CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)
(Stock Code: 867)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

The board of Directors (the "Board") of China Medical System Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2017 (the "Reporting Period").

Financial Highlights

- Turnover up 9.1% to RMB5,348.8 million (2016: RMB4,900.8 million); excluding the effect of the "two-invoice system", turnover up 21.2% to RMB5,578.6 million (2016: RMB4,603.1 million)
- Gross profit up 19.5% to RMB3,478.3 million (2016: RMB2,911.9 million); excluding the effect of the "two-invoice system", gross profit up 19.1% to RMB3,272.2 million (2016: RMB2,746.3 million)
- Profit for the year up 21.2% to RMB1,669.9 million (2016: RMB1,377.9 million)
- Basic earnings per share up 21.7% to RMB0.6734 (2016: RMB0.5532)
- As at 31 December 2017, the Group's bank balances and cash amounted to RMB855.6 million while readily realizable bank acceptance bills amounted to RMB349.6 million
- Proposed final dividend of RMB0.1393 per share, bringing the total dividend for the year ended 31 December 2017 to RMB0.2686 per share, representing an increase of 21.2% from last year (2016: final dividend of RMB0.1164 and total dividend of RMB0.2216 per share respectively)

**For Identification Only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
Turnover	3	5,348,838	4,900,812
Cost of goods sold		(1,870,537)	(1,988,911)
Gross profit		3,478,301	2,911,901
Other gains and losses	4	(61,216)	(22,078)
Selling expenses		(1,382,150)	(1,173,760)
Administrative expenses		(221,974)	(221,714)
Finance costs	5	(82,250)	(42,520)
Share of results of associates		77,722	48,612
Profit before tax		1,808,433	1,500,441
Income tax expense	6	(138,494)	(122,524)
Profit for the year	7	1,669,939	1,377,917
Other comprehensive (expense) income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive (expense) income of associates		(5,157)	315
Fair value loss on available-for-sale investments		(3,271)	-
Change in fair value on cash flow hedges			
- fair value gain		12,023	-
- deferred tax relating to change in fair value		(1,984)	-
Other comprehensive income for the year, net of income tax		1,611	315
Total comprehensive income for the year		1,671,550	1,378,232
Profit (loss) for the year attributable to:			
Owners of the Company		1,674,807	1,375,936
Non-controlling interests		(4,868)	1,981
		1,669,939	1,377,917
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		1,676,418	1,376,251
Non-controlling interests		(4,868)	1,981
		1,671,550	1,378,232
		RMB	RMB
Earnings per share	9		
Basic		0.6734	0.5532

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment		479,080	361,724
Prepaid lease payments		58,868	60,541
Interests in associates		2,412,387	1,363,361
Intangible assets		2,720,326	2,885,597
Goodwill		1,384,535	1,384,535
Available-for-sale investments		23,020	-
Deposits paid for acquisition of property, plant and equipment and intangible assets		72,142	143,413
Interest-bearing and secured loan receivable		-	10,960
Derivative financial instruments		12,023	-
Deferred tax assets	14	26,882	30,544
		7,189,263	6,240,675
Current assets			
Inventories		460,401	509,004
Trade and other receivables	10	1,487,392	1,682,420
Tax recoverable		5,135	14,240
Amount due from an associate		151,023	862,803
Bank balances and cash	11	855,629	482,451
		2,959,580	3,550,918
Current liabilities			
Trade and other payables	12	506,826	579,122
Bank borrowings	13	65,000	1,612,398
Deferred consideration payables		8,802	1,096,424
Tax payable		77,516	108,223
		658,144	3,396,167
Net current assets		2,301,436	154,751
Total assets less current liabilities		9,490,699	6,395,426
Capital and reserves			
Share capital	15	85,200	85,200
Reserves		7,189,483	6,124,182
Equity attributable to owners of the Company		7,274,683	6,209,382
Non-controlling interests		53,574	58,442
		7,328,257	6,267,824

	NOTES	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Deferred tax liabilities	14	104,498	105,563
Deferred consideration payables		17,896	22,039
Bank borrowings	13	2,040,048	-
		2,162,442	127,602
		9,490,699	6,395,426

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by The Stock Exchange of Hong Kong Limited ("SEHK") on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 6F - 8F, Block B, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are production of medicines, marketing, promotion and sale of drugs.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014 - 2016 Cycle

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

Amendments to IAS 7 *Disclosure Initiative*

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

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

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendements[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014 - 2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 9 *Financial Instruments*

IFRS 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 IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 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 IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 9 *Financial Instruments* - continued

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

Classification and measurement:

Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 19: these securities qualified for designation as measured at FVTOCI under IFRS 9, however, the fair value loss accumulated in the investments revaluation reserve amounting to approximately RMB3,271,000 as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 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.

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

Impairment

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

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would not be materially increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade and other receivables and amount due from an associate. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

Hedge accounting

As the new hedge accounting requirements will align more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9. Accordingly, the directors of the Company anticipate that the application of the new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 15 *Revenue from Contracts with Customers*

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

The core principle of IFRS 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 IFRS 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 IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

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

IFRS 16 *Leases*

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

IFRS 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 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 lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 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, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 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 IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately RMB15,538,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 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 approximately RMB1,130,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts 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.

Except as described above, the directors of the Company do not anticipate that the application of other new and revised IFRSs will have material impact on the Group's consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amount received and receivable for goods sold and services provided during the year.

An analysis of the Group's turnover for the year is as follows:

	2017 RMB'000	2016 RMB'000
Sales of goods	4,798,270	4,508,769
Promotion income	550,568	392,043
	5,348,838	4,900,812

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker, the executive directors of the Company that are used for resources allocation and assessment of segment performance.

The Group only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products. No operating results and discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group primarily operates in the PRC. All revenue from external customers is attributed to the PRC. 99% (2016: 99%) of non-current assets excluding available-for-sale ("AFS") investments, derivative financial instruments, interest-bearing and secured loan receivable and deferred tax assets of the Group are located in the PRC.

No single customer contributes over 10% of the total sales of the Group for both years.

4. OTHER GAINS AND LOSSES

	2017 RMB'000	2016 RMB'000
Interest income	17,654	20,005
Government subsidies (Note a)	26,499	25,330
Loss on disposal of property, plant and equipment	(21)	(314)
Net foreign exchange loss	(101,475)	(50,776)
Impairment loss on intangible assets	-	(20,000)
Others	(3,873)	3,677
	(61,216)	(22,078)

Note:

(a) The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to encourage business operation in the PRC. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

5. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings	79,524	39,040
Imputed interest on deferred consideration payables	2,726	3,480
	82,250	42,520

6. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax:		
PRC Enterprise Income Tax	134,328	127,831
Hong Kong Profits Tax	3,208	3,258
Malaysia Corporate Income Tax	37	39
	137,573	131,128
Underprovision in prior years:		
PRC Enterprise Income Tax	95	-
Hong Kong Profits Tax	213	87
	308	87
Deferred taxation (Note 14):		
- Current year	613	(8,691)
	138,494	122,524

The provision for the PRC Enterprise Income Tax is based on the estimated taxable income for the PRC taxation purposes at the rate of taxation applicable for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for those described below.

Starting from 1 January 2009, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% granted by the local tax authority until 7 December 2018. Starting from 15 October 2014, 康哲(湖南)制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% granted by local tax authority until 4 September 2020. Starting from 1 January 2015, 西藏康哲醫藥科技有限公司 (Tibet Kangzhe Pharmaceutical Technology Co., Ltd.) ("Tibet Kangzhe Technoloy") and 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") are entitled to a reduced tax rate of 9% granted by local tax authority until 31 December 2017.

Pursuant to the EIT Law, enterprises engaged in prescribed agriculture projects are exempted from EIT. In 2016 and 2017, 湖南康哲農牧業發展有限公司 (Hunan Kangzhe Agricultural Development Co., Ltd.) ("Kangzhe Agricultural") is eligible for such tax concession.

6. INCOME TAX EXPENSE - continued

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharma Co., Ltd ("CMS Pharma") (formerly known as CMS Pharmaceutical Agency Co., Ltd.) is eligible to elect to pay a lump sum taxation charge of Malaysian ringgit ("MYR") 20,000 or 3% on net audited profits. For the years ended 31 December 2017 and 2016, CMS Pharma elected to pay a lump sum tax of MYR 20,000 (equivalent to approximately RMB37,000 and RMB39,000, respectively).

