

*The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the Appendix VI headed "Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus, a copy of the accountants' report is available for inspection.*



22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

30 June 2015

The Directors

Zhongzhi Pharmaceutical Holdings Limited  
Guosen Securities (HK) Capital Company Limited

Dear Sirs,

We set out below our report on the financial information of Zhongzhi Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined statements of profit or loss, the combined statement of comprehensive income, the combined statement of changes in equity, and the combined statements of cash flows of the Group for each of the years ended 31 December 2012, 2013 and 2014 (the "Relevant Periods"), and the combined statement of financial position of the Group as at 31 December 2012, 2013 and 2014 together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in note 2 of Section II below, for inclusion in this prospectus of the Company dated 30 June 2015 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 September 2014. Pursuant to the group reorganisation as set out in the paragraph headed "History and Corporate Structure — Reorganisation" in the Prospectus (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as the Company has not been involved in any significant business transaction other than the Reorganisation described above.

As at the end of the Relevant Periods, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the combined financial statements of the Group (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (the “IFRSs”), issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

#### **DIRECTORS' RESPONSIBILITY**

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

#### **REPORTING ACCOUNTANTS' RESPONSIBILITY**

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

#### **OPINION IN RESPECT OF THE FINANCIAL INFORMATION**

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 December 2012, 2013 and 2014, and of the combined results and cash flows of the Group for each of the Relevant Periods.

## I. FINANCIAL INFORMATION

## Combined Statements of Profit or Loss

	Notes	Year ended 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
REVENUE	5	410,052	482,805	595,565
Cost of sales		<u>(221,365)</u>	<u>(243,430)</u>	<u>(275,290)</u>
Gross profit		188,687	239,375	320,275
Other income and gains	5	7,370	5,383	6,528
Selling and distribution expenses		(121,904)	(142,326)	(148,747)
Administrative expenses		(35,258)	(38,881)	(50,196)
Other expenses		(11,152)	(15,364)	(12,048)
Finance costs	7	<u>(4,294)</u>	<u>(1,384)</u>	<u>(1,002)</u>
PROFIT BEFORE TAX	6	23,449	46,803	114,810
Income tax expense	10	<u>(6,195)</u>	<u>(9,165)</u>	<u>(28,122)</u>
PROFIT FOR THE YEAR		<u>17,254</u>	<u>37,638</u>	<u>86,688</u>
Attributable to owners of the parent		<u>17,254</u>	<u>37,638</u>	<u>86,688</u>

## Combined Statements of Comprehensive Income

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR	<u>17,254</u>	<u>37,638</u>	<u>86,688</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	<u>—</u>	<u>1</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>17,254</u>	<u>37,639</u>	<u>86,687</u>
Attributable to owners of the parent	<u>17,254</u>	<u>37,639</u>	<u>86,687</u>

## Combined Statements of Financial Position

	Notes	As at 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	13	63,782	71,406	79,366
Prepayment for property, plant and equipment		1,908	883	2,100
Prepaid land lease payments	14	15,776	15,306	14,836
Goodwill	15	1,628	1,628	1,628
Other intangible assets	16	1,439	1,573	1,366
Available-for-sale investment	17	450	—	—
Deferred tax assets	26	3,966	5,534	4,976
Rental deposits		2,491	2,505	3,275
Total non-current assets		91,440	98,835	107,547
<b>CURRENT ASSETS</b>				
Prepaid land lease payment	14	470	470	470
Inventories	18	81,241	108,940	88,471
Trade and notes receivables	19	26,806	28,804	35,489
Prepayments, deposits and other receivables	20	4,620	7,748	7,943
Available-for-sale investments	17	10,000	25,000	—
Cash and cash equivalents	21	25,044	29,077	58,004
Total current assets		148,181	200,039	190,377
<b>CURRENT LIABILITIES</b>				
Trade payables	22	49,458	54,218	52,802
Other payables and accruals	23	57,759	75,856	60,805
Amount due to a shareholder	30(a)(i)	54	53	—
Amounts due to related parties	30(a)(ii)	—	—	8,786
Interest-bearing bank borrowings	24	25,000	16,000	15,000
Deferred income	25	2,485	1,921	6,019
Tax payable		4,781	9,718	20,219
Total current liabilities		139,537	157,766	163,631
NET CURRENT ASSETS		8,644	42,273	26,746
TOTAL ASSETS LESS CURRENT LIABILITIES		100,084	141,108	134,293

		As at 31 December			
		2012	2013	2014	
Notes		RMB'000	RMB'000	RMB'000	
NON-CURRENT LIABILITIES					
	Deferred income	25	6,099	9,509	9,047
	Deferred tax liabilities	26	<u>1,414</u>	<u>1,389</u>	<u>4,349</u>
	Total non-current liabilities		<u>7,513</u>	<u>10,898</u>	<u>13,396</u>
	Net assets		<u>92,571</u>	<u>130,210</u>	<u>120,897</u>
EQUITY					
Equity attributable to owners of the parent					
	Issued capital	27	—	—	—
	Reserves	28	<u>92,571</u>	<u>130,210</u>	<u>120,897</u>
	Total equity		<u>92,571</u>	<u>130,210</u>	<u>120,897</u>

