**4,277**	—
PRC withholding tax on dividends distributed by subsidiaries	**118,093**	69,100
Income tax expense for the year	**685,245**	522,107

Details of deferred taxation and unused tax losses are set out in note 27.

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 16 (2016: 16) directors are as follows:

2017

	Executive directors									Non-executive director	Independent non-executive directors						
	Cai Dongchen HK$'000 (Chairman and Chief Executive)	Pan Weidong HK$'000	Wang Huaiyu HK$'000	Lu Jianmin HK$'000 (note ii)	Wang Zhenguo HK$'000	Wang Jinxu HK$'000	Lu Hua HK$'000	Li Chunlei HK$'000 (note iii)	Wang Shunlong HK$'000 (note i)	Chak Kin Man HK$'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	Total HK$'000
Fees	60	60	60	60	60	60	60	—	—	60	350	250	100	120	80	100	1,480
Salaries	4,365	720	498	460	493	706	493	27	—	2,046	—	—	—	—	—	—	9,808
Performance bonuses	8,500	3,868	3,580	—	4,213	2,264	3,588	92	—	2,750	—	—	—	—	—	—	28,855
Contributions to retirement benefit schemes	403	85	67	55	67	85	67	3	—	189	—	—	—	—	—	—	1,021
Total emoluments	13,328	4,733	4,205	575	4,833	3,115	4,208	122	—	5,045	350	250	100	120	80	100	41,164

2016

	Executive directors								Non-executive director	Independent non-executive directors							
	Cai Dongchen HK$'000 (Chairman and Chief Executive)	Pan Weidong HK$'000	Wang Huaiyu HK$'000	Lu Jianmin HK$'000	Wang Zhenguo HK$'000	Wang Jinxu HK$'000	Lu Hua HK$'000	Wang Shunlong HK$'000	Chak Kin Man 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 v)	Total HK$'000
Fees	60	60	60	60	60	60	60	-	60	350	250	100	120	80	100	-	1,480
Salaries	4,365	743	737	737	737	750	737	-	2,046	-	-	-	-	-	-	-	10,852
Performance bonuses	6,500	1,781	1,781	1,781	1,781	1,188	1,188	-	2,500	-	-	-	-	-	-	-	18,500
Contributions to retirement benefit schemes	403	79	61	61	61	79	61	-	189	-	-	-	-	-	-	-	994
Total emoluments	11,328	2,663	2,639	2,639	2,639	2,077	2,046	-	4,795	350	250	100	120	80	100	-	31,826

Notes:

(i) Mr. Wang Shunlong did not offer himself for re-election at the annual general meeting held on 25 May 2017 and accordingly, was not re-elected as executive director.

(ii) Mr. Lu Jianmin resigned as executive director on 5 December 2017.

(iii) Mr. Li Chunlei was appointed as executive director on 12 December 2017.

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

(v) Mr. Chen Shilin resigned as independent non-executive director on 8 January 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 2017 having regard to the performance of the Group, performance and responsibilities of individuals as well as prevailing market practices. No remuneration was paid by the Group to the Directors 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 Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer. 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 director's emoluments and the independent non-executive directors' emoluments shown above were mainly for their services as Directors.

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 market remuneration.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company, or any of its 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 2017 are the 5 (2016: 5) directors and the Chief Executive Officer 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:

	2017	2016
	HK$'000	*HK$'000*
Earnings for the purpose of basic and diluted earnings per share	**2,770,522**	2,100,848

	2017	2016
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,091,481**	5,960,417
Effect of dilutive potential ordinary shares: Share options granted by the Company	**224**	42,275
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**6,091,705**	6,002,692

12. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2016 Final, paid — HK12 cents (2016: 2015 Final, paid — HK11 cents) per share	**726,482**	650,212

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK15 cents (2016: final dividend in respect of the year ended 31 December 2016 of HK12 cents) per ordinary share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings 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 2016	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 31)*	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**
Exchange adjustments	**196,309**	**288,794**	**13,452**	**1,113**	**71,248**	**570,916**
Additions	**59,172**	**178,079**	**21,384**	**4,478**	**1,056,831**	**1,319,944**
Transfers	**272,782**	**438,361**	**22,205**	**—**	**(733,348)**	**—**
Acquisition of subsidiaries and assets *(note 31)*	**43,661**	**29,021**	**1,243**	**228**	**93,792**	**167,945**
Disposals	**(8,842)**	**(141,805)**	**(5,956)**	**(2,010)**	**—**	**(158,613)**
At 31 December 2017	**3,120,046**	**4,644,570**	**218,626**	**28,434**	**1,405,165**	**9,416,841**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2016	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**
Exchange adjustments	**46,940**	**108,512**	**8,126**	**1,332**	**—**	**164,910**
Provided for the year	**152,039**	**436,256**	**22,119**	**2,442**	**—**	**612,856**
Eliminated on disposals	**(4,753)**	**(115,939)**	**(2,694)**	**(1,679)**	**—**	**(125,065)**
At 31 December 2017	**783,205**	**1,823,841**	**126,260**	**21,012**	**—**	**2,754,318**
CARRYING VALUES						
At 31 December 2017	**2,336,841**	**2,820,729**	**92,366**	**7,422**	**1,405,165**	**6,662,523**
At 31 December 2016	1,967,985	2,457,108	67,589	5,708	916,642	5,415,032

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

At 31 December 2017, the aggregate carrying value of buildings in the PRC for which the Group has not been granted formal title amounted to approximately HK$64,639,000 (2016: HK$60,378,000). In the opinion of the Directors, 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 over their estimated useful lives, after taking account their residual value, as follows:

Buildings	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

	2017	2016
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Current asset	**18,263**	16,419
Non-current asset	**573,080**	526,712
	591,343	543,131

15. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1 January 2016	119,388
Exchange adjustments	(7,603)
At 31 December 2016	**111,785**
Exchange adjustments	**8,084**
Arising on acquisition of a subsidiary *(note 31)*	**1,867**
At 31 December 2017	**121,736**

For the purpose of impairment testing, goodwill has been allocated to three individual CGUs. The carrying amounts of goodwill as at 31 December 2017 allocated to these units are as follows:

	2017	2016
	HK$'000	*HK$'000*
OYY Group	**98,293**	91,813
Baike Group	**21,382**	19,972
Gold Faith Group	**2,061**	—
	121,736	111,785

During the years ended 31 December 2017 and 2016, the management of the Group determines that there is no impairment of any of its CGUs containing goodwill.