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

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

	2017 RMB'000	2016 RMB'000
Profit before tax	1,808,433	1,500,441
Tax at the applicable tax rate (Note)	452,108	375,110
Tax effect of share of results of associates	(19,431)	(12,153)
Tax effect of expenses that are not deductible in determining taxable profit	24,056	29,570
Tax effect of income that is not taxable in determining taxable profit	(3,932)	(3,993)
Tax effect of tax losses not recognised	1,261	1,350
Tax effect of deductible temporary differences not recognised	-	2,555
Tax effect of tax concession	(73,672)	(98,467)
Effect on different applicable tax rates of subsidiaries	(2,225)	(3,357)
Effect of tax benefit arising from Labuan Tax Act	(234,754)	(168,734)
Underprovision in prior years	308	87
Utilisation of tax losses previously not recognised	-	(1,431)
Utilisation of deducible temporary differences previously not recognised	(7,301)	-
Others	2,076	1,987
Income tax expense for the year	138,494	122,524

Note: The applicable the PRC EIT rate of 25% (2016: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group.

7. PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,060	1,092
Salaries and other benefits	2,208	2,332
Contribution to retirement benefits schemes	120	114
	3,388	3,538
Other staff costs	351,923	290,048
Contribution to retirement benefits schemes	21,316	18,141
Employee benefit expense (Note 16)	30,000	64,982
Total staff costs	406,627	376,709
Auditor's remuneration	2,333	2,295
Allowance for bad and doubtful debts	3,732	2,313
Allowance for inventories	2,952	2,940
Release of prepaid lease payments	1,673	1,672
Depreciation of property, plant and equipment	31,147	24,976
Amortisation of intangible assets (included in cost of goods sold)	165,271	150,883
Cost of inventories recognised as an expense	1,692,938	1,828,085
Minimum lease payment under operating lease in respect of property	10,584	8,835

8. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2017 Interim - RMB0.1293 (2016: 2016 interim dividend RMB0.1052) per share	321,601	261,658
2016 Final - RMB0.1164 (2016: 2015 final dividend RMB0.0809) per share	289,516	201,218
	611,117	462,876
Dividends proposed		
Dividends proposed during the year:		
2017 final - RMB0.1393 (2016: 2016 final dividend of RMB0.1164) per share	346,474	289,516

The Board of Directors have declared a final dividend of RMB0.1393 per ordinary share for the year ended 31 December 2017 (2016: RMB0.1164 per ordinary share).

9. EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	1,674,807	1,375,936

	Number of ordinary shares as at 31 December	
	2017	2016
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,487,247,512	2,487,247,512

The Group has no outstanding potential ordinary shares as at 31 December 2017 and 2016 and during the years ended 31 December 2017 and 2016. Therefore, no diluted earnings per share is presented.

10. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	1,003,640	1,074,577
Less: Allowance for bad and doubtful debts	(9,828)	(6,096)
	993,812	1,068,481
Bills receivables	349,633	423,624
Purchase prepayment	51,703	35,947
Value added tax receivable	35,237	88,479
Other receivables and deposits	57,007	65,889
Total trade and other receivables	1,487,392	1,682,420

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months is allowed to some selected customers.

An aging analysis of trade receivables (net of allowance for bad and doubtful debts) presented based on the invoice date at the respective reporting period, which approximated the respective revenue recognition date is as follows:

10. TRADE AND OTHER RECEIVABLES - continued

	2017 RMB'000	2016 RMB'000
0 - 90 days	867,489	976,052
91 - 365 days	120,911	91,820
Over 365 days	5,412	609
	993,812	1,068,481

The bills receivables of the Group are of the age within six months at the end of the reporting period. As at 31 December 2016, RMB263,801,000 (2017: nil) was discounted to banks for cash proceeds, of which RMB224,297,000 (2017: nil) arose from intra-group transactions which had then been fully eliminated on consolidation.

Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customer. The trade and other receivables that are neither past due nor impaired are of good credit quality because of satisfactory repayment history.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB138,398,000 (2016: RMB108,993,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable due to the long term relationship and good repayment record. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	2017 RMB'000	2016 RMB'000
0 - 90 days	122,287	103,388
91 - 365 days	14,821	5,018
Over 365 days	1,290	587
	138,398	108,993

The Group has provided full impairment for receivables that aged over 3 years from invoice date because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts:

	2017 RMB'000	2016 RMB'000
Balance at beginning of the reporting period	6,096	3,914
Impairment losses recognised on receivables	3,732	2,313
Amount written off as uncollectible	-	(131)
Balance at end of the reporting period	9,828	6,096

11. BANK BALANCES AND CASH

The bank deposits carry interest at the prevailing market rate of approximately 0.35% to 3% (2016: 0.35% to 3.5%) per annum.

Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2017 RMB'000	2016 RMB'000
US$	2,090	17,902
Euro ("EURO")	19,658	9,780
HK$	2,361	849

12. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the reporting periods is as follows:

	2017 RMB'000	2016 RMB'000
0 - 90 days	124,497	106,681
91 - 365 days	2,653	29,624
Over 365 days	2,861	1,285
Trade payables	130,011	137,590
Payroll and welfare payables	94,683	123,517
Other tax payables	28,518	28,424
Deferred promotion income	42,587	78,310
Payables for acquisition of property, plant and equipment	16,001	14,474
Other payables	66,511	78,378
Accrued promotion expenses	95,022	79,924
Accruals	33,493	38,505
	506,826	579,122

The credit period on purchases of goods is ranging from 0 to 120 days.

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2017 RMB'000	2016 RMB'000
EURO	16,069	7,663
US$	-	99,757

13. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Bank loans	2,105,048	1,348,597
Advance from banks on discounted bills receivables with recourse - repayable within one year (Note a)	-	263,801
	2,105,048	1,612,398
Analysed as:		
Secured	165,000	288,801
Unsecured	1,940,048	1,323,597
	2,105,048	1,612,398

Note:

(a) Balance represented bills receivable discounted to banks as at 31 December 2016 for cash proceeds of approximately RMB263,801,000. The receivables arose from intra-group transactions which had then been fully eliminated on consolidation. If the bills receivables were not paid at maturity, the banks had the right to request the Group to pay the unsettled balance.

	2017 RMB'000	2016 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	65,000	288,801
Within a period of more than one year but not exceeding two years	488,010	-
Within a period of more than two years but not exceeding five years	1,552,038	-
	2,105,048	288,801
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	-	962,045
Within a period of more than one year but not exceeding two years	-	142,150
Within a period of more than two years but not exceeding five years	-	219,402
	2,105,048	1,612,398
Less: Amounts due within one year shown under current liabilities	(65,000)	(1,612,398)
Amounts shown under non-current liabilities	2,040,048	-

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

13. BANK BORROWINGS - continued

The ranges of effective interest rates (which are also equal to contractual interest rate) on the Group's borrowings and their carrying values are as follows:

	2017 RMB'000	2016 RMB'000
Fixed-rate borrowings		
Denominated in RMB (range from 4.99% to 5.23% per annum as at 31 December 2017 and from 2.91% to 5.22% per annum as at 31 December 2016)	165,000	563,935
Variable-rate borrowings (Note c)		
Denominated in US$ (3.53% as at 31 December 2017 and nil as at 31 December 2016) (Note b)	1,940,048	-
Denominated in EUR (nil as at 31 December 2017 and range from 1.5% to 2.25% as at 31 December 2016) (Note b)	-	1,048,463
Total	2,105,048	1,612,398

Note:

(b) Variable rate at London Interbank Offered Rate ("LIBOR") plus 1.8% as at 31 December 2017 (2016: range from Euro Interbank Offered Rate plus 1.5% to 2.25%).

(c) As at 31 December 2017, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB1,940,048,000 (2016: nil). The principal amount of the variable-rate bank borrowings will be repayable by 10%, 10% and 80% on 30 June 2019, 31 December 2019 and 23 June 2020, respectively.

As at 31 December 2017, the Group had unutilised banking facilities of approximately RMB1,548,802,000 (2016: RMB919,916,000).

14. DEFERRED TAX

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

	Unrealised profits on inventories RMB'000	Fair value adjustments to assets acquired in business combinations RMB'000	Unrealised profit of AFS investments RMB'000	Fair value gain on cash flow hedges RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	23,701	(44,649)	(63,964)	-	1,202	(83,710)
Credit (charge) to profit or loss for the year (Note 6)	5,642	3,050	-	-	(1)	8,691
At 31 December 2016	29,343	(41,599)	(63,964)	-	1,201	(75,019)
(Charge) credit to profit or loss for the year (Note 6)	(3,662)	3,049	-	-	-	(613)
Charge to other comprehensive income	-	-	-	(1,984)	-	(1,984)
At 31 December 2017	25,681	(38,550)	(63,964)	(1,984)	1,201	(77,616)

The following is the analysis of the deferred tax assets (liabilities) for financial reporting purposes:

	2017 RMB'000	2016 RMB'000
Deferred tax assets	26,882	30,544
Deferred tax liabilities	(104,498)	(105,563)
	(77,616)	(75,019)

At 31 December 2017, the Group had unused tax losses of approximately RMB19,550,000 (2016: RMB14,322,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2017 are tax losses of approximately RMB7,447,000 (2016: RMB4,743,000) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2017, tax losses of approximately RMB671,000 (2016: RMB778,000) was expired.