## Combined Statements of Changes in Equity

	Issued capital	Merger reserve*	Statutory surplus reserve*	Share based payment*	Exchange fluctuation reserve*	Retained profits*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 28(b)	Note 28(c)	Note 28(d)			
At 1 January 2012	—	20,800	2,748	—	—	35,689	59,237
Profit for the year	—	—	—	—	—	17,254	17,254
Total comprehensive income for the year	—	—	—	—	—	17,254	17,254
Contribution from shareholders	—	10,400	—	—	—	—	10,400
Equity-settled share arrangements	—	—	—	5,680	—	—	5,680
Transfer from retained profits	—	—	2,032	—	—	(2,032)	—
At 31 December 2012 and 1 January 2013	—	31,200	4,780	5,680	—	50,911	92,571
Profit for the year	—	—	—	—	—	37,638	37,638
Other comprehensive income for the year							
Exchange differences on translation of foreign operations	—	—	—	—	1	—	1
Total comprehensive income for the year	—	—	—	—	1	37,638	37,639
Transfer from retained profits	—	—	4,998	—	—	(4,998)	—
At 31 December 2013 and 1 January 2014	—	31,200	9,778	5,680	1	83,551	130,210
Profit for the year	—	—	—	—	—	86,688	86,688
Other comprehensive income for the year							
Exchange differences on translation of foreign operations	—	—	—	—	(1)	—	(1)
Total comprehensive income for the year	—	—	—	—	(1)	86,688	86,687
Transfer to retained profits	—	—	(3,775)	—	—	3,775	—
Dividends declared of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (note 11)	—	—	—	—	—	(96,000)	(96,000)
At 31 December 2014	—	31,200	6,003	5,680	—	78,014	120,897

\* Included in reserves in the combined statements of financial position.

## Combined Statements of Cash Flows

	Notes	Year ended 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		23,449	46,803	114,810
Adjustments for:				
Finance costs	7	4,294	1,384	1,002
Interest income	5	(708)	(667)	(898)
Loss/(gain) on disposal of items of property, plant and equipment	5, 6	291	(98)	70
Loss on disposal of intangible assets	6	—	—	216
Depreciation	6, 13	11,566	10,701	12,028
Recognition of prepaid land lease payments	6, 14	494	470	470
Amortisation of other intangible assets	6, 16	264	285	224
Government grants released	25	(6,049)	(2,956)	(4,095)
Loss on disposal of available-for-sale investment	6	—	99	—
Equity-settled share option expense	6	5,680	—	—
		39,281	56,021	123,827
(Increase)/decrease in inventories		(16,430)	(27,699)	20,469
Decrease/(increase) in trade and notes receivables		3,265	(2,319)	(7,387)
Decrease/(increase) in prepayments, deposits and other receivables		317	(3,128)	(195)
Increase in rental deposits		(581)	(14)	(770)
Increase/(decrease) in trade payables		2,313	4,760	(1,416)
Increase/(decrease) in other payables and accruals		25,548	17,381	(14,106)
Increase in amounts due to related parties	30	—	—	8,786
Increase in deferred income		2,981	5,802	6,531
Cash generated from operations		56,694	50,804	135,739
Income tax paid		(1,155)	(5,821)	(14,102)
Net cash flows from operating activities		55,539	44,983	121,637



	Notes	Year ended 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of items of property, plant and equipment		(10,124)	(16,573)	(20,631)
Prepayment for purchase of property, plant and equipment		(1,867)	(883)	(1,219)
Proceeds from disposal of items of property, plant and equipment		323	1,290	278
Purchase of other intangible assets	16	(38)	(419)	(233)
Receipt of government grants		503	—	1,200
Proceeds from disposal of available-for-sale investment		—	351	—
Purchases of available-for-sale investments		(10,000)	(25,000)	—
Proceeds upon maturity of available-for-sale investments		15,000	10,000	25,000
Interest received		708	667	898
Net cash flows from/(used in) investing activities		(5,495)	(30,567)	5,293
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Contribution from shareholders	28(b)	10,400	—	—
New bank borrowings		51,900	42,000	15,000
Repayments of bank borrowings		(102,016)	(51,000)	(16,000)
Dividends paid	11	—	—	(96,000)
Interest paid		(4,294)	(1,384)	(1,002)
Net cash flows used in financing activities		(44,010)	(10,384)	(98,002)

	Notes	Year ended 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		6,034	4,032	28,928
Cash and cash equivalents at beginning of year		19,010	25,044	29,077
Effect of foreign exchange rate changes, net		—	1	(1)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>25,044</u>	<u>29,077</u>	<u>58,004</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	21	<u>25,044</u>	<u>29,077</u>	<u>58,004</u>

**II. NOTES TO THE FINANCIAL INFORMATION****1 CORPORATE INFORMATION**

Zhongzhi Pharmaceutical Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacture and sale of pharmaceutical products (collectively the “Listing Business”) in the People’s Republic of China (the “PRC”).

Prior to the incorporation of the Company and the completion of the reorganisation as set out in the paragraph headed “History and Corporate Structure — Reorganisation” in the Prospectus (the “Reorganisation”), the main operating activities of the Listing Business was carried out by Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (“Zhongzhi Pharmaceutical”) and its subsidiaries, which were incorporated in the PRC. The Company and its subsidiaries comprising the Group are under the control of Mr. Lai Zhitian (Mr. Lai, the “Controlling Shareholder”).

In preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing”), the Group underwent the Reorganisation to transfer the Listing Business to the Company. Upon completion of the Reorganisation, the Company became the ultimate holding company of the Group.