The recoverable amounts of OYY (as defined in note 40) and its subsidiaries (collectively referred to as "OYY Group"), Baike Yantai (as defined in note 40) and its subsidiaries (collectively referred to as "Baike Group") and Gold Faith (as defined in note 31) and its subsidiaries (collectively referred to as "Gold Faith 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 the management covering a 5-year period. The rates used to discount the projected cash flows of OYY Group, Baike Group and Gold Faith Group are 12%, 15% and 15% (2016: 12%, 15% and N/A) per annum respectively. 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. The management believes that any reasonably possible changes in any of these assumptions would not cause the carrying amounts of OYY Group, Baike Group and Gold Faith Group to exceed the recoverable amount of each unit.

16. OTHER INTANGIBLE ASSETS

	License and patent	Development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2016	92,275	57,093	149,368
Exchange adjustments	(5,877)	(3,924)	(9,801)
Additions	3,586	3,039	6,625
At 31 December 2016	**89,984**	**56,208**	**146,192**
Exchange adjustments	**6,610**	**3,690**	**10,300**
Acquisition of subsidiaries *(note 31)*	**—**	**69,754**	**69,754**
Additions	**34,003**	**1,292**	**35,295**
At 31 December 2017	**130,597**	**130,944**	**261,541**
AMORTISATION AND IMPAIRMENT			
At 1 January 2016	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**
Exchange adjustments	**2,261**	**2,958**	**5,219**
Provided for the year	**9,847**	**76,339**	**86,186**
At 31 December 2017	**41,643**	**116,722**	**158,365**
CARRYING VALUES			
At 31 December 2017	**88,954**	**14,222**	**103,176**
At 31 December 2016	60,449	18,783	79,232

Development costs mainly represent costs internally generated or techniques 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	1 to 10 years

17. INTERESTS IN JOINT VENTURES

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

	2017	2016
	HK$'000	*HK$'000*
Cost of investment in joint ventures	**91,397**	70,157
Share of post-acquisition profits, net of dividends received	**16,707**	14,839
Exchange adjustments	**1,874**	(4,907)
	109,978	80,089

Name of company	**Legal form**	**Place of registration and principal place of business**	**Proportion of ownership interest/voting rights held by the Group**		**Principal activities**
			2017	2016	
Hebei Boao Medical Laboratory Co., Ltd ("Boao")	Limited liability	The PRC	**49%**	—	Provision of pharmaceutical research and development services
Hebei Huarong Pharmaceutical Co., Ltd ("Huarong")	Sino foreign equity joint venture with limited liability	The PRC	**50%**	50%	Manufacture and sale of Vitamin B12 product
Yantai Jiashi Pharmaceutical Technology Co., Ltd ("Yantai Jiashi")	Sino foreign equity joint venture with limited liability	The PRC	**50%**	50%	Provision of pharmaceutical research and development services

The Group established Boao with an independent third party and further injected RMB17,500,000 (approximately HK$20,888,000) to Yantai Jiashi in 2017.

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.

	2017	2016
	HK$'000	*HK$'000*
Current assets	**2,105,452**	328,824
Non-current assets	**275,409**	93,784
Current liabilities	**(2,147,529)**	(247,208)
Non-current liabilities	**(13,362)**	(15,222)

The above amounts of assets and liabilities include the following:

	2017	2016
	HK$'000	*HK$'000*
Cash and cash equivalents	**496,448**	67,581
Current financial liabilities (excluding trade and other payables and provisions)	**(17,493)**	(33,520)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(7,924)**	(9,311)
Revenue	**514,441**	478,695
Profit for the year	**20,554**	55,117
Other comprehensive income (expenses) for the year	**13,561**	(5,546)
Total comprehensive income for the year	**34,115**	49,571
Dividends declared from a joint venture during the year	**8,409**	5,946

17. INTERESTS IN JOINT VENTURES *(continued)*

The above profit for the year includes the following:

	2017 HK$'000	2016 HK$'000
Depreciation and amortisation	**(19,710)**	(20,131)
Interest income	**1,768**	261
Finance costs	**(4,818)**	(2,339)
Income tax expense	**(14,492)**	(12,468)

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

	2017 HK$'000	2016 HK$'000
Net assets of Huarong and Yantai Jiashi	**219,252**	160,178
Proportion of the Group's ownership interests in Huarong and Yantai Jiashi	**50%**	50%
Carrying amount of the Group's interests in Huarong and Yantai Jiashi	**109,626**	80,089

	2017 HK$'000	2016 HK$'000
Net assets of Boao	**718**	—
Proportion of the Group's ownership interests in Boao	**49%**	—
Carrying amount of the Group's interests in Boao	**352**	—

	2017 HK$'000	2016 HK$'000
Carrying amount of the Group's interests in joint ventures	**109,978**	80,089

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	HK$'000	HK$'000
Listed equity investment in Hong Kong, at fair value *(note i)*	**61,266**	—
Unlisted equity investments in partnerships, at cost *(note ii)*	**239,402**	91,732
Unlisted equity investments, at cost *(note iii)*	**16,074**	—
	316,742	91,732

Notes:

(i) The amount represents equity security listed in Hong Kong. The fair value of the investment is determined based on the quoted market bid prices available on the relevant exchange. The Group does not have the intention to sell the investment in the short term.

(ii) Unlisted equity investments in partnerships included two limited partnership enterprises established in 2016 and the limited partnership enterprises interests acquired on 29 May 2017. The limited partnership enterprises (the "Partnership Enterprise(s)") are specialised in making equity investment. The Group has an intention of holding them as long term investments.

According to the Partnership Enterprises agreements, each Partnership Enterprise is managed by its general partner. The Group participates in the Partnership Enterprises as one of the limited partners who does not have power on selection nor removal of assets manager or general partner of the Partnership Enterprises. In addition, the Group does not have any right on making operating, investing and financing decision of the Partnership Enterprises. The Directors are of the opinion that the Group 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 available-for-sale financial assets.

As at 31 December 2017, 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 are of the opinion that their fair value cannot be measured reliably.

(iii) The amount represents investments in unlisted equity interests in entities established in the PRC. The investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates are so significant that the Directors are of the opinion that their fair value cannot be measured reliably.

19. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Raw materials	**671,861**	395,663
Work in progress	**389,036**	229,847
Finished goods	**1,839,884**	1,307,637
	2,900,781	1,933,147

20. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**1,863,900**	1,492,855
Less: Allowance for doubtful debts	**(13,491)**	(10,423)
	1,850,409	1,482,432
Prepayments for purchase of raw materials	**202,499**	150,585
Deposits and prepayments for utilities	**50,733**	51,720
Other tax recoverable	**92,827**	46,891
Others	**137,811**	103,638
	2,334,279	1,835,266

The Group allows a general credit period of 90 days (2016: 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 the invoice dates which approximated the respective revenue recognition dates:

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**1,590,027**	1,357,953
91 to 180 days	**238,594**	114,647
181 to 365 days	**21,788**	9,832
	1,850,409	1,482,432

In determining the recoverability of trade receivables, 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.

Included in the Group's trade receivable balance are debtors with aggregate amount of HK$260,382,000 (2016: HK$124,479,000) 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.

20. TRADE AND OTHER RECEIVABLES *(continued)*

Ageing of trade receivables which are past due but not impaired

	2017	2016
	HK$'000	*HK$'000*
91 to 180 days	**238,594**	114,647
181 to 365 days	**21,788**	9,832
	260,382	124,479

Movements in the allowance for doubtful debts

	2017	2016
	HK$'000	*HK$'000*
Balance at beginning of the year	**10,423**	13,181
Impairment loss recognised	**3,417**	1,972
Reversal of impairment loss	**(797)**	(4,460)
Exchange adjustments	**448**	(270)
Balance at end of the year	**13,491**	10,423

As at 31 December 2017, the Group's trade receivables denominated in United States Dollar ("USD") is approximately HK$380,260,000 (2016: HK$449,193,000).

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 (2016: 180 days) and not yet due at the end of the reporting period, and the management considers the default rate is low based on historical information and experience.

22. STRUCTURED BANK DEPOSITS

As at 31 December 2017, the structured bank deposits of HK$1,315,789,000 (approximately RMB1,100,000,000) were issued by the banks in the PRC.

The structured bank deposits of HK$1,004,780,000 earn guaranteed return ranging from 1.0% to 2.85%, while the total expected return is up to 4.67%, depending on the market price of the underlying commodity price quoted in the market as specified in the relevant deposits placement.

The structured bank deposits of HK$311,009,000 earn no guaranteed return, while the total expected return is up to 5.4%, depending on the performance of the underlying financial investments or the change in the interest rate as specified in the relevant deposits placement.

The structured bank deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives. The management of the Group considers the fair values of the structured bank deposits, which are based on the prices provided by the counterparty banks and represent the prices they would pay to redeem the deposits at the end of the reporting period, approximate to their carrying values.

23. BANK BALANCES/RESTRICTED BANK DEPOSITS

Bank balances and restricted bank deposits, which include term deposits, carry interest at market interest rates, ranging from 0.01% to 4.10% (2016: 0.01% to 1.35%) per annum.

As at 31 December 2017 and 2016, 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 the 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:

	2017	2016
	HK$'000	*HK$'000*
HK$	**780,142**	11,941
USD	**914,404**	307,469

24. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**1,485,365**	1,113,908
Customers' deposits and advance from customers	**909,486**	547,937
Other tax payables	**159,531**	86,518
Freight and utility charges payable	**60,169**	79,299
Construction cost and acquisition of property, plant and equipment payable	**985,234**	678,108
Government grants *(note 28)*	**138,679**	126,114
Staff welfare payable	**188,388**	109,749
Selling expense payable	**443,697**	115,388
Others	**142,834**	80,872
	4,513,383	2,937,893

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

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**1,098,644**	1,008,024
91 to 180 days	**232,799**	45,290
More than 180 days	**153,922**	60,594
	1,485,365	1,113,908

The general credit period on purchases of goods is up to 90 days (2016: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

25. BILLS PAYABLES

All bills payables of the Group are aged within 180 days (2016: 180 days) and not yet due at the end of the reporting period.

26. BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Unsecured		
— floating-rate HK$ bank loans	**—**	277,000
— floating-rate USD bank loans	**—**	93,000
— floating-rate RMB bank loans	**59,809**	726,258
— fixed-rate USD bank loan	**54,712**	—
— fixed-rate RMB bank loans	**863,599**	—
— fixed-rate RMB loans from a related company *(note 38)*	**8,971**	41,899
	987,091	1,138,157
The carrying amounts of the above borrowings are repayable as follows:		
Within one year	**927,282**	897,777
Within a period of more than one year, but not exceeding two years	**59,809**	240,380
	987,091	1,138,157
Less: Amounts due within one year shown under current liabilities	**(927,282)**	(897,777)
Amounts shown under non-current liabilities	**59,809**	240,380

As of 31 December 2017, floating-rate RMB bank loan of HK$59,809,000 (2016: Nil) and fixed-rate USD bank loan of HK$54,712,000 (2016: Nil) were guaranteed by CHL (as defined in note 38).

26. BORROWINGS *(continued)*

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:	**Year ended 31/12/2017**	**Year ended 31/12/2016**
Floating-rate HK$ bank loans	**From 2.02% to 2.81% per annum**	From 2.03% to 2.98% per annum
Floating-rate USD bank loans	**From 2.47% to 2.94% per annum**	From 2.44% to 3.12% per annum
Floating-rate RMB bank loans	**From 3.50% to 5.23% per annum**	From 3.15% to 4.085% per annum
Fixed-rate USD bank loan	**2.90% per annum**	—
Fixed-rate RMB bank loans	**4.35% per annum**	—
Fixed-rate RMB loans from a related company	**4.60% per annum**	4.60% per annum

The floating rates 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.