As at 31 December 2017, the Group had deductible temporary differences of RMB582,619,000 (2016: RMB624,418,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB102,724,000 (2016: RMB116,320,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB479,895,000 (2016: RMB508,098,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. 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 RMB2,834,141,000 (2016: RMB2,202,450,000) 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.

15. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2016, 31 December 2016 and 31 December 2017	20,000,000	765,218
Issued and fully paid		
At 1 January 2016, 31 December 2016 and 31 December 2017	2,487,247	85,200

16. EMPLOYEE BENEFIT SCHEME

Key Employee Benefit Scheme (the “2009 Scheme”) was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the 2009 Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the 2009 Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the 2009 Scheme. A summary of some of the principal terms of the 2009 Scheme is set out in below.

(a) The purpose of the 2009 Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the 2009 Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think appropriate select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 years' services in the Group) for participation in the 2009 Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund. As such, the 2009 Scheme is classified as defined contribution scheme.

16. EMPLOYEE BENEFIT SCHEME - continued

On 22 December 2016, the Board has resolved to adopt two new employee incentive schemes, with details as follows:

(a) The Bonus Scheme

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.
ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

(b) The New KEB Scheme

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.
ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

For the purposes of facilitating the administration of the Bonus Scheme and the New KEB Scheme, the Company has resolved to set up a new trust comprising the Bonus Scheme and KEB Scheme (collectively referred to as the "Master Scheme"). Unless terminated earlier by the Board, the Master Scheme shall be valid and effective until the later of the termination of the Bonus Scheme or the New KEB Scheme. The term of each of the Bonus Scheme and the New KEB Scheme is 20 years subject to the terms of their respective scheme rules. TMF Trust (HK) Limited ("TMF"), a company incorporated in Hong Kong, is appointed as the initial trustee of the new trust (the "New Trustee").

A summary of some of the principal terms of the Bonus Scheme is set out in below:

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 5% to 15% on the net profit growth on the audited consolidated financial statements of the Group ("Annual Contribution"), subjected to the approval from the Benefit Scheme Executive Committee, comprising executive directors of the Company. No contribution will be made by the Company if there is no growth on the net profit in the year.

(b) The amount payable to the members of the Bonus Scheme in a financial year depends on a variety of factors, including the value of the assets held by the New Trustee (the "New Fund"), the appreciation in the value of the assets held under the New Fund, the financial performance of the Group and the performances of individual employees during the year. The New Fund is independent from the Company and the change in value of the New Fund has no impact on the Group's financial performance and financial position. The only obligation of the Company is to make the Annual Contributions to the New Fund subject to the terms of the scheme rules of the Bonus Scheme. The Bonus Scheme is classified as a discretionary scheme of the Company.

During the year ended 31 December 2017, the Company contributed cash amounting to nil (2016: RMB4,982,000) to the Fund and recognised an expense of RMB30,000,000 (2016: RMB60,000,000) on the Master Scheme based on the Group's financial performance. RMB30,000,000 (2016: RMB64,982,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

Management Discussion and Analysis

Business Review

The Company is pleased to announce that for the year ended 31 December 2017, the Group recorded a turnover of RMB5,348.8 million (2016: RMB4,900.8 million), representing an increase of 9.1% over the same period last year; excluding the effect of the "two-invoice system", the turnover would have been up 21.2% to RMB5,578.6 million (2016: RMB4,603.1 million). Profit for the year reached RMB1,669.9 million (2016: RMB1,377.9 million), up 21.2% from the corresponding period last year. The basic earnings per share was RMB0.6734 (2016: RMB0.5532), representing an increase of 21.7% over the same period last year.

2017 was a key year for healthcare and pharmaceutical industry reform, with the implementation of various reform policies enhanced gradually. Several policies were carried out in an orderly manner, such as the new edition of the National Reimbursement Drug List ("NRDL"), the implementation of the "two-invoice system", the elimination of drugs' mark-up and the control of the weight of drug sales. These policies profoundly influenced all aspects of the industry. The reform mainly focused on encouraging innovation and improving quality, which provided unprecedented developmental opportunities for promoting the structural adjustments of pharmaceutical and medical devices industries and technological innovation. During the Reporting Period, following on the developmental direction of innovation, the Group steadily promoted the introduction and R&D progress of patented products through a combination of in-house and cooperative R&D. At the same time, by continuing to explore and supplement academic key points, the Group solidified academic differentiation-based promotion strategies of products, treating professional academic promotion as the core weapon of its operation and development. The Group once again achieved satisfactory growth during the Reporting Period, which was contributed by the Group's quality product portfolio, fully covered promotional network and efficient operation system.

Product Introduction and Development

Product Introduction

The new products serve as a foundation for the Group's future development. Relying on the strict criteria for drugs selection and the professional drug evaluation system, the Group applied diversified introduction strategies and a multilevel (short-term, mid-term and long-term) new product introduction system to ensure the sufficient and constant supply of products launched to the market at any stage. This strategy supports the sustainable growth of the Group. During the Reporting Period, the Group continued to select and purchase high-quality products from the global market, and increased the strength of introducing patent products at R&D stage.

Added products with patent family protection as long-term pipeline via equity participation

In September 2017, the Group entered into a binding investment, development and commercialization framework agreement ("Framework Agreement") with Destiny Pharma plc. ("Destiny Pharma"). The detailed agreement would negotiate in good faith of the Framework Agreement: the Group will acquire certain rights to develop, manufacture, sell and commercialise certain assets in Destiny Pharma's current product portfolio in China and other Asian countries (excluding Japan), including, among others, relevant intellectual property, regulatory approvals and product data or documentations. In December 2017, the Group completed the equity investment in

Destiny Pharma and acquired the above mentioned assets of Destiny Pharma's current product portfolio in China and other Asian countries (excluding Japan).

Destiny Pharma's current product portfolio mainly contain Exeporfinium Chloride (XF-73) Nasal Gel, which is an antimicrobial agent with a novel mechanism of action at phase II stage in the EU and the US, and two anti-infective agents at pre-clinical stages. The Group will undertake research and clinical development of above mentioned assets to develop Destiny Pharma's current product portfolio that the Group will then market in China and other Asian countries (excluding Japan). Under this collaboration arrangement, the Group further enriches and extends its current product reserve.

Existing Product Development

Plendil (Felodipine Sustained Release Tablets)

The Company owns the 20-year exclusive license for the commercialization of Plendil in the People's Republic of China ("PRC"), excluding the Hong Kong Special Administrative Region ("Hong Kong SAR"), the Macau Special Administrative Region ("Macau SAR") and Taiwan. Plendil is an original product manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限公司). Plendil is used to treat hypertension and stable angina pectoris, and is in the NRDL. Plendil is the sustained release formulation of Felodipine, which controls the blood pressure smoothly with low occurrence rates of side effects. During the Reporting Period, Plendil recorded revenue of RMB1,289.0 million, an increase of 37.9% compared with the same period last year. Excluding the effect of the "two-invoice system", Plendil's revenue increased by 46.6% to RMB1,378.9 million compared with the same period last year.

During the Reporting Period, by cooperating with various academic platforms and capturing various opportunities, the Group divided promotional lines to refine academic promotion strategies, strengthening the layout of its key market. For emerging markets, the Group enhanced the coverage and penetration of re-education, delivering the core academic information of the product. As at 31 December 2017, sales of Plendil covered around 26,000 hospitals and medical institutions throughout China.

Ursofalk (Ursodeoxycholic Acid Capsules)

Ursofalk is manufactured by Losan Pharma GmbH, Germany, the entrusted manufacturer of Dr. Falk Pharma GmbH, Germany ("Falk"). The product is used to treat cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis, and it is in the NRDL. Based on IMS data in 2017, Ursofalk is the best-selling ursodeoxycholic acid drug in China, and ranks first in sales among digestive products in the Chinese cholagogue market. During the Reporting Period, Ursofalk recorded revenue of RMB959.4 million, an increase of 24.3% compared with the same period last year.

During the Reporting Period, the Group stuck to academic promotion strategies by deeply exploring the differentiated characteristics of the product. Meanwhile, the Group strengthened the academics image of Ursofalk with the help of wide-covered conference tours held by Falk. As at 31 December 2017, sales of Ursofalk covered around 9,400 hospitals and medical institutions throughout China.