As of the date of this report, the Company has direct and indirect interests in the following entities:

Company name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Windom Talent Company Limited (“Windom Talent”) <sup>(a)</sup>	British Virgin Islands (“BVI”), 16 September 2014, BVI	US\$50,000	100%	—	Investment holding
Grant Talent Development Limited (“Grant Talent”) <sup>(a)</sup>	Hong Kong, 1 August 2014, Hong Kong	HK\$1	—	100%	Investment holding
Zhongzhi Pharmaceutical <sup>(b)</sup>	PRC, 27 September 1999, Mainland China	RMB30,000,000	—	100%	Sale of pharmaceutical drugs
Zeus Medicine Hong Kong Limited <sup>(c)</sup>	Hong Kong, 14 April 2011, Hong Kong	HK\$10,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chain Pharmacies Company Limited (“Zhongzhi Chain Pharmacies”) <sup>(b)</sup>	PRC, 27 July 2001, Mainland China	RMB4,600,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. (“Zhongzhi Herbal Pieces”) <sup>(b)</sup>	PRC, 10 July 2001, Mainland China	RMB6,600,000	—	100% <sup>#</sup>	Manufacture and sale of Chinese decoction pieces
Zhongshan Honeson Pharmaceutical Co., Ltd. (“Honeson Pharmaceutical”) <sup>(b)</sup>	PRC, 2 March 1986, Mainland China	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Zhongshan Zeus Pharmaceutical Manufacturing Limited <sup>(d)</sup>	PRC, 8 August 2003, Mainland China	RMB8,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Zhongshan Zhongzhi Food Technology Company Limited <sup>(e)</sup>	PRC, 10 December 2014, Mainland China	RMB500,000	—	100%	Manufacture and sale of food

- (a) No audited financial statements have been prepared as these companies are either newly incorporated in 2014 or they are incorporated in jurisdictions which do not have any statutory audit requirements.
  - (b) The statutory financial statements for the Relevant Periods prepared in accordance with PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by Zhongshan Promise Certified Public Accountants (“中山市成諾會計師事務所有限公司”), certified public accountants registered in the PRC.
  - (c) The statutory financial statements of Zeus Medicine Hong Kong Limited for the Relevant Periods prepared in accordance with Hong Kong Financial Reporting Standards were audited by D K MAK & CO., certified public accountants registered in Hong Kong.
  - (d) The statutory financial statements of Zhongshan Zeus Pharmaceutical Manufacturing Limited for the years ended 31 December 2012 and 2013 prepared in accordance with PRC GAAP were audited by Zhongshan Promise Certified Public Accountants (“中山市成諾會計師事務所有限公司”), certified public accountants registered in the PRC. Zhongshan Zeus Pharmaceutical Manufacturing Limited was deregistered in July 2014 and its business was combined in Honeson Pharmaceutical.
  - (e) No audited financial statements have been prepared as the Company is newly incorporated in 2014, the issued share capital is paid by Zhongzhi Pharmaceutical after 31 December 2014.
- # Prior to the Reorganisation, Zhongzhi Herbal Pieces was a wholly-owned subsidiary of Zhongzhi Pharmaceutical. After the Reorganisation, Zhongzhi Herbal Pieces was legally owned by certain registered shareholders. Zhongzhi Pharmaceutical entered into a series of contractual arrangements with Zhongzhi Herbal Pieces and its registered shareholders. As a result of the contractual arrangements, Zhongzhi Herbal Pieces was ultimately controlled by Zhongzhi Pharmaceutical, which is a wholly-owned subsidiary of the Company.

## 2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as fully explained in the section headed “History and Corporate Structure — Reorganisation” to the Prospectus, the Company became the holding company of the companies now comprising the Group on 2 February 2015. As the Reorganisation only involved inserting new holding companies at the top of an existing company (i.e., Zhongzhi Pharmaceutical) and has not resulted in any change of economic substances, the Financial Information for the Relevant Periods has been presented as a continuation of the exiting company using the pooling of interests method as if the Reorganisation had been completed at the beginning of the Relevant Periods.

According to the Foreign Investment Catalogue which has been further explained in the paragraph headed “Regulation — The Foreign Investment Catalogue” in the Prospectus, the principal activities of Zhongzhi Herbal Pieces (i.e. manufacture and sale of Chinese decoction pieces) fall into the scope of “Catalogue of Prohibited Foreign Investment Industries”, whereby Zhongzhi Herbal Pieces cannot be owned by foreign investors.

On 31 August 2014, Mr. Lai, Zhongshan Yuxin Equity Investment Co., Ltd. (“Zhongshan Yu Xin”), Guangdong Junke Venture Investment Co., Ltd. (“Guangdong Jun Ke”) and Mr. Luo Tian Quan (羅天泉) (“Mr. Luo”), shareholders of Zhongzhi Pharmaceutical, entered into equity transfer agreements with Zhongzhi Pharmaceutical to acquire 87.56%, 10%, 2% and 0.44% equity interests in Zhongzhi Herbal Pieces at the consideration of RMB7,693,000, RMB878,000, RMB176,000 and RMB39,000, respectively. The acquisitions were legally completed on 22 September 2014 and Zhongzhi Herbal Pieces was owned as to 87.56%, 10%, 2% and 0.44% by Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo (collectively as the “Registered Shareholders”), respectively.