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

	2017	2016
	HK$'000	*HK$'000*
HK$	**—**	277,000
USD	**54,712**	93,000

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

	2017	2016
	HK$'000	*HK$'000*
Floating-rate HK$ bank loans	**645,000**	103,000
Floating-rate RMB bank loans	**83,732**	138,771
	728,732	241,771

27. DEFERRED TAXATION

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

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**20,721**	27,986
Deferred tax liabilities	**(131,602)**	(68,865)
	(110,881)	(40,879)

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

	Unrealised profits on inventories HK$'000	Property, plant and equipment HK$'000	Prepaid lease payments HK$'000	Other intangible assets HK$'000	Withholding tax on undistributed profits of subsidiaries HK$'000	Total HK$'000
At 1 January 2016	36,456	(11,430)	(1,679)	(9,940)	(21,023)	(7,616)
(Charge) credit to profit or loss	(7,613)	3,937	(369)	1,271	(27,201)	(29,975)
Acquisition of subsidiaries and assets *(note 31)*	—	(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)**
(Charge) credit to profit or loss	**(8,686)**	**1,631**	**418**	**1,254**	**(58,143)**	**(63,526)**
Acquisition of subsidiaries and assets *(note 31)*	**—**	**(333)**	**(1,950)**	**—**	**—**	**(2,283)**
Exchange adjustments	**1,443**	**(488)**	**(557)**	**(525)**	**(4,066)**	**(4,193)**
At 31 December 2017	**19,112**	**(6,685)**	**(8,598)**	**(7,365)**	**(107,345)**	**(110,881)**

At the end of the reporting period, the Group has unused tax losses of approximately HK$81,280,000 (2016: HK$652,130,000) 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 through 2022.

27. DEFERRED TAXATION *(continued)*

The unused tax losses will be expired as follow:

	2017	2016
	HK$'000	*HK$'000*
2017	**—**	141,938
2018	**27,268**	331,449
2019	**7,957**	111,791
2020	**26,168**	62,300
2021	**4,577**	4,652
2022	**15,310**	—
	81,280	652,130

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. The PRC withholding tax is applicable to dividends payable to investors that are the "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 the 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$5,054,129,000 (2016: HK$3,876,285,000) 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.

28. GOVERNMENT GRANTS

	2017 HK$'000	2016 HK$'000
Current (included in other payables in note 24)		
— Acquisition of property, plant and equipment *(note a)*	**9,166**	9,245
— Other subsidies *(note b)*	**129,513**	116,869
	138,679	126,114
Non-current		
— Acquisition of property, plant and equipment *(note a)*	**183,976**	174,964
	322,655	301,078

Notes:

(a) Government grants include cash subsidies received from the 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$10,288,000 (2016: HK$9,030,000).

(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 the grants at the end of the reporting period and the grants are refundable in accordance with the contract terms, amounts are included as payables. During the year, the Group recognised income of approximately HK$24,065,000 (2016: HK$15,946,000).

29. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Issued and fully paid		
At 1 January 2016	5,911,018,403	9,835,299
Exercise of share options	141,500,000	734,321
At 31 December 2016 and 1 January 2017	**6,052,518,403**	**10,569,620**
Exercise of share options *(note a)*	**1,500,000**	**7,784**
Issue of ordinary shares by private placement *(note b)*	**189,000,000**	**2,351,160**
Transaction costs attributable to issue of new shares	**—**	**(6,365)**
At 31 December 2017	**6,243,018,403**	**12,922,199**

29. SHARE CAPITAL *(continued)*

Notes:

(a) In March 2017, the Company issued 1,500,000 (2016: 141,500,000) shares upon exercise of share options by the Directors at an exercise price of HK$3.98 under the 2004 Scheme (as set out in note 30). These new shares ranked pari passu in all respects with other shares in issue.

(b) Pursuant to a placing agreement dated 12 October 2017, a total of 189,000,000 shares of the Company have been successfully placed at the price of HK$12.44 per share of the Company, representing a discount of approximately 6.75% to the closing market price of the Company's ordinary shares on the immediate preceding business day before the completion date. The net proceeds from this placing amounted to HK$2,344,795,000.

These new shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 25 May 2017 and rank pari passu with other shares in issue in all respects.

30. 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 of the Company ("Board"). 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 fully vested 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 1,500,000 (2016: 141,500,000) options, no other share options granted have been exercised, forfeited, granted nor lapsed during 2017 (2016: 1,000,000 options granted have not been exercised and hence forfeited). As at 31 December 2017, the number of share options outstanding is nil (2016: 1,500,000).

In respect of the share options exercised during the year, the weighted average share price at the date on which the share options were exercised was HK$10.04.

30. 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 the 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. 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 of the Company (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 of the Company (excluding the independent non-executive director of the Company who is the grantee). Where the granting of options to a participant who is an independent non-executive director of the Company or a substantial shareholder of the Company 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 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 to each grantee and such period shall expire not later than 10 years from the date of grant of options. No share options have been granted under 2015 Scheme since its adoption.

31. ACQUISITION OF SUBSIDIARIES AND ASSETS

For the year ended 31 December 2017

(a) Business combinations

During the year ended 31 December 2017, the following business acquisitions took place:

(i) On 3 January 2017, the Group entered into an agreement to acquire 100% equity interest in Cenway Pharmaceutical (Inner Mongolia) Co. Ltd. ("Cenway") from an independent third party for a cash consideration of RMB68,000,000 (equivalent to approximately HK$75,978,000). The acquisition was completed on 12 January 2017 and the name of Cenway was changed to CSPC Neimenggu Zhongnuo Pharmaceutical Co. Ltd. ("NMG Zhongnuo") on the same date. NMG Zhongnuo is engaged in the manufacture and sales of pharmaceutical products and was acquired to strengthen the Group's production capability; and

(ii) On 23 January 2017, the Group entered into an agreement to acquire 100% equity interest in Gold Faith Investments Limited ("Gold Faith") and its subsidiaries, Rockley Inc. ("Rockley") and Hebei Union Pharmaceutical Co., Ltd ("Union") (hereafter collectively referred to as the "Gold Faith Group"), from an independent third party for a cash consideration of RMB72,710,000 (equivalent to approximately HK$82,167,000). Gold Faith holds 100% equity interest in Rockley and Rockley holds 90% equity interest in Union. The acquisition was completed on 23 January 2017. Gold Faith Group is engaged in the manufacture and sales of pharmaceutical products and was acquired to strengthen the Group's product portfolio.

All the above acquisitions have been accounted for using the acquisition method of accounting.