Deanxit (Flupentixol and Melitracen Tablets)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used in the treatment of mild to moderate depression, anxiety and psychosomatic affections, and it is in the NRDL. Based on IMS data in 2017, Deanxit ranked the first in market share of antidepressant drugs in China. During the Reporting Period, Deanxit recorded revenue of RMB949.3 million, an increase of 3.4% compared with the same period last year.

During the Reporting Period, the Group enhanced the construction and optimization of the existing promotion platform, and actively participated in various platform activities. In addition, the Group focused on internal academic trainings, strengthening the internal drive for product promotion. By maintaining the traditional department coverage and increasing the penetration of key fields, the Group solidified the status of product's brand. As at 31 December 2017, sales of Deanxit covered around 21,000 hospitals and medical institutions throughout China.

XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)

XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Rhodiola Pharmaceutical Holdings Co., Ltd. ("Tibet Pharmaceutical", an associate company of the Group) in which the Group holds 36.83% of the total share, is a National Class One biological agent used to treat acute heart failure. It is also the only Recombinant Human Brain Natriuretic Peptide ("rhBNP") currently available in the Chinese market. XinHuoSu is in the NRDL. XinHuoSu was recommended by the first "Acute Heart Failure Diagnosis and Treatment Guideline (2010)" in China, and it was also recommended by "China Emergency Clinical Practice Guideline for Acute Heart Failure" in 2017. The product has gradually become the new generation of drug for treating acute heart failure. During the Reporting Period, XinHuoSu recorded revenue of RMB411.8 million, a decrease of 23.4% compared with the same period last year. Excluding the effect of the "two-invoice system", XinHuoSu's revenue increased by 18.9% to RMB651.9 million compared with the same period last year.

With strong academic network coverage and the resource integration of the cardiovascular and cerebrovascular division, the Group actively expanded and deepened the core expert network, and strengthened the professional academic promotion route by capturing the new NRDL inclusion opportunity. As at 31 December 2017, sales of XinHuoSu covered around 1,900 hospitals and medical institutions throughout China.

Salofalk (Mesalazine)

Dosage forms of suppositories and enemas of Salofalk are manufactured by Vifor AG Zweigniederlassung Medichemie Ettingen, Switzerland, the entrusted manufacturer of Falk, Germany; while enteric-coated tablets of Salofalk are manufactured by Losan Pharma GmbH, Germany, the entrusted manufacturer of Falk, Germany. Salofalk is mainly used to treat Ulcerative Colitis and Crohn's disease with acute exacerbations. It is in the NRDL, and is the Mesalazine with the widest dosage forms in China. During the Reporting Period, Salofalk recorded revenue of RMB296.3 million, an increase of 34.1% compared with the same period last year.

During the Reporting Period, the Group continued to improve the academic education amongst doctors and patients, maximizing the advantages of multiple formulations. The Group also stabilized its key market and promoted

market penetration, expanding the brand influence of Salofalk. As at 31 December 2017, sales of Salofalk covered around 3,900 hospitals and medical institutions throughout China.

Bioflor (Saccharomyces Boulardii Sachets)

Manufactured by Biocodex of France, Bioflor is a probiotics agent used to treat diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance. Bioflor is the probiotics agent with the most adequate medical evidence base to treat acute gastroenteritis in children, and it is also the only Saccharomyces Boulardii currently available in the Chinese market. The newest publication of 2016 "The Clinical Practice Guidelines for Chinese Children with Acute Infectious Diarrhea" gave Bioflor the highest level of recommendation. In 2017, the World Organisation of Gastroenterology (WGO) updated "Probiotics and Prebiotics Guidelines", which granted Bioflor an authoritative recommendation in related indications based on the 2011 edition of the guidelines. During the Reporting Period, Bioflor recorded revenue of RMB263.3 million, an increase of 49.5% compared with the same period last year.

During the Reporting Period, using a different academic promotion strategy, the Group cooperated with Biocodex to conduct various academic forums and conference tours. Meanwhile, by exploring the domestic medical evidence base in China, the Group solidified the pediatric field, while continuing its promotion in the digestive field and expanding other departments. As at 31 December 2017, sales of Bioflor covered around 3,000 hospitals and medical institutions throughout China.

Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)

The Group owns Augentropfen Stulln Mono Eye Drops' related assets for the China (including Hong Kong SAR and Macau SAR) market, and has entrusted the manufacture of the product to Pharma Stulln GmbH of Germany. Augentropfen Stulln Mono Eye Drops is used to treat senile macula degeneration and all forms of asthenopia. It is the only eye drops product approved by the China Food and Drug Administration (CFDA) for the treatment of macula degeneration, and it is preservative-free. During the Reporting Period, Augentropfen Stulln Mono Eye Drops recorded revenue of RMB217.5 million, an increase of 20.1% compared with the same period last year.

During the Reporting Period, by building multi-level academic platforms, the Group improved the construction of its network of experts, continuing to solidify and reinforce promotional work in the related fields of ocular fundus disease and asthenopia. As at 31 December 2017, sales of Augentropfen Stulln Mono Eye drops covered around 7,000 hospitals and medical institutions throughout China.

XiDaKang (Protein Hydrolysate Oral Solution/ Oral Protein Hydrolysate)

XiDaKang, the Group's self-owned product, is the only protein hydrolysate enteral nutrition agent approved by the CFDA, and it is sold in the form of an oral solution and granules. XiDaKang is manufactured by Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), a wholly-owned subsidiary of the Group. Since the second half of 2014, the agency model of XiDaKang has been transferred to the promotional service model, which is hospital-based and to achieve long-term partnerships with agencies. The "two-invoice system" operational model adjustment has been completed in advance. During the Reporting Period, by strengthening the follow-up work of academic promotion, the Group extensively participated in academic conferences at all levels, while actively carrying out market

development of newly entered regions. During the Reporting Period, XiDaKang recorded revenue of RMB194.6 million, a decrease of 10.6% compared with the same period last year. Excluding the effect of the "two-invoice system", XiDaKang's revenue decreased by 10.4% to RMB58.9 million compared with the same period last year.

YiNuoShu (Ambroxol Hydrochloride Injection)

The Group owns the product controlling rights for YiNuoShu. The Group mainly entrusted the manufacture of YiNuoShu to TIPR Pharmaceutical Responsible Co., Ltd. ("TIPR Pharmaceutical") and the production is partially subcontracted to Kangzhe Hunan by TIPR Pharmaceutical. YiNuoShu is the first generic version of ambroxol hydrochloride injection in China, and it is an expectorant product used for respiratory diseases. It is included in the NRDL. During the Reporting Period, the Group adjusted its strategic layout due to strong competition, actively increasing product's competitiveness. During the Reporting Period, YiNuoShu recorded revenue of RMB159.1 million, an increase of 15.7% compared with the same period last year. Excluding the effect of the "two-invoice system", YiNuoShu's revenue decreased by 18.8% to RMB100.6 million compared with the same period last year.

DanShenTong Capsules

DanShenTong Capsules is owned and manufactured by Hebei Xinglong Xili Pharmaceutical Co., Ltd. in which the Group owns more than 50% of the total share. It is in the NRDL. DanShenTong Capsules is a plant-based and multi-functional antibiotic (broad spectrum) with explicit molecular structure. The product incorporates positive effects to antisepsis and anti-inflammation. The drug is mainly used for the treatment of acne, tonsillitis, otitis externa, boils, carbuncles, traumatic infection, burn infection, mastitis, cellulitis and osteomyelitis, etc. During the Reporting Period, DanShenTong Capsules recorded revenue of RMB151.8 million, an increase of 2.7% compared with the same period last year.

During the Reporting Period, the Group carefully refined the pharmacological mechanism and promotional direction of the product, carrying out a series of academic promotion activities centered on its academic information. As at 31 December 2017, sales of DanShenTong Capsules covered around 4,000 hospitals and medical institutions throughout China.

Hirudoid (Mucopolysaccharide Polysulfate Cream)

The Group owns Hirudoid's related assets for the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market, and the product is manufactured by Mobilat Produktions GmbH (Germany). The active ingredient of Hirudoid is mucopolysaccharide polysulfate. The drug is used for the treatment of blunt traumata with or without hematomas, and superficial phlebitis insofar as it cannot be treated by compression. Hirudoid has a wide-range of effects and it's a high-quality, safe product. During the Reporting Period, Hirudoid recorded revenue of RMB129.0 million, an increase of 25.6% compared with the same period last year.

During the Reporting Period, the Group further solidified its national and regional dermatological network of experts, while working on in-depth research and constructing a strong medical evidence base. As at 31 December 2017, sales of Hirudoid covered around 6,000 hospitals and medical institutions throughout China.