On 31 August 2014, Zhongzhi Pharmaceutical entered into a series of contractual arrangements with Zhongzhi Herbal Pieces and the Registered Shareholders, comprising the exclusive consulting and service agreement, irrevocable power of attorney, exclusive business operating agreement, exclusive option agreement and share pledge agreement (collectively the “Contractual Arrangements”). The arrangements of the Contractual Arrangements enable Zhongzhi Pharmaceutical to exercise effective control over Zhongzhi Herbal Pieces and obtain substantially all economic benefits of

Zhongzhi Herbal Pieces. Accordingly, Zhongzhi Herb Pieces is combined in the Financial Information continuously. Details of the Contractual Arrangements are disclosed in the section headed “History and Corporate Structure — Reorganisation — Contractual Arrangements” to the Prospectus.

## 2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (“IASB”). All IFRSs effective for the accounting period commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared on a historical cost convention, except for bank financial products which have been measured at fair value. The Financial Information is presented in Renminbi (“RMB”) which is the Company’s functional currency, and all values are rounded to the nearest thousand except otherwise indicated.

### **Basis of Combination**

As aforementioned, the Group’s Reorganisation is accounted for as business combination under common control using the merger accounting method.

The merger accounting method involves incorporating the financial statement items of the combining entities or businesses which underwent the Reorganization under common control as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values. No amount is recognised in respect of goodwill or excess of the acquirers’ interest in the net fair value of acquirees’ identifiable assets, liabilities and contingent liabilities over cost of investment at the time of common control combination, to the extent of the continuation of the controlling party’s interest. The combined statements of comprehensive income included the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the Reorganisation under common control.

Equity interests in subsidiaries held by parties other than the controlling shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting method. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the Financial Information.

IFRS 9	<i>Financial Instruments</i> <sup>4</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>2</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>2</sup>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>2</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>5</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
Amendments to IAS 1	<i>Disclosure Initiative</i> <sup>2</sup>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> <sup>2</sup>
Amendments to IAS 19	<i>Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> <sup>2</sup>
<i>Annual Improvements 2010–2012 Cycle</i>	Amendments to a number of IFRSs <sup>1</sup>
<i>Annual Improvements 2011–2013 Cycle</i>	Amendments to a number of IFRSs <sup>1</sup>
<i>Annual Improvements 2012–2014 Cycle</i>	Amendments to a number of IFRSs <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>5</sup> Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangements with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

**Business combination and goodwill**

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

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

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



Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

#### **Fair value measurement**

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

#### **Impairment of non-financial assets**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

**Related parties**

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

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**Property, plant and equipment and depreciation**

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

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

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

Leasehold improvement	3–10 years
Buildings	20 years
Machinery	3–10 years
Motor vehicle	4–5 years
Office equipment	3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress mainly represents leasehold improvements under construction and machinery received but not completely installed. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### **Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised on the straight-line basis over the following estimated useful lives:

Drug formulation	10 years
Software	10 years

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

**Research and development costs**

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

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

**Leases**

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

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

**Investments and other financial assets*****Initial recognition and measurement***

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets.

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

***Subsequent measurement***

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

***Loans and receivables***

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

*Available-for-sale financial investments*

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

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

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

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

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

**Derecognition of financial assets**

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

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

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

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

### **Impairment of financial assets**

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

#### ***Financial assets carried at amortised cost***

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

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

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

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

***Available-for-sale financial investments***

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

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

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

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

**Financial liabilities*****Initial recognition and measurement***

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

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

The Group's financial liabilities include trade and other payables, accruals, amount due to a shareholder and interest-bearing bank borrowings.

***Subsequent measurement***

The subsequent measurement of loans and borrowings is as follows:

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

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



**Derecognition of financial liabilities**

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

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

**Offsetting of financial instruments**

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

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

**Income tax**

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Government grants**

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

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

### **Revenue recognition**

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

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

- (b) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

### **Employee benefits**

#### ***Pension scheme***

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

#### ***Provision***

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

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

### **Borrowing costs**

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

### **Foreign currency translation**

The Financial Information is presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial information of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

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

The functional currencies of the subsidiaries established outside PRC are currencies other than the RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

For the purpose of the combined statements of cash flows, the cash flows of the subsidiaries established outside PRC are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the companies established outside PRC which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

#### Judgements

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

##### *Contractual arrangements*

Zhongzhi Herbal Pieces is engaged in the manufacture and sale of Chinese decoction pieces, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such business.

As disclosed in note 2.1 to the Financial Information, as part of the Reorganisation, the equity interests in Zhongzhi Herbal Pieces were transferred to the Registered Shareholders and the Group exercises control over Zhongzhi Herbal Pieces and enjoys all economic benefits of Zhongzhi Herbal Pieces through the Contractual Arrangements.

The Group considers that it controls Zhongzhi Herbal Pieces, notwithstanding the fact that it does not hold direct equity interest in Zhongzhi Herbal Pieces, as it has power over the financial and operating policies of Zhongzhi Herbal Pieces and receives all economic benefits from the business activities of Zhongzhi Herbal Pieces through the Contractual Arrangements. Accordingly, Zhongzhi Herbal Pieces has been accounted as a subsidiary during the Relevant Periods.

**Estimation uncertainty**

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

***Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill were RMB1,628,000 as at 31 December 2012, 2013 and 2014. Further details are given in note 15 to the Financial Information.