Assets acquired and liabilities recognised at the dates of acquisitions

	NMG Zhongnuo *HK$'000*	Gold Faith Group *HK$'000*	Total *HK$'000*
Non-current assets			
Property, plant and equipment	130,206	25,888	156,094
Prepaid lease payments	—	19,164	19,164
Intangible assets	—	9	9
Available-for-sale investments	—	126	126
Current assets			
Inventories	7,692	16,947	24,639
Trade and other receivables	74,299	20,111	94,410
Bills receivables	5,403	4,076	9,479
Prepaid lease payments	—	512	512
Bank balances and cash	986	25,705	26,691
Current liabilities			
Trade and other payables *(note)*	(142,608)	(21,025)	(163,633)
Tax liabilities	—	(3)	(3)
Non-current liability			
Deferred tax liabilities	—	(2,283)	(2,283)
	75,978	89,227	165,205

Note: Included in trade and other payables was an amount of approximately HK$7,752,000 due to the Group.

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

For the year ended 31 December 2017 *(continued)*

(a) *Business combinations* *(continued)*

Assets acquired and liabilities recognised at the dates of acquisitions (continued)

The fair values of trade and other receivables of the acquired entities at the date of acquisition amounted to approximately HK$94,410,000, which represented the gross contractual amounts at the date of acquisition.

Goodwill arising from acquisition

	NMG Zhongnuo	Gold Faith Group	Total
	HK$'000	*HK$'000*	*HK$'000*
Consideration transferred	75,978	82,167	158,145
Plus: Non-controlling interests	—	8,927	8,927
Less: Recognised amount of identifiable net assets acquired	(75,978)	(89,227)	(165,205)
Goodwill arising on acquisition	—	1,867	1,867

Goodwill arose in the acquisition of Gold Faith Group because of the expected synergies, revenue growth, future market development and the assembled workforce of Gold Faith Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

Non-controlling interests

The non-controlling interests in Gold Faith Group 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 Union and amounted to approximately HK$8,927,000.

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

For the year ended 31 December 2017 *(continued)*

(a) Business combinations *(continued)*

Net cash outflow on acquisition of subsidiaries

	NMG Zhongnuo	Gold Faith Group	Total
	HK$'000	*HK$'000*	*HK$'000*
Cash consideration paid	75,978	82,167	158,145
Bank balances and cash acquired	(986)	(25,705)	(26,691)
Net cash outflow	74,992	56,462	131,454

All acquired entities did not have any significant contribution to the Group's revenue or results for the year ended 31 December 2017. Had the acquisitions of the above entities been completed on 1 January 2017, total amount of the Group's revenue for the year would have been approximately HK$15,466,006,000 and the profit for the year would have been approximately HK$2,781,006,000. 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 acquisitions been completed on 1 January 2017, nor is it intended to be a projection of future results.

(b) Assets acquisitions

During the year ended 31 December 2017, the following assets acquisitions took place as they did not operate any business prior to the date of acquisitions, and have been accounted for as acquisitions of assets.

(i) On 3 March 2017, the Group entered into an agreement to acquire 100% equity interest in Hebei Shiwei Pharmaceutical Trading Co., Ltd. ("Hebei Shiwei") from China Charmaine Pharmaceutical Company Limited, which is a wholly-owned subsidiary of CHL for a cash consideration of RMB200,030,689 (equivalent to approximately HK$225,259,000). The acquisition was completed on 20 March 2017 and the name of Hebei Shiwei was changed to Shijiazhuang Ouyihe Medical Trading Co., Ltd. ("Ouyihe") on the same date. The acquisition enabled the Group to commence its wholesales business for a new line of pharmaceutical products immediately after completion of the acquisition and to save time for applying the pharmaceutical operation permit; and

(ii) On 9 May 2017, the Group entered into an agreement to acquire 100% equity interest in CSPC Dophen Corporation ("Dophen") from CHL for a consideration of USD9,700,000 (equivalent to approximately HK$75,314,000). The acquisition was completed on 9 May 2017. Dophen is principally engaged in research and development of pharmaceutical products. The acquisition will be able to strengthen the Group's research and development capability of biopharmaceuticals and supplement its product pipeline.

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

For the year ended 31 December 2017 *(continued)*

(b) Assets acquisitions *(continued)*

Assets acquired and liabilities recognised at the dates of acquisitions

	Ouyihe	Dophen	Total
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	4	11,847	11,851
Intangible assets	—	69,745	69,745
Current assets			
Other receivables *(note)*	181,282	—	181,282
Bank balances and cash	44,870	7,304	52,174
Current liability			
Other payables	(897)	(13,582)	(14,479)
	225,259	75,314	300,573
Net cash outflow on acquisition of assets			
Cash consideration paid	225,259	75,314	300,573
Bank balances and cash acquired	(44,870)	(7,304)	(52,174)
Net cash outflow	180,389	68,010	248,399

Note: Included other receivables was solely an amount of approximately HK$181,208,000 due from the Group.

For the year ended 31 December 2016

(a) Business combination

During the year ended 31 December 2016, the following business acquisition took place:

In April 2016, the Group entered into agreements with CHL to acquire 93.18% equity interest in CSPC Shengxue Glucose Co., Ltd ("Shengxue") for a cash consideration of RMB36,440,000 (equivalent to approximately HK$42,620,000).

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.

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

For the year ended 31 December 2016 *(continued)*

(a) ***Business combination*** *(continued)*

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 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

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.

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

For the year ended 31 December 2016 *(continued)*

(a) Business combination *(continued)*

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
Bank balances and cash acquired	(17,050)
Net cash outflow	25,570

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.

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

For the year ended 31 December 2016 *(continued)*

(b) Assets acquisition

During the year ended 31 December 2016, the following assets acquisition took place as they did not operate any business prior to the date of acquisition, and have been accounted for as acquisition of assets.

In August 2016, the Group entered into agreements with CHL to acquire 60% equity interest in Hebei Jialing Pharmaceutical Limited ("Jialing") for a cash consideration of RMB3,000,000 (equivalent to approximately HK$3,484,000).

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.

Net cash outflow on acquisition of Jialing

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

32. 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) 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 liability	
Other payables	(14)
	34,817

Gain on disposal of a subsidiary

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

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 other receivables.

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

33. OPERATING LEASE COMMITMENTS

The Group as lessee

	2017	2016
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year	**38,543**	32,791

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

	2017	2016
	HK$'000	*HK$'000*
Within one year	**30,580**	27,841
In the second to fifth years inclusive	**17,898**	40,801
Over five years	**2,863**	3,303
	51,341	71,945

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 term of four years.