NuoDiKang Capsules

NuoDiKang Capsules is manufactured by Sichuan NuoDiKangWeiGuang Pharmaceutical Co., Ltd., a subsidiary of Tibet Pharmaceutical, in which the Group holds 36.83% of the total share. The product is included in the National Essential Drug List ("EDL") and NRDL, and is listed as a Traditional Chinese Medicinal Protection Product. The main functions of the product are boosting vital energy, activating blood circulation, freeing flow in blood vessels and alleviating pain. It is used to treat chest impediments caused by a deficiency in vital energy and blood stasis, manifested as tightness in the chest, tingling or pain, palpitations, shortness of breath, lassitude, asthenic breathing, disinclination to talk and dizziness, and coronary heart disease and angina with the aforementioned symptoms. During the Reporting Period, NuoDiKang Capsules recorded revenue of RMB100.6 million, a decrease of 17.5% compared with the same period last year. Excluding the effect of the "two-invoice system", NuoDiKang Capsules' revenue increased by 7.4% to RMB135.1 million compared with the same period last year.

During the Reporting Period, the Group continued to further explore the academic value of the product through scientific research and strengthening features based promotion. As at 31 December 2017, sales of NuoDiKang Capsules covered around 3,700 hospitals and medical institutions throughout China.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)

The Group owns Combizym's related assets for the China (including Hong Kong SAR, Macau SAR and Taiwan) market and other designated countries or areas. Combizym is manufactured by Nordmark Arzneimittel GmbH & Co. KG (Germany). The main ingredients of Combizym are pancreatin and aspergillus oryzae enzymes. The product is used for treating dyspepsia caused by a decrease in digestive enzymes. It is included in the NRDL. During the Reporting Period, Combizym recorded revenue of RMB67.9 million, an increase of 28.6% compared with the same period last year.

During the Reporting Period, the academic promotion of Combizym was focused on "improving the digestive efficiency, digestive enzyme supplement therapy" concept. Meanwhile, supported by its adequate resources from the digestive product line, the Group continued to concentrate on building the product's brand image. As at 31 December 2017, sales of Combizym covered around 1,300 hospitals and medical institutions throughout China.

GanFuLe Tablets

GanFuLe Tablets, the Group's self-owned product, is used for the treatment of primary liver cancer, cirrhosis and liver fibrosis. GanFuLe Tablets has been in clinical use for more than two decades, and is included in the NRDL. The product is manufactured by Kangzhe Hunan. During the Reporting Period, GanFuLe Tablets recorded revenue of RMB40.6 million, a decrease of 15.2% compared with the same period last year.

During the Reporting Period, with the same resources as other products under the digestive product line, the Group built the product's brand image by delivering its academic information via various academic conferences. As at 31 December 2017, sales of GanFuLe Tablets covered around 600 hospitals and medical institutions throughout China.

Imdur (Isosorbide Mononitrate Sustained Release Tablets)

The Group's associate company Tibet Pharmaceutical owns Imdur's global assets (US market excluded). The Group is responsible for Imdur's promotion in the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market. Imdur is a long-acting, oral nitrate preparation for the long-term treatment of coronary artery disease and prophylactic angina pectoris. It is temporarily manufactured by AstraZeneca Pharmaceutical Co., Ltd (阿斯利康製藥有限公司). Imdur has the Durules sustained release technology of AstraZeneca and is suitable for long-term anti-ischemic treatment. It is a NRDL product and is listed in local EDL in some areas. It is one of the indispensable drugs for anti-ischemic treatment of coronary artery disease. During the Reporting Period, Imdur recorded promotional service revenue of RMB40.0 million, an increase of 96.0% compared with the same period last year.

During the Reporting Period, focusing on the "standardized clinical application of nitrates" concept, the Group carried out multi-level academic activities. The Group also rebuilt its leading-brand position among nitrates by solidifying the good reputation of AstraZeneca's Durules sustained release technology. As at 31 December 2017, sales of Imdur covered around 8,000 hospitals and medical institutions throughout China.

Parlodel® (Bromocriptine Mesilate Tablets)

The Group owns Parlodel®'s related assets for the China (including Hong Kong SAR and Taiwan, excluding Macau SAR) market, and has entrusted the manufacture of the product to Novartis Farma S.P.A. in Italy. The active ingredient of Parlodel® is bromocriptine mesilate. It is an original product and is included in the NRDL. The product is suitable for indications of endocrine and nervous system, and it is a standard first-line treatment product for hyperprolactinaemia (HPRL) recommended by guidelines. During the Reporting Period, Parlodel® recorded revenue of RMB27.3 million, an increase of 27.5% compared with the same period last year. As at 31 December 2017, sales of Parlodel® covered around 1,300 hospitals and medical institutions throughout China.

Lamisil® (Terbinafine Hydrochloride Tablets)

The Group owns Lamisil®'s related assets for the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market, and the product is temporarily manufactured by Beijing Novartis Pharma Ltd ("Novartis"). The active ingredient of Lamisil® is terbinafine hydrochloride. It is an original product and is included in the NRDL. It is used to treat fungal infections on skin and hair caused by dermatophytes such as trichophyton, microsporumcanis and epidermophyton floccosum, as well as onychomycosis due to infection with dermatophyte (Hyphomycetes). Oral terbinafine is one of the systemic antifungal agents recommended by Chinese medical guidelines on tinea corporis and tinea cruris, tinea pedis, tinea capitis and onychomycosis. The Group is currently processing the transfer of the Drug Production License for Lamisil®. The production of Lamisil® will be transferred to Kangzhe Hunan after the production transfer is completed. During the license transformation period, the sales work for Lamisil® has been handled by Novartis, and Novartis has settled its profit to the Group based on an agreement. During the Reporting Period, the Group received Lamisil®'s settled profits revenue of RMB8.3 million, a decrease of 6.3% compared with the same period last year.

YinLianQingGanKeLi

The Group owns the 20-year exclusive sales rights of YinLianQingGanKeLi in China. The product, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is an exclusive TCM product that has been awarded a

National New Drug Certificate. The main functions of the product are clearing away heat and toxic substances, and regulating the liver and spleen. It is used for acute hepatitis A and chronic hepatitis B. The product is included in the NRDL. During the Reporting Period, YinLianQingGanKeLi recorded revenue of RMB6.5 million, an increase of 77.7% compared with the same period last year. Excluding the effect of the "two-invoice system", YinLianQingGanKeLi's revenue decreased by 9.9% to RMB3.0 million compared with the same period last year.

MOVICOL® (Macrogol Sodium Potassium Powder)

The Group owns MOVICOL®'s related assets for the China (including Hong Kong SAR and Macao SAR) market, and has entrusted the manufacture of the product to Norgine Limited, UK. The active ingredients of MOVICOL® are macrogol 3350, sodium bicarbonate, sodium chloride and potassium chloride. The drug is used for the treatment of chronic constipation and fecal impaction. As a well-known brand for such ailments, it has been sold in Europe for many years, and the product has a wide-range of targeted patients in China. The China Import Drug License ("IDL") for MOVICOL® is ready, and the product had yet to be sold in the China market before. During the Reporting Period, the Group carried out the relevant preparatory promotional work for MOVICOL® in China.

Methods of introduction and weight of revenue for main products are as follows:

Introduction	Products	As a Percentage of the Group's Revenue（%）
Rights Control	Plendil	24.1
	XinHuoSu	7.7
	Stulln	4.1
	XiDaKang	3.6
	YiNuoShu	3.0
	DanShenTong	2.8
	Hirudoid	2.4
	NuoDiKang	1.9
	Combizym	1.3
	GanFuLe	0.8
	Imdur	0.7
	Parlodel	0.5
	Lamisil	0.2
	YinLianQingGan	0.1
	MOVICOL	0.0
	Subtotal	**53.2**
Exclusive Agency Contract	Ursofalk	17.9
	Deanxit	17.7
	Salofalk	5.5
	Bioflor	4.9
	Subtotal	**46.0**

Other Products

Apart from the products mentioned above, other products sold by the Group such as Cystistat, Exacin, ShaDuoLiKa, XiangFuYiXueKouFuYe recorded total revenue amounting to approximately RMB36.6 million, accounting for approximately 0.8% of the Group's turnover during the Reporting Period.