***Impairment of non-financial assets (other than goodwill)***

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the Relevant Periods. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

***Deferred tax assets***

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

***Impairment of trade and other receivables***

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade and other receivables amounted to RMB74,000, RMB24,000 and RMB17,000 as at 31 December 2012, 2013 and 2014, respectively.

**4. OPERATING SEGMENT INFORMATION**

The board of directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the board of directors for the purposes of allocating resources and assessing performance.

For management purposes, the Group is organised into business units based on its sales channels and has two reportable operating segments as follows:

- (a) Operation of chain pharmacies
- (b) Pharmaceutical manufacturing

Separate individual financial information for different types of channel is presented to the board of directors who reviews the internal reports in order to assess performance and allocate resources.

Segment results are evaluated based on gross profit. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the board of directors.

**Geographical information**

During the Relevant Periods, the Group operates within one geographical segment because 100% of its revenue was generated in the PRC and all of its assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

**Information about major customers**

During each of the years ended 31 December 2012, 2013 and 2014, the Group had no revenue from transaction with a single customer which amounted to 10% or more of the Group's sales.

	<b>Year ended 31 December 2012</b>		
	<b>Operation of chain pharmacies</b>	<b>Pharmaceutical manufacturing</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Segment revenue</b>			
Revenue from external customers	237,812	172,240	410,052
Intersegment sales	—	38,686	38,686
Elimination of intersegment sales	—	(38,686)	(38,686)
Revenue	237,812	172,240	410,052
Cost of sales	(135,787)	(85,578)	(221,365)
<b>Segment results</b>	<b>102,025</b>	<b>86,662</b>	<b>188,687</b>
<b>Reconciliation:</b>			
Other income and gains			7,370
Selling and distribution expenses			(121,904)
Administrative expenses			(35,258)
Other expenses			(11,152)
Finance costs			(4,294)
<b>Profit before tax</b>			<b>23,449</b>

	<b>Year ended 31 December 2013</b>		
	<b>Operation of chain pharmacies</b>	<b>Pharmaceutical manufacturing</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Segment revenue:</b>			
Revenue from external customers	275,543	207,262	482,805
Intersegment sales	—	44,393	44,393
Elimination of intersegment sales	—	(44,393)	(44,393)
Revenue	275,543	207,262	482,805
Cost of sales	(145,113)	(98,317)	(243,430)
<b>Segment results</b>	<b>130,430</b>	<b>108,945</b>	<b>239,375</b>
<b>Reconciliation:</b>			
Other income and gains			5,383
Selling and distribution expenses			(142,326)
Administrative expenses			(38,881)
Other expenses			(15,364)
Finance costs			(1,384)
<b>Profit before tax</b>			<b>46,803</b>

	Year ended 31 December 2014		
	Operation of chain pharmacies	Pharmaceutical manufacturing	Total
	RMB'000	RMB'000	RMB'000
<b>Segment revenue:</b>			
Revenue from external customers	300,725	294,840	595,565
Intersegment sales	—	42,767	42,767
Elimination of intersegment sales	—	(42,767)	(42,767)
	300,725	294,840	595,565
Cost of sales	(153,362)	(121,928)	(275,290)
<b>Segment results</b>	<b>147,363</b>	<b>172,912</b>	<b>320,275</b>
<b>Reconciliation:</b>			
Other income and gains			6,528
Selling and distribution expenses			(148,747)
Administrative expenses			(50,196)
Other expenses			(12,048)
Finance costs			(1,002)
<b>Profit before tax</b>			<b>114,810</b>

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the Relevant Periods.

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

	Notes	Year ended 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
<b>Revenue</b>				
Sale of pharmaceutical products		410,052	482,805	595,565
<b>Other income and gains</b>				
Interest income		320	303	366
Interest income from available-for-sale investments		388	364	532
Government grants:				
— Related to assets	25	1,953	456	193
— Related to income	25	4,096	2,500	3,902
Gain on disposal of items of property, plant and equipment		34	554	67
Others		579	1,206	1,468
		<b>7,370</b>	<b>5,383</b>	<b>6,528</b>



## 6. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
Cost of inventories sold		221,265	243,335	275,290
Depreciation of items of property, plant, and equipment	13	11,566	10,701	12,028
Recognition of prepaid land lease payments*	14	494	470	470
Recognition of other intangible assets**	16	264	285	224
Provision/(reversal of provision) for impairment of trade receivables	19	74	(50)	(7)
Write-down of inventories to net realisable value		100	95	—
Operating lease expenses for land and buildings		14,723	17,173	18,649
Auditors' remuneration		277	289	1,023
Listing expense		—	—	4,299
Employee benefit expense (including directors' remuneration (note 8)):				
Salaries and wages		66,680	101,974	106,622
Pension scheme contributions		4,520	6,100	7,860
Staff welfare expenses		6,865	7,228	6,678
Share-based payment		5,680	—	—
		<u>83,745</u>	<u>115,302</u>	<u>121,160</u>
Other expenses:				
Research and development costs		10,750	14,001	11,184
Loss on disposal of items of property, plant and equipment		325	456	137
Loss on disposal of intangible assets		—	—	216
Loss on disposal of available-for-sale investment	17	—	99	—
Others		<u>77</u>	<u>808</u>	<u>511</u>
		<u>11,152</u>	<u>15,364</u>	<u>12,048</u>

\* The recognition of prepaid land lease payments for the Relevant Periods is included in "Administrative expenses" on the face of the combined statements of profit or loss.