34. CAPITAL AND OTHER COMMITMENTS

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

	2017	2016
	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	**1,280,940**	643,254
Other commitments arising from unlisted equity investments in partnerships	**404,822**	—
Other commitments arising from research and development projects	**131,388**	132,782

35. 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 26 and amounts due to related companies in note 38, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

The Directors 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.

36. FINANCIAL INSTRUMENTS

36a. Categories of financial instruments

	2017	2016
	HK$'000	*HK$'000*
Financial assets		
FVTPL		
— held for trading investments	**732**	521
— structured bank deposits	**1,315,789**	—
Loans and receivables (including cash and cash equivalents)	**8,915,289**	6,124,697
Available-for-sale investments	**316,742**	91,732
Financial liabilities		
Amortised cost	**4,212,606**	3,370,684

36b. 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, structured bank deposits, restricted bank deposits, bank balances and cash, trade and other payables, bills payables, 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.

36. FINANCIAL INSTRUMENTS *(continued)*

36b. Financial risk management objectives and policies *(continued)*

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 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, the 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	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**20,342**	277,000	**841,408**	11,941
USD	**54,712**	93,000	**1,425,184**	756,662

Sensitivity analysis

The Group is mainly exposed to HK$ and USD.

The following table details the sensitivity of the Group to a 5% (2016: 5%) increase and decrease in RMB against HK$ and USD. 5% (2016: 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% (2016: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% (2016: 5%) against the relevant currency. For a 5% (2016: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and the balances would be negative.

36. FINANCIAL INSTRUMENTS *(continued)*

36b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis *(continued)*

	HK$ Impact (i)		USD Impact (ii)	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Post-tax profit	**(32,843)**	10,602	**(54,819)**	(26,546)

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

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

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk primarily in relation to the fixed-rate borrowings (see note 26 for details of these loans), which were raised from banks in the PRC.

The Group is also exposed to cash flow interest rate risk in relation to the floating-rate bank borrowings (see note 26 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 consider the Group's exposure is not significant as the bank deposit interest rates have no material fluctuation during the year.

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 was mainly concentrated on the fluctuation of benchmark interest rate of the PRC arising from the Group's RMB loans.

The interest rate risk on the structured bank deposits is limited because the maturity period of these deposits is short.

36. FINANCIAL INSTRUMENTS *(continued)*

36b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk (continued)

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 (2016: 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 2017, 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$239,000 (2016: HK$4,385,000).

(iii) Other price risk

The Group is exposed to equity price risk through its investments in the listed equity securities. The Group's equity price risk is mainly concentrated on the equity instrument quoted in the Stock Exchange.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective equity instruments had been 5% (2016: 5%) higher/lower:

- post-tax profit for the year ended 31 December 2017 would increase/decrease by HK$29,000 (2016: increase/decrease by HK$21,000) as a result of the changes in fair value of held for trading investments; and

- investments revaluation reserve would increase/decrease by HK$3,063,000 (2016:Nil) for the Group as a result of the changes in fair value of the listed equity investment in available-for-sale investments.

36. FINANCIAL INSTRUMENTS *(continued)*

36b. Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2017, 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 consider that the Group's credit risk is significantly reduced.

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, structured bank deposits, 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 high credit ratings.

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 2017, the Group has available unutilised bank loan facilities of HK$728,732,000 (2016: HK$241,771,000). Details of which are set out in note 26.

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.

36. FINANCIAL INSTRUMENTS *(continued)*

36b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

As at 31 December 2017

	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$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities							
Trade and other payables	—	2,380,539	732,429	—	—	3,112,968	3,112,968
Bills payables	—	—	—	59,809	—	59,809	59,809
Amounts due to related companies	—	43,419	—	—	—	43,419	43,419
Trade payable due to a joint venture	—	9,319	—	—	—	9,319	9,319
Borrowings							
— floating-rate	4.10	—	—	—	62,261	62,261	59,809
— fixed-rate	4.27	—	—	966,847	—	966,847	927,282
		2,433,277	732,429	1,026,656	62,261	4,254,623	4,212,606

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$'000*	Carrying amount *HK$'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

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

36. FINANCIAL INSTRUMENTS *(continued)*

36c. Fair value measurement of financial instruments

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

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2017 *HK$'000*	31 December 2016 *HK$'000*				
Held for trading comprised of equity securities listed in the PRC	**732**	521	Level 1	Quoted bid prices in an active market	N/A	N/A
Listed equity investment in Hong Kong	**61,266**	Nil	Level 1	Quoted bid prices in an active market	N/A	N/A
Structured bank deposits	**1,315,789**	Nil	Level 3	Discounted cash flows — future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risks of various counterparties	Estimated return	The higher the estimated return, the higher the fair value, vice versa.

There were no transfer between Level 1 and 2 of the fair value hierarchy for both years.

36. FINANCIAL INSTRUMENTS *(continued)*

36c. Fair value measurement of financial instruments *(continued)*

(ii) Reconciliation of Level 3 Measurements

The following table represents the reconciliation of Level 3 measurement of the structured bank deposits for the year:

	HK$'000
At 1 January 2017	—
Purchase of structured bank deposits	**1,315,789**
At 31 December 2017	**1,315,789**

(iii) Fair value of financial instruments that are recorded at amortised cost

The Directors 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.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Borrowings	**Amounts due to related companies**	**Dividend payable**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note 26)	*(note 38)*	*(note 12)*	
At 1 January 2017	**1,138,157**	**657**	—	**1,138,814**
Financing cash flows	**(193,138)**	**223,819**	**(726,482)**	**(695,801)**
Acquisition of subsidiaries	—	**(181,208)**	—	**(181,208)**
Dividend declared	—	—	**726,482**	**726,482**
Foreign exchange translation	**42,072**	**151**	—	**42,223**
At 31 December 2017	**987,091**	**43,419**	—	**1,030,510**

38. RELATED PARTY DISCLOSURES

Other than those transactions with related parties as disclosed in the consolidated statement of changes in equity and note 31, during the year the Group also had significant transactions and balances with related parties as follows:

(i) Related companies

Name of company	Nature of transactions/balances	2017 HK$'000	2016 HK$'000
CSPC Holdings Company Limited ("CHL") *(note f)*, and its subsidiaries and associates (the "CHL Group")	Purchase of pharmaceutical products	**3,590**	110,909
	Sale of pharmaceutical products	**420,803**	371,452
	Rental expense	**23,118**	19,173
	Interest on other loans	**1,606**	3,250
	Purchase of steam	**23,009**	14,302
	Provision of utility service from the Group	**2,599**	—
	Warehouse service income	**7,945**	6,150
	Balance due from/to the CHL Group		
	— trade receivables *(note b)*		
	— aged 0-90 days	**64,147**	61,530
	— aged 90-180 days	**5,389**	12,040
		69,536	73,570
	— other payables	**43,419**	657
	— borrowings *(note c)*		
	— current	**8,971**	33,519
	— non-current	**—**	8,380
		8,971	41,899
	Guarantees provided to banks to secure general banking facilities granted to the Group *(note d)*	**198,253**	—

38. RELATED PARTY DISCLOSURES *(continued)*

(ii) Joint ventures

Name of company	Nature of transactions/balances	2017	2016
		HK$'000	*HK$'000*
Huarong	Purchase of raw materials	**60,346**	9,328
	Provision of utility services by the Group	**96,373**	110,620
	Sales of raw materials	**185,534**	174,523
	Balance due from Huarong — other receivable *(note a)*	**74,834**	72,187
	— trade payable *(note e)* aged 0-90 days	**9,319**	—
Yantai Jiashi	Interest income	**8,602**	—
	Balance due from Yantai Jiashi — other receivable *(note a)*	**201,996**	43,799

Notes:

a. Amounts are unsecured, non-interest bearing and repayable on demand, except for a loan of approximately HK$155,502,000 due to the Group by Yantai Jiashi as at 31 December 2017 which is unsecured, interest-bearing at a fixed rate of 6% per annum and repayable on demand.

b. The Group allows a general credit period of 90 days (2016: 90 days) for the sale.

c. The Group obtained loans from a related company which are unsecured, bear interest at 4.6% per annum and repayable within 1 to 3 years. The Group repaid part of the loans in the current year of approximately HK$32,928,000 (2016: HK$35,088,000).

d. In June and July 2017, CHL entered into guarantee agreements with banks to secure the general banking facilities granted to the Group which consist of two loans, amounting to USD7,000,000 and RMB120,000,000 respectively.

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

f. Mr. Cai Dongchen, the Chairman and Chief Executive Officer of the Company, has significance influence over the Company and exercises control over CHL through a series of controlled corporations. Accordingly, CHL and its subsidiaries and associates are related parties of the Group.

38. RELATED PARTY DISCLOSURES *(continued)*

(iii) Compensation of key management personnel

The details of the compensation paid to key management personnel are set out in note 9.

39. 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 arrangements above were HK$109,183,000 (2016: HK$100,533,000), of which HK$906,000 (2016: HK$888,000) was attributable to the Mandatory Provident Fund Scheme in Hong Kong.

40. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	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 %		
				2017	2016	**2017**	2016	
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

40. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	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 Directly % 2017	Directly % 2016	Indirectly % 2017	Indirectly % 2016	Principal activity
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
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 sales of pharmaceutical products
CSPC NBP Pharmaceutical Co., Ltd. ("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

40. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	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		
				%		%		
				2017	2016	**2017**	2016	
CSPC Ouyi Pharmaceutical Import and Export Trade Co., Ltd.	The PRC	Limited liability	RMB100,000	**–**	–	**100**	100	Trading of pharmaceutical products
CSPC Innovation Pharmaceutical Co., Ltd. ("XNW") *(note a)*	The PRC	Limited liability	RMB150,000,000	**–**	–	**100**	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) Biogharmaceutica 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 products
Conjupro Bioerapecitics Inc.	The USA	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
Shengxue	The PRC	Foreign investment enterprise with limited liability	RMB26,191,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
Jialing	The PRC	Limited liability	RMB5,000,000	**–**	–	**60**	60	Sales of pharmaceutical products
Hebei Zhongnuo GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB43,546,100	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Taizhou GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB5,000,000	**–**	–	**100**	100	Sales of pharmaceutical products
Shijiazhuang Enpu Anti-oncology Investment Limited	The PRC	Limited liability	RMB50,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Healthcare Limited	The USA	Limited liability	USD500,000	**–**	–	**100**	100	Sales of pharmaceutical products

40. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	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 %		
				2017	2016	**2017**	2016	
CSPC Zhongnuo Pharmaceutical (Tianjin) Limited	The PRC	Foreign investment enterprise with limited liability	RMB160,000,000	**–**	–	**100**	100	Manufacture and sales of pharmaceutical products
CSPC Huanglu Medical Equipment (Taizhou) Limited	The PRC	Limited liability	RMB2,000,000	**–**	–	**100**	100	Sales of pharmaceutical equipments
CSPC Hebei Meiwei Modernised Chinese Medicine Co., Ltd	The PRC	Limited liability	RMB50,000,000	**–**	–	**100**	100	Sales of pharmaceutical products
Acquired during the year								
NMG Zhongnuo	The PRC	Limited Liability	RMB66,867,900	**–**	–	**100**	–	Manufacture and sales of pharmaceutical products
Gold Faith	Samoa	Limited Liability	HKD311,758	**–**	–	**100**	–	Investment holding
Rockley	Samoa	Limited Liability	USD1	**–**	–	**100**	–	Investment holding
Union *(note b)*	The PRC	Limited Liability	RMB25,480,000	**–**	–	**100**	–	Manufacture and sales of pharmaceutical products
Ouyihe	The PRC	Limited Liability	RMB200,000,000	**–**	–	**100**	–	Sales of pharmaceutical products
Dophen	The USA	Limited Liability	USD9,849,745	**–**	–	**100**	–	Research and development in pharmaceutical products
Established during the year								
Megalith Pharmaceuticals Inc.	The USA	Limited liability	USD1,000	**–**	–	**100**	–	Research and development in pharmaceutical products
AlaMab Therapeutics, Inc.	The USA	Limited liability	USD4,650,000	**–**	–	**100**	–	Manufacture and sales of pharmaceutical products
Shijiazhuang Zhongrun Pharmaceutical Technology Limited	The PRC	Limited liability	RMB227,744,400	**–**	–	**100**	–	Manufacture and sales of pharmaceutical products

40. PARTICULARS OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	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 Directly % 2017	2016	Indirectly % 2017	2016	Principal activity
Established during the year								
Xinshi Biopharmaceutical Limited	The PRC	Limited Liability	RMB13,280,000	**–**	–	**100**	–	Research and development in pharmaceutical products
Novarock Biotherapentic Limited	The USA	Limited Liability	USD1,000	**–**	–	**100**	–	Research and development in pharmaceutical products
Loyang Zhongchen Pharmaceutical Limited	The PRC	Limited liability	RMB2,000,000	**–**	–	**100**	–	Storage, sourcing and distribution
Shanghai Qianzhong Trade Co., Ltd	The PRC	Limited liability	RMB5,000,000	**–**	–	**100**	–	Inactive

Notes:

(a) During the year, the Group acquired the remaining 1.31% interest in XNW not previously owned for a cash consideration of RMB9,400,000 and XNW becomes a wholly-owned subsidiary of the Group since then. The proportionate share of the carrying amount of the net assets of XNW has been transferred from non-controlling interests. The difference between the decrease in the non-controlling interests and the consideration paid has been debited to accumulated profits.