Pipeline Products

Products undergoing application process for Import Drug License Registration

During the Reporting Period, the group had 4 products undergoing the application process for Import Drug registration which will contribute to the group's revenue after they are officially issued an IDL by the CFDA. Key information on these products is listed below:

Products	Indications	Manufacturers	CFDA Pending Number	Registration Process
Budenofalk	For the treatment of Crohn's disease	Dr. Falk Pharma GmbH (Germany)	JXHL1100207 (Capsules)	Clinical Trial Approved
Maltofer® (Iron Maltose）	Used to treat iron deficiency without anemia ("ID") and iron deficiency with anemia ("IDA")	Vifor (International) Inc. （Switzerland）	JXHL1400152 （Syrup）	Clinical Trial Approved
			JXHL1400153 (Chewable Tablets）	Clinical Trial Approved
Ze 339	For the treatment of allergic rhinitis	Zeller Medical AG （Switzerland）	JXZL1500004	CDE Review
Succinylated Gelatin Injection	For initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited （UK）	Material Preparation	Material Preparation

For more information on imported drug registration of the Group's products, please refer to the CFDA website (http:// www.sfda.gov.cn).

During the Reporting Period, due to the business and technical considerations for Ze 440 (for the treatment of pre-menstrual syndrome, and menstrual cycle disorder), Ze 450 (for the treatment of menopausal discomfort), Budenofalk Foam Aerosol (for the treatment of ulcerative colitis) and Succinylated Gelatin Electrolyte Injection (for initial management of hypovolaemic shock), the Group agreed to terminate their Chinese IDL registrations.

Products with Independent Intellectual Property Rights

Tyroserleutide (CMS024)

Tyroserleutide (CMS024), used to treat primary liver cancer, is a National Class One New Drug researched and developed by the Group and has independent intellectual property rights. The phase III clinical trial, entitled "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma", was unblinded on 28 February 2014, and the clinical trial failed to achieve the expected results. As the subgroup with no tumor thrombosis in the hepatic portal vein branches demonstrated a favorable trend during the clinical trial, the Group conducted a six-month follow-up study on subjects in the treatment group with continuous administration of the drug to observe survival time. The follow-up study achieved significant results. According to statistical data from the study, a statistical significance in survival time between treatment group and placebo group of the subgroup has been observed, indicating that Tyroserleutide could prolong the survival time of liver cancer patients with no tumor thrombosis in the hepatic portal vein branches.

Based on the positive results from the follow-up study and analysis of earlier clinical trials, the Group has decided to carry out a new extended phase III clinical trial for Tyroserleutide. During the Reporting Period, the phase III extended clinical trial of Tyroserleutide has been conducted in about 12 research centers in China, which is still in the patient recruitment process. The costs of the clinical trial will continue to be borne by Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D"), and the Group will pay 13% of the product's revenue to Kangzhe R&D as royalty fees after the successful commercialization of the product. If Tyroserleutide is successfully launched into the market, it will not only have great market potential in China, but it will also have a major overall impact on human health.

Traumakine®

In May 2015, A&B (HK) Company limited ("A&B"), wholly-owned by Dr. Lam Kong, a controlling shareholder of the Group acquired the assets related to Traumakine® for the China market and other designated regions as well as certain intellectual properties related to the product through equity investment in Faron Pharmaceuticals Ltd ("Faron"). The assets were transferred to CMS Pharma Co., Ltd, the Group's wholly-owned subsidiary. A&B will continue to invest in the development of the product in China, and the Group will only be required to pay A&B a royalty fee in respect of a percentage of the net revenue of the product in China after the successful commercialization of the product. The percentage will be subject to further negotiation.

Traumakine® is a Recombinant Human Interferon beta-1a intravenous lyophilized preparation for the treatment of acute respiratory distress syndrome ("ARDS"). ARDS is an acute respiratory failure caused by many different factors, with progressive respiratory distress, refractory hypoxemia and non-cardiogenic pulmonary edema as clinical symptoms, and it is one of the common acute and critical clinical syndromes. ARDS involves several clinical sections, and common causes of ARDS include systemic infection, trauma, shock, burns and acute severe pancreatitis, etc. Five patents for and related to Traumakine® have been filed around the world. Among them, two have been directly filed in China via Patent Cooperation Treaty ("PCT"), with one having been granted; the remaining two patents were granted in the EU, US and Japan, etc. During the Reporting Period, Traumakine®'s formulation patent protecting the intravenous use of interferon-beta has been granted in Finland, and it will enter China via PCT in the future. In addition, Traumakine® was designated as an orphan drug for acute lung injury by the EU on 29 November, 2007, and it also was granted Promising Innovative Medicines (PIM) designation by the United Kingdom's Medicines and Healthcare Products Regulatory Agency (MHRA) in October 2017.

The Phase I/II clinical studies of Traumakine® were conducted in the UK with 28-day mortality as the endpoint for primary effectiveness. The results showed that the product improved mortality significantly (mortality in treatment group was 8%, compared to 32% in the control group, demonstrating an 81% reduction in the odds of 28-daymortality, p=0.01). Related research result has been published on the famous Lancet Respir Med Journal (LancetRespirMed.2014Feb; 2(2): 98-107). In December 2015, Traumakine®'s Phase III INTEREST clinical study started. It is a randomized, double-blind, parallel-group comparison of efficacy and safety of interferon and placebo in the treatment of moderate to severe ARDS patients who are recruited from multi-centers across Europe. In December 2017, the Phase IIII INTEREST clinical study of Traumakine® successfully recruited 300 patients on schedule. Faron has adopted recommendations from the Independent Data Monitoring Committee (IDMC) and Steering Committee (SC) to present patient data showing blinded ARDS outcomes (mortality/morbidity) at 90 days

(D90), in addition to the day 28 (D28) mortality endpoint. Based on this, Faron expects to present the top-line data of Traumakine®'s Phase III INTEREST clinical study in the first half of 2018.

In September 2017, Faron announced that the US Food and Drug Administration ("FDA") had proposed that Faron can proceed directly to Biologics License Application (BLA) submission pending positive results from the two on-going Phase III trials (INTEREST in Europe and MR 11A8-2 in Japan) with Traumakine®, subject to the FDA being satisfied with data from the trials. In January 2018, Faron announced that Traumakine® had received Fast Track designation from FDA for the treatment of ARDS. ARDS has a relatively high mortality rate (around 50% in China, and around 35-45% in Europe and America). Once the product has been successfully commercialised, Traumakine® could become the first life-saving drug in the world for patients suffering from ARDS, and it will have great market potential.

Destiny Pharma's Porfolio

During the Reporting Period, the Group acquired certain rights to develop, manufacture, sell and commercialise certain assets in Destiny Pharma's current product portfolio in China and other Asian countries (excluding Japan), including, among others, relevant intellectual property, regulatory approvals and product data or documentations through equity investment in Destiny Pharma by its wholly-owned subsidiary. The Group undertakes research and clinical development of Destiny Pharma's current product portfolio to develop products that the Group will then market in China and other Asian countries (excluding Japan). This cooperation further enriches the current reserve of the Group.

The product portfolio of Destiny Pharma mainly includes three products. XF-73 Nasal Gel is mainly used for nasal decolonisation of *Staphylococcus aureus (S. aureus)* to prevent postoperative *S. aureus* infection. XF-73 is a synthetic dicationic porphyrin derivative with antibacterial activity. It has a novel mechanism of action which is different from that of any existing families of antimicrobial agents. Published research studies indicate that it is bactericidal and acts via a bacterial cell-surface mechanism that affects membrane's permeability and integrity, leading to the release of intracellular components and the death of bacteria cell, without lysis. XF-73 is active against all tested *S. aureus* strains including methicillin-resistant and multi-drug resistant strains. And it exhibits rapid bactericidal activity against *S. aureus* and has a low potential for development of bacterial resistance. XF-73 has completed its Phases I/IIa clinical trial in Europe and the US. It now plans to conduct Phase IIb clinical trial. The completed Phase I/IIa clinical trial results showed that XF-73 Nasal Gel is effective and safe for the reduction of the nasal burden of *S. aureus*. In October 2015, the US FDA granted Qualified Infectious Disease Product designation to XF-73 for the prevention of post-surgical Staphylococcal infections. In addition, XF-73 has two authorized patents in China, one is a compound patent, and the other is a use patent.

S. aureus is a clinically isolated common bacteria. China Antimicrobial Resistance Surveillance System indicates that it ranked first in Gram-positive bacteria and it is the main pathogen of nosocomial infection. Studies have shown that the *S. aureus* nasal colonization rate is very high, and bacterial colonization increases the risk of hospital-acquired infection. Nasal colonization by *S. aureus* is also a risk factor for postoperative infection. People who require nasal decolonization of *S. aureus* include, among others, orthopedic surgery patients, cardiothoracic surgery and ICU patients, and there is also a wide range of potential target patients. Furthermore, so far, no drugs

have been approved for nasal decolonization in China. So once approved, it is expected that XF-73 will have broad market prospects in China.