\*\* The amortisation of drug formulation for the Relevant Periods is included in "Cost of sales" on the face of the combined statements of profit or loss.

The amortisation of software for the Relevant Periods is included in "Administrative expenses" on the face of the combined statements of profit or loss.

## 7. FINANCE COSTS

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	4,294	1,384	1,002

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules, is as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	190	194	862
Pension scheme contributions	13	26	113
Share-based payment	1,222	—	—
	<u>1,425</u>	<u>220</u>	<u>975</u>

*2012*

	Salaries, allowances and benefits in kind	Pension scheme contributions	Share-based payment	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors:</b>				
Lai Zhitian	190	13	1,222	1,425
Jiang Lixia	—	—	—	—
	<u>190</u>	<u>13</u>	<u>1,222</u>	<u>1,425</u>

*2013*

	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000
<b>Executive directors:</b>			
Lai Zhitian	194	26	220
Jiang Lixia	—	—	—
	<u>194</u>	<u>26</u>	<u>220</u>

2014

	<b>Salaries, allowances and benefits in kind</b>	<b>Pension scheme contributions</b>	<b>Total remuneration</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Executive directors:</b>			
Lai Zhitian	319	39	358
Jiang Lixia	—	—	—
Mou Li	272	39	311
Cao Xiaojun	271	35	306
	<u>862</u>	<u>113</u>	<u>975</u>

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

#### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2012, 2013 and 2014 include 1, 1 and 3 directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 4, 4 and 2 highest paid employees who are neither a director nor chief executive of the Group, during the Relevant Periods are as follows:

	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Salaries, allowances and benefits in kind	577	639	561
Pension scheme contributions	50	99	75
Share-based payment	2,764	—	—
	<u>3,391</u>	<u>738</u>	<u>636</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Nil to HK\$1,000,000	1	4	2
HK\$1,000,001 to HK\$1,500,000	3	0	0

During the Relevant Periods, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

**10. INCOME TAX EXPENSE**

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

Hong Kong profit tax rate is 16.5% of the Group's assembled profit derived from Hong Kong. Since the Group had no such profit during the Relevant Periods, no provision for Hong Kong profits tax has been made.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in Mainland China during the Relevant Periods was 25% of their taxable profits.

Zhongzhi Herbal Pieces and Honeson Pharmaceutical are qualified as high and new technology enterprises and are subject to a preferential income tax rate of 15% for the Relevant Periods.

The income tax expenses of the Group for the Relevant Periods are analysed as follows:

	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Mainland China			
Current income tax	5,834	10,758	24,604
Deferred income tax charge/(credit) (note 26)	<u>361</u>	<u>(1,593)</u>	<u>3,518</u>
Total income tax expense	<u><u>6,195</u></u>	<u><u>9,165</u></u>	<u><u>28,122</u></u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the locations in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	<b>Year ended 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Profit before tax	<u><u>23,449</u></u>	<u><u>46,803</u></u>	<u><u>114,810</u></u>
Tax calculated at the PRC statutory tax rate of 25%	5,862	11,702	28,703
Effect of different applicable tax rates for certain subsidiaries	(1,973)	(2,979)	(4,224)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in the PRC	—	—	3,000
Expenses not deductible for tax	2,306	442	206
Effect of gain on intra-group transaction	<u>—</u>	<u>—</u>	<u>437</u>
Tax charge at the Group's effective tax rate	<u><u>6,195</u></u>	<u><u>9,165</u></u>	<u><u>28,122</u></u>

The effective tax rates of the Group were 26.4%, 19.6% and 24.5% in 2012, 2013 and 2014 respectively.

**11. DIVIDEND**

No dividend has been paid or declared by the Company since the date of its incorporation. The dividends declared by Zhongzhi Pharmaceutical to its then shareholders during the year ended 31 December 2012, 2013 and 2014 were nil, nil and RMB96,000,000, respectively.

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

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods on a combined basis disclosed in note 2 above.

**13. PROPERTY, PLANT AND EQUIPMENT**

	<u>Leasehold improvement</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Motor vehicles</u>	<u>Office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2012</b>							
At 1 January 2012:							
Cost	24,649	57,290	26,374	3,986	5,483	270	118,052
Accumulated depreciation	(13,102)	(18,152)	(14,134)	(3,038)	(3,947)	—	(52,373)
Net carrying amount	<u>11,547</u>	<u>39,138</u>	<u>12,240</u>	<u>948</u>	<u>1,536</u>	<u>270</u>	<u>65,679</u>
At 1 January 2012, net of accumulated depreciation							
	11,547	39,138	12,240	948	1,536	270	65,679
Additions	7,366	—	1,620	161	1,136	—	10,283
Disposals	—	—	(549)	(5)	(60)	—	(614)
Depreciation provided during the year (note 6)	(4,701)	(2,812)	(2,906)	(422)	(725)	—	(11,566)
Transfers	—	—	270	—	—	(270)	—
At 31 December 2012, net of accumulated depreciation	<u>14,212</u>	<u>36,326</u>	<u>10,675</u>	<u>682</u>	<u>1,887</u>	<u>—</u>	<u>63,782</u>
At 31 December 2012							
Cost	32,015	57,290	26,196	4,045	5,501	—	125,047
Accumulated depreciation	(17,803)	(20,964)	(15,521)	(3,363)	(3,614)	—	(61,265)
Net carrying amount	<u>14,212</u>	<u>36,326</u>	<u>10,675</u>	<u>682</u>	<u>1,887</u>	<u>—</u>	<u>63,782</u>