(b) Following the initial acquisition of 90% of the interest in Union in January 2017, the Group further acquired the remaining 10% interest in Union not previously owned for a cash consideration of RMB8,080,000 later in the year and Union became a wholly-owned subsidiary of the Group since then. The proportionate share of the carrying amount of the net assets of Union has been transferred from non-controlling interests. The difference between the decrease in the non-controlling interests and the consideration paid has been debited to accumulated profits.

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.

41. EVENT AFTER THE REPORTING PERIOD

On 9 January 2018, NBP, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement and a capital increase agreement with independent third parties to acquire an aggregate of 39.56% of Wuhan YZY Biopharma Co., Ltd. ("YZY Biopharma") for a total consideration of up to RMB356,000,000 depending on the achievement of certain milestone events in relation to two biospecific antibodies of YZY Biopharma. Details of the acquisition are set out in the Company's announcement dated 9 January 2018.

42. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current assets		
Property, plant and equipment	847	1,109
Investments in subsidiaries	10,219,943	9,994,683
Available-for-sale investment	61,266	—
Amount due from a subsidiary	359,643	359,643
	10,641,699	10,355,435
Current assets		
Other receivables	5,980	3,384
Amounts due from subsidiaries	2,287,730	1,993,910
Bank balances and cash	1,577,049	10,739
	3,870,759	2,008,033
Current liabilities		
Other payables	44,430	25,055
Amount due to a subsidiary	521,161	440,195
Amount due to a related company	20,350	—
Tax liabilities	42,938	54,276
Unsecured bank loans	—	283,251
	628,879	802,777
Net current assets	3,241,880	1,205,256
Total assets less current liabilities	13,883,579	11,560,691
Non-current liability		
Unsecured bank loans	—	232,000
Net assets	13,883,579	11,328,691
Capital and reserves		
Share capital	12,922,199	10,569,620
Reserves	961,380	759,071
Total equity	13,883,579	11,328,691

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 19 March 2018 and are signed on behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

42. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Movement in the Company's reserves

	Other reserve	Investments valuation reserve	Share options reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	835	—	174,175	694,495	869,505
Profit and total comprehensive income for the year	—	—	—	710,929	710,929
Dividend recognised as distribution	—	—	—	(650,212)	(650,212)
Exercise of share options	—	—	(171,151)	—	(171,151)
Forfeiture of share options	—	—	(1,210)	1,210	—
At 31 December 2016 and 1 January 2017	**835**	**—**	**1,814**	**756,422**	**759,071**
Profit and total comprehensive income for the year	**—**	**3,177**	**—**	**927,428**	**930,605**
Dividend recognised as distribution	**—**	**—**	**—**	**(726,482)**	**(726,482)**
Exercise of share options	**—**	**—**	**(1,814)**	**—**	**(1,814)**
At 31 December 2017	**835**	**3,177**	**—**	**957,368**	**961,380**

Financial Summary

	For the year ended 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Results					
Revenue	9,949,103	10,955,077	11,393,726	12,369,041	**15,462,529**
Cost of sales	(6,816,042)	(6,767,724)	(6,172,848)	(6,060,232)	**(6,116,561)**
Gross profit	3,133,061	4,187,353	5,220,878	6,308,809	**9,345,968**
Other income	211,402	134,558	86,561	106,970	**120,478**
Selling and distribution expenses	(1,300,739)	(1,788,032)	(2,266,958)	(2,788,160)	**(4,374,637)**
Administrative expenses	(620,291)	(551,697)	(534,881)	(553,694)	**(682,011)**
Other expenses	(243,455)	(307,814)	(339,147)	(424,441)	**(928,155)**
Operating profit	1,179,978	1,674,368	2,166,453	2,649,484	**3,481,643**
Finance costs	(72,537)	(54,358)	(56,335)	(41,711)	**(26,631)**
Share of results of					
— an associate	—	375	141	—	**—**
— a joint venture	(14,045)	588	10,663	27,559	**10,277**
Loss on disposal of an associate	—	—	(8,873)	—	**—**
Gain on disposal of subsidiaries	154,228	511	—	—	**—**
Profit before tax	1,247,624	1,621,484	2,112,049	2,635,332	**3,465,289**
Income tax expense	(258,324)	(337,153)	(432,423)	(522,107)	**(685,245)**
Profit for the year	989,300	1,284,331	1,679,626	2,113,225	**2,780,044**
Profit for the year attributable to:					
Owners of the Company	972,751	1,268,446	1,665,271	2,100,848	**2,770,522**
Non-controlling interests	16,549	15,885	14,355	12,377	**9,522**
	989,300	1,284,331	1,679,626	2,113,225	**2,780,044**
	HK cents	*HK cents*	*HK cents*	*HK cents*	***HK cents***
Earnings per share					
Basic	17.49	21.47	28.18	35.25	**45.48**
Diluted	16.54	21.26	27.95	35.00	**45.48**

Financial Summary

	As at 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Assets and liabilities					
Total assets	12,200,547	12,501,230	13,539,851	14,760,186	**21,542,680**
Total liabilities	(4,603,747)	(4,349,702)	(4,727,244)	(4,568,864)	**(6,135,284)**
Net assets	7,596,800	8,151,528	8,812,607	10,191,322	**15,407,396**
Equity attributable to owners of the Company	7,452,620	8,079,154	8,738,055	10,107,626	**15,322,373**
Non-controlling interests	144,180	72,374	74,552	83,696	**85,023**
Total equity	7,596,800	8,151,528	8,812,607	10,191,322	**15,407,396**