Destiny Pharma's existing product portfolio includes following two other products at the pre-clinical stage with patent family protection:

XF-70: potential indication to be developed is the treatment of skin infections, and its preclinical data will support a wide range of indications including impetigo, acne, atopic dermatitis, bacterial infected skin lacerations, candida skin/vaginal infection and treatment of serious bacterial burn wound infections.

DPD-207: a derivative of XF-73 complexed with an iron (Fe) moiety within its porphyrin ring. This compound may be useful for the treatment of ocular microbial infections.

Network development

Direct Network

The operation of academic promotional network has gradually improved under the continuous optimization of various management mechanisms. During the Reporting Period, the Group continued to carry out the product lines divided promotion at provincial and district levels. Meanwhile, according to the market development, the Group further sub-divided and added more promotional districts. Furthermore, with the support of the optimization of incentive policy and the building of database center, the Group introduced more rational human resource strategies and job requirement systems to the district management, providing assurances for the highly efficient operation of the direct academic network. To increase the competitiveness of the products and the academic professionalism of its promotional representatives, the Group continued to strengthen its training in various aspects of medical knowledge, drugs' academic information and compliance, to ensure the professional behavior of its promotional staff to efficiently and compliantly deliver products' academic information. Meanwhile, by utilizing the intelligent cloud platform and mobile internet tools, the Group actively explored more efficient and convenient innovative promotional methods.

The Group has insisted on campus recruitment since 1998, selecting and cultivating outstanding candidate who are suitable for development within the company. The Group provides a clear career development path for employees after years of summarization and optimization. The Group started its 23rd Campus Recruitment in September 2017, and it continues to find fresh talent for the professional promotional team through the "Undergraduates Growth Plan". Meanwhile, the Group recruited graduates with a master's degree or above from medical or pharmaceutical schools via its "Professional Candidates Plan", providing new talent for the rapid development of the Group.

As at 31 December 2017, the Group's Direct Network had covered over 47,000 hospitals and medical institutions in China with around 2,800 professional marketing and promotional related staff.

Agency Network

In 2017, facing severe impact from industry policies on agency network, the Group confronted the headwind and responded actively. In response to the "two-invoice system", the Group has successively adjusted other products in the Agency Network to the promotional service model by learning from XiDaKang's successful transformation experience. Meanwhile, by holding various national and regional training conferences, the Group enhanced the trainings for its agents, formulating a larger scale and more normalized training system. Supported by the increasingly sophisticated information management system and mobile internet tools, the Group achieved optimized communication and cooperation internally and with agents.

As at 31 December 2017, the Group had signed agreements with around 510 agencies or third-party sales representatives, and covered around 9,600 hospitals and medical institutions across the country.

Production Development

During the Reporting Period, the solid preparation workshop (including TCM extraction) of Kangzhe Hunan of the Group received new GMP certification.

Outlook and Future Development

In recent years, various reform policies in the areas of pharmaceuticals, healthcare, medical insurance and circulation, have been issued and implemented. The Chinese healthcare and pharmaceutical industry has now moved into a stage of quality and efficiency. At the same time, as people's living standards continue to improve and they pay more attention to their health, the Group continues to have strong prospects in the healthcare and pharmaceutical industry. The Group is confident that it can deliver solid sustainable development by adhering to its two core development strategies: continuous product introduction and development, and promotional network expansion.

As for product introduction, the Group will apply its strict product selection criteria, and continue to search for and acquire high-quality products that meet the characteristics of China's market and the Group's development strategy, to continuously supplement the quality products and enrich the product portfolio. In terms of developing existing products, the Group will continue to explore the academic advantages of products, and create a more professional and standardized promotional environment through academic information storage and transmission.

With respect to the expansion of the promotional network, the Group will continue its efforts in refining and penetrating the low-tier market, which will further enhance the capacity of its network. The Group will continue to upgrade its cooperation policies with agents, under the premise of complying with the national policies, to strengthen the academic supports of products for agents, and maximize the scale effect of the Agency Network.

In the future, the Group will follow industry trends and keep pace with the development of the industry. We will view any challenges we face as a chance to boost our development, and we will be ready to receive the dividends released from the reform. At the same time, the Group will continue to strengthen its internal management by optimizing the structure of its operational organization. The Group will remain committed to innovation and make steady progress in the development of patented products in the research stage by combining in-house R&D and collaborative research, accumulating the power for boosting its sustainable growth. In addition, the Group will

continue to serve customers with professional academic knowledge, and work together with its staff to reach common goals: create greater value for customers, and shoulder more responsibility for society.

Financial Review

In reading the following discussion and analysis, please also refer to the audited consolidated financial statements and notes to the financial statements in the Annual Report.

The Group prepared the consolidated financial statements in accordance with the International Financial Reporting Standards. The Group's financial performance is summarized as follows:

Turnover

Turnover increased by 9.1% from RMB4,900.8 million for the year ended 31 December 2016 to RMB5,348.8 million for the year ended 31 December 2017. Excluding the effect of the "two-invoice system", turnover increased by 21.2% to RMB5,578.6 million for the year ended 31 December 2017 from RMB4,603.1 million for the year ended 31 December 2016, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 19.5% from RMB2,911.9 million for the year ended 31 December 2016 to RMB3,478.3 million for the year ended 31 December 2017; excluding the effect of the "two-invoice system", gross profit increased by 19.1% to RMB3,272.2 million for the year ended 31 December 2017 from RMB2,746.3 million for the year ended 31 December 2016, primarily reflecting an increase in turnover. Gross profit margin increased by 5.6 percentage points to 65.0% for the year ended 31 December 2017 from 59.4% for the year ended 31 December 2016; excluding the effect of the "two-invoice system", gross profit margin decreased by 1.0 percentage point to 58.7% for the year ended 31 December 2017 from 59.7% for the year ended 31 December 2016, mainly due to an decrease in selling price of products and a change in sales weight of products.

Selling Expenses

Selling expenses increased by 17.8% from RMB1,173.8 million for the year ended 31 December 2016 to RMB1,382.2 million for the year ended 31 December 2017; selling expenses as a percentage of turnover increased by 1.8 percentage points to 25.8% for year ended 31 December 2017 from 24.0% for year ended 31 December 2016. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover decreased by 0.8 percentage point to 21.1% for the year ended 31 December 2017 from 21.9% for the year ended 31 December 2016, primarily reflecting the Group's effective control over expenses and a benefit from economics of scale of the Direct Network.

Administrative Expenses

Administrative expenses increased by 0.1 % from RMB221.7 million for the year ended 31 December 2016 to RMB222.0 million for the year ended 31 December 2017; administrative expenses as a percentage of turnover decreased by 0.4 percentage point to 4.1% for year ended 31 December 2017 from 4.5% for year ended 31 December 2016. Excluding the effect of the "two-invoice system", administrative expenses as a percentage of turnover decreased by 0.8 percentage point to 4.0% for the year ended 31 December 2017 from 4.8% for the year

ended 31 December 2016, primarily reflecting the Group's effective control over expenses and benefiting from economies of scale.

Other Gains and Losses

Other gains and losses increased by 177.3% from a loss of RMB22.1 million for the year ended 31 December 2016 to a loss of RMB61.2 million for the year ended 31 December 2017, mainly due to an exchange loss on bank borrowings in foreign currencies.

Share of Result of Associates

Share of result of associates increased by 59.9% from RMB48.6 million for the year ended 31 December 2016 to RMB77.7 million for year ended 31 December 2017, mainly reflecting an increase in the profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs increased by 93.4% from RMB42.5 million for the year ended 31 December 2016 to RMB82.3 million for the year ended 31 December 2017, mainly reflecting an increase in the use of bank borrowings.

Profit for the Year

Profit for the year increased by 21.2% from RMB1,377.9 million for the year ended 31 December 2016 to RMB1,669.9 million for the year ended 31 December 2017; excluding exchange loss net of income tax effect, profit for the year would have increased by 23.6% to RMB1,766.2 million for year ended 31 December 2017 from RMB1,428.7 million for the year ended 31 December 2016, mainly due to the continuous growth in turnover and excellent control over cost and expense.

Inventories

Inventories decreased by 9.5% from RMB509.0 million as at 31 December 2016 to RMB460.4 million as at 31 December 2017. Average inventory turnover days increased from 82 days for the year ended 31 December 2016 to 95 days for the year ended 31 December 2017, mainly due to a decrease in cost of goods sold with effect of "two-invoice system".

Trade Receivables

Trade receivables decreased by 7.0% from RMB1,068.5 million as at 31 December 2016 to RMB993.8 million as at 31 December 2017. Average trade receivables turnover days increased to 71 days for the year ended 31 December 2017 from 68 days for the year ended 31 December 2016, mainly due to a decrease in sale of goods sold with effect of "two-invoice system".