	<b>Leasehold improvement</b>	<b>Buildings</b>	<b>Machinery</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>31 December 2013</b>							
At 1 January 2013							
Cost	32,015	57,290	26,196	4,045	5,501	—	125,047
Accumulated depreciation	(17,803)	(20,964)	(15,521)	(3,363)	(3,614)	—	(61,265)
Net carrying amount	<u>14,212</u>	<u>36,326</u>	<u>10,675</u>	<u>682</u>	<u>1,887</u>	<u>—</u>	<u>63,782</u>
At 1 January 2013, net of accumulated depreciation	14,212	36,326	10,675	682	1,887	—	63,782
Additions	10,444	—	7,489	394	1,190	—	19,517
Disposals	—	—	(1,177)	(8)	(7)	—	(1,192)
Depreciation provided during the year (note 6)	(4,487)	(2,796)	(2,384)	(368)	(666)	—	(10,701)
At 31 December 2013, net of accumulated depreciation	<u>20,169</u>	<u>33,530</u>	<u>14,603</u>	<u>700</u>	<u>2,404</u>	<u>—</u>	<u>71,406</u>
At 31 December 2013							
Cost	42,459	57,290	29,396	4,274	6,548	—	139,967
Accumulated depreciation	(22,290)	(23,760)	(14,793)	(3,574)	(4,144)	—	(68,561)
Net carrying amount	<u>20,169</u>	<u>33,530</u>	<u>14,603</u>	<u>700</u>	<u>2,404</u>	<u>—</u>	<u>71,406</u>

	<b>Leasehold improvement</b>	<b>Buildings</b>	<b>Machinery</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>31 December 2014</b>							
At 1 January 2014							
Cost	42,459	57,290	29,396	4,274	6,548	—	139,967
Accumulated depreciation	(22,290)	(23,760)	(14,793)	(3,574)	(4,144)	—	(68,561)
Net carrying amount	<u>20,169</u>	<u>33,530</u>	<u>14,603</u>	<u>700</u>	<u>2,404</u>	<u>—</u>	<u>71,406</u>
At 1 January 2014, net of accumulated depreciation							
	20,169	33,530	14,603	700	2,404	—	71,406
Additions	4,256	—	2,092	675	2,558	10,755	20,336
Disposals	—	—	(293)	(35)	(20)	—	(348)
Depreciation provided during the year (note 6)	(5,784)	(2,794)	(2,227)	(189)	(1,034)	—	(12,028)
At 31 December 2014, net of accumulated depreciation							
	<u>18,641</u>	<u>30,736</u>	<u>14,175</u>	<u>1,151</u>	<u>3,908</u>	<u>10,755</u>	<u>79,366</u>
At 31 December 2014							
Cost	46,715	57,290	29,319	4,253	8,764	10,755	157,096
Accumulated depreciation	(28,074)	(26,554)	(15,144)	(3,102)	(4,856)	—	(77,730)
Net carrying amount	<u>18,641</u>	<u>30,736</u>	<u>14,175</u>	<u>1,151</u>	<u>3,908</u>	<u>10,755</u>	<u>79,366</u>

As at 31 December 2012, 2013 and 2014, certain of the Group's buildings with a net carrying amount of RMB35,766,000, RMB33,012,000 and RMB25,467,000, respectively, were pledged as security for the bank borrowings granted to the Group (note 24).

As at 31 December 2012, 2013 and 2014, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB857,000, RMB785,000 and RMB712,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

## 14. PREPAID LAND LEASE PAYMENTS

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	16,740	16,246	15,776
Recognised during the year	<u>(494)</u>	<u>(470)</u>	<u>(470)</u>
Carrying amount at 31 December	<u>16,246</u>	<u>15,776</u>	<u>15,306</u>
current portion	<u>(470)</u>	<u>(470)</u>	<u>(470)</u>
Non-current portion	<u>15,776</u>	<u>15,306</u>	<u>14,836</u>

These pieces of leasehold land are situated in Mainland China and are held under medium-term leases.

The above leasehold lands are pledged as security for the bank loan granted to the Group as at 31 December 2012, 2013 and 2014 (note 24).

## 15. GOODWILL

	2012	2013	2014
	RMB'000	RMB'000	RMB'000
At 1 January and 31 December	<u>1,628</u>	<u>1,628</u>	<u>1,628</u>

Goodwill is acquired through the business combination of Honeson Pharmaceutical in prior year. Goodwill acquired through business combinations is allocated to pharmaceutical drugs cash-generating unit for impairment testing. There was no impairment charge made against goodwill for the year ended 31 December 2012, 2013 and 2014.

**Impairment testing of goodwill**

The recoverable amounts of the cash-generating unit have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The pre-tax discount rates applied to cash flow projections are 5%, 5% and 5% as at 31 December 2012, 2013 and 2014 and the growth rate beyond the five-year period had been projected as 3%.

Assumptions were used in the value in use calculation of cash-generating unit for 31 December 2012, 2013 and 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted gross margins* — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the past years and the expectation for market development.

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

The value assigned to the key assumptions on market development and discount rates is consistent with external information sources.