Trade Payables

Trade payables decreased by 5.5% from RMB137.6 million as at 31 December 2016 to RMB130.0 million as at 31 December 2017. Average trade payables turnover days increased to 26 days for the year ended 31 December 2017 from 21 days for the year ended 31 December 2016, mainly due to a decrease in cost of goods sold with effect of "two-invoice system".

Liquidity and Financial Resources

As at 31 December 2017, the Group's bank balances and cash amounted to RMB855.6 million while readily realizable bank acceptance bills amounted to RMB349.6 million. As at 31 December 2016, our bank balances and cash amounted to RMB482.5 million while readily realizable bank acceptance bills amounted to RMB423.6 million.

As at 31 December 2017, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("US$"), Euro ("EURO") and Hong Kong Dollars ("HK$").

The following table is a summary of our consolidated statements of cash flows:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net cash from operating activities	2,071,798	1,162,044
Net cash used in investing activities	(354,099)	(1,533,258)
Net cash (used in) from financing activities	(1,345,062)	621,981
Net increase (decrease) in cash and cash equivalent	372,637	250,767
Cash and cash equivalent at beginning of the year	482,451	229,336
Effect of foreign exchange rate changes	541	2,348
Cash and cash equivalent at end of the year	855,629	482,451

Net cash from operating activities

The Group's net cash generated from operating activities was RMB2,071.8 million for the year ended 31 December 2017 compared with RMB1,162.0 million for the year ended 31 December 2016, an increase of 78.3% mainly due to an increase in sales and a decrease in occupation of working capital.

Net cash used in investing activities

For the year ended 31 December 2017, the Group's net cash used in investing activities was RMB354.1 million compared with RMB1,533.3 million for the year ended 31 December 2016, a decrease of 76.9% mainly due to the collection back of a loan to an associate which was granted in the year of 2016.

Net cash (used in) from financing activities

For the year ended 31 December 2017, the Group's net cash used in financing activities was RMB1,345.1 million compared with net cash from financing activities of RMB622.0 million for the year ended 31 December 2016, a decrease of 316.3% mainly due to a payment in the current year for the remaining consideration of the exclusive license for the commercialization of Plendil in China which was acquired in the year of 2016, and a decrease in net bank borrowings used during the current year compared with that used during the year of 2016.

Net Current Assets

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Current Assets		
Inventories	460,401	509,004
Trade receivables	993,812	1,068,481
Other receivables	493,580	613,939
Tax recoverable	5,135	14,240
Amount due from an associate	151,023	862,803
Bank balances and cash and deposits	855,629	482,451
	2,959,580	3,550,918
Current Liabilities		
Trade payables	130,011	137,590
Other payables	376,815	441,532
Bank borrowings	65,000	1,612,398
Deferred consideration payables	8,802	1,096,424
Tax payable	77,516	108,223
	658,144	3,396,167
Net current assets	2,301,436	154,751

The Group's liquidity requirements will be satisfied by a combination of cash flow generated from operating activities, long-term bank loans and other financing means which the Company may from time to time consider appropriate.

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Purchase of intangible assets	-	1,080,651
Deposits for acquisition of intangile assets	-	16,150
Purchase of property, plant and equipment	76,624	48,891
Capital injection to an associate	1,000,000	-
Purchase of an available for sale investment	26,291	-
	1,102,915	1,145,692

Capital Structure and Gearing Ratio

The Company reviews the capital structure on a regular basis, and considers the cost of capital and the risks associated with each class of capital, for maximising the return to shareholders of the Company.

The following table shows the Group's debts:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Interest bearing bank borrowings	2,105,048	1,612,398

The Group had bank borrowings of RMB2,105.0 million as at 31 December 2017 (31 December 2016: RMB1,612.4 million). During the year ended 31 December 2017, the newly raised bank loans of the Group was mainly used to pay the remaining consideration for acquisition of the exclusive license for the commercialization of Plendil in China. The details of bank borrowings are set out in note 13 to the consolidated financial statements.

As said above, along with the increase in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, increased by 4.2 percentage points to 20.7% as at 31 December 2017 from 16.5% as at 31 December 2016.

Interest in Associates

Interest in associates of the Group as at 31 December 2017 were RMB2,412.4 million (31 December 2016: RMB1,363.4 million), the increase was mainly due to a capital injection to the associate Tibet Pharmaceutical.

On 3 May 2017, Tibet Kangzhe Enterprise Management Co., Ltd., a wholly-owned subsidiary of the Group, subscribed for and was allotted 27,412,280 shares for a total subscription amount of RMB1.0 billion in the share placing of Tibet Pharmaceutical.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in the consolidated financial statements.

The Group is mainly exposed to currency risk of the US$, Euro and HK$. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the foreign currency risk management strategy from time to time, the management will consider hedging foreign currency exposure as appropriate. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk.

The Group will closely monitor the interest rate movements so as to mitigate the expected interest rate risk.

Pledge of Assets

As at 31 December 2017, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB73,247,000 and RMB28,289,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

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

Loan Agreements with Covenants Relating to Specific Performance of the Controlling Shareholder

On 20 June 2017, Sky United Trading Limited, a wholly-owned subsidiary of the Company (as borrower) (the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as original lender, mandated lead arranger and bookrunner and agent) in respect of a US$300,000,000 term loan facility (the "Facility") as been made available to the Borrower for a term of 36 months from the first utilisation date under the Facility Agreement.

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder (as defined in the Rules Governing the Listing of Securities on SEHK ("Listing Rules")) of the Company (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii) ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the agent (acting on the instructions of the majority lenders under the Facility) may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 31 December 2017, Mr. Lam Kong (directly and indirectly) holds approximately 43.53% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2017, the Group paid an interim dividend for 2017 and a final dividend for 2016 of RMB321.6 million and RMB289.5 million, respectively. For the year ended 31 December 2016, the Group paid an interim dividend for 2016 and a final dividend for 2015 of RMB261.7 million and RMB201.2 million, respectively.

Purchase, Sale or Redemption of the Company's Listed Securities

None of the Company or its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2017.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 January 2017 to 31 December 2017, except for a deviation from the code provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and Chief Executive of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Audit Committee

The Company established the Audit Committee in 2007. The Audit Committee currently comprises three independent non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Mr. Leung Chong Shun as the committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual results announcement and annual report for the year ended 31 December 2017 of the Company have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on SEHK's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2017, the Audit Committee has held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2016 with the external auditors, the interim results for 2017, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2017
Mr. Wu Chi Keung	3/3
Mr. Cheung Kam Shing, Terry	3/3
Mr. Huang Ming*	3/3
Mr. Leung Chong Shun*	0/3

*Notes:

1. Mr. Huang Ming resigned on 13 December 2017.

2. Mr. Leung Chong Shun was appointed on 13 December 2017.

Cash Dividend

The Company has paid an interim dividend of RMB0.1293 (equivalent to HK$0.152) per ordinary share of the Company (the "Share") for the six months ended 30 June 2017. The Board of Directors is pleased to recommend a final dividend of RMB0.1393 (equivalent to HK$0.173) per Share for the year ended 31 December 2017 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 3 May 2018 (the "Record Date"). The register of members of the Company will be closed on Thursday, 3 May 2018. The final dividend will be paid to shareholders in Hong Kong dollars about Thursday, 10 May 2018 after the shareholders' approval at the Annual General Meeting ("AGM") of the Company dated on Thursday, 26 April 2018.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 23 April 2018 to Thursday, 26 April 2018 (both days inclusive), during which the registration of transfer of Shares will be suspended. In order to qualify for attending and voting at the AGM, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 20 April 2018.

The register of members will be closed on Thursday, 3 May 2018, on which date no transfer of Shares will be effected. The last day for dealing in the Shares on a cum-entitlement basis will be Friday, 27 April 2018. Shareholders are reminded that in order to qualify for the final dividend, all transfers of Shares must be duly completed, accompanied by the relevant share certificate(s) and lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 2 May 2018.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by the Company, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2017. The Model Code also applies to other specified senior management of the Company.

Employees who are likely to be in possession of unpublished price-sensitive information about the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance of the guidelines by such employees was noted by the Company in the Reporting Period.

Disclosure of Information

The information provided in this announcement is only the summary of 2017 Annual Report of the Company. The 2017 Annual Report will be duly dispatched to shareholders of the Company and published on the websites of the SEHK (www.hkexnews.hk) and the Company (www.cms.net.cn).

By order of the Board
China Medical System Holdings Limited
Lam Kong
Chairman

Hong Kong, 19 March 2018

As at the date of the announcement, the directors of the Company include (i) Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling; and (ii) Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Leung Chong Shun as independent non-executive directors.