## 16. OTHER INTANGIBLE ASSETS

	<b>Drug formulation</b>	<b>Software</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>31 December 2012</b>			
At 1 January 2012			
Cost	1,741	1,668	3,409
Accumulated amortisation	<u>(1,360)</u>	<u>(384)</u>	<u>(1,744)</u>
Net carrying amount	<u>381</u>	<u>1,284</u>	<u>1,665</u>
At 1 January 2012, net of accumulated amortisation	381	1,284	1,665
Additions	—	38	38
Amortisation provided during the year ( <i>note 6</i> )	<u>(92)</u>	<u>(172)</u>	<u>(264)</u>
At 31 December 2012, net of accumulated amortisation	<u>289</u>	<u>1,150</u>	<u>1,439</u>
At 31 December 2012:			
Cost	1,741	1,706	3,447
Accumulated amortisation	<u>(1,452)</u>	<u>(556)</u>	<u>(2,008)</u>
Net carrying amount	<u>289</u>	<u>1,150</u>	<u>1,439</u>
	<b>Drug formulation</b>	<b>Software</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>31 December 2013</b>			
At 1 January 2013			
Cost	1,741	1,706	3,447
Accumulated amortisation	<u>(1,452)</u>	<u>(556)</u>	<u>(2,008)</u>
Net carrying amount	<u>289</u>	<u>1,150</u>	<u>1,439</u>
At 1 January 2013, net of accumulated amortisation	289	1,150	1,439
Additions	—	419	419
Amortisation provided during the year ( <i>note 6</i> )	<u>(92)</u>	<u>(193)</u>	<u>(285)</u>
At 31 December 2013, net of accumulated amortisation	<u>197</u>	<u>1,376</u>	<u>1,573</u>
At 31 December 2013:			
Cost	1,741	2,125	3,866
Accumulated amortisation	<u>(1,544)</u>	<u>(749)</u>	<u>(2,293)</u>
Net carrying amount	<u>197</u>	<u>1,376</u>	<u>1,573</u>

	<b>Drug formulation</b>	<b>Software</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>31 December 2014</b>			
At 1 January 2014			
Cost	1,741	2,125	3,866
Accumulated amortisation	<u>(1,544)</u>	<u>(749)</u>	<u>(2,293)</u>
Net carrying amount	<u>197</u>	<u>1,376</u>	<u>1,573</u>
At 1 January 2014, net of accumulated amortisation			
Additions	—	233	233
Disposals	(182)	(34)	(216)
Amortisation provided during the year ( <i>note 6</i> )	<u>(15)</u>	<u>(209)</u>	<u>(224)</u>
At 31 December 2014, net of accumulated amortisation	<u>—</u>	<u>1,366</u>	<u>1,366</u>
At 31 December 2014:			
Cost	—	2,217	2,217
Accumulated amortisation	<u>—</u>	<u>(851)</u>	<u>(851)</u>
Net carrying amount	<u>—</u>	<u>1,366</u>	<u>1,366</u>

**17. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Current</b>			
Investment in bank financial products, at fair value	<u>10,000</u>	<u>25,000</u>	<u>—</u>
<b>Non-current</b>			
Unlisted investment, at cost	<u>450</u>	<u>—</u>	<u>—</u>

Current available-for-sale investments represented investment in financial products issued by China Construction Bank and the entire investment cannot be redeemed before maturity.

Non-current available-for-sale investments consist of investment in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate. The fair value of unlisted investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The investment was stated at cost less any impairment losses.

During the year ended 31 December 2012, 2013 and 2014, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income was nil. The unlisted investment was disposed in 2013 and loss on disposal of available-for-sale investment amounting to RMB99,000 was recognised in the statement of profit or loss for the year ended 31 December 2013.

## 18. INVENTORIES

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Raw materials	19,692	31,698	22,146
Work in progress	7,811	14,177	7,983
Finished goods	53,738	63,065	58,342
	<u>81,241</u>	<u>108,940</u>	<u>88,471</u>

## 19. TRADE AND NOTES RECEIVABLES

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade receivables	16,122	17,069	25,381
Notes receivable	10,758	11,759	10,125
	<u>26,880</u>	<u>28,828</u>	<u>35,506</u>
Less: Impairment of trade receivables	<u>(74)</u>	<u>(24)</u>	<u>(17)</u>
	<u>26,806</u>	<u>28,804</u>	<u>35,489</u>

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not exceeding than two months for major customers. As to new customers, payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to customers with a good track record, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables as at the end of the reporting periods, based on the invoice date is as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 1 month	10,935	12,944	20,889
1 to 3 months	4,276	3,851	3,974
3 to 6 months	509	78	274
6 to 12 months	163	196	60
Over 12 months	239	—	184
	<u>16,122</u>	<u>17,069</u>	<u>25,381</u>

The notes receivable are settled within 180 days. No notes receivable are discounted as at 31 December 2012, 2013, 2014, respectively. As at 31 December 2012, 2013 and 2014, the Group has endorsed notes receivable of RMB9,135,000, RMB8,814,000 and RMB8,112,000 to settle trade payables (note 34), respectively.

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

	<b>Individually impaired</b>
	<b>RMB'000</b>
At 1 January 2012	—
Impairment losses reversed ( <i>note 6</i> )	(74)
At 31 December 2012 and 1 January 2013	(74)
Impairment losses reversed ( <i>note 6</i> )	50
At 31 December 2013 and 1 January 2014	(24)
Impairment losses reversed ( <i>note 6</i> )	7
At 31 December 2014	(17)

Included in the above provision for impairment of trade receivables as at 31 December 2012, 2013 and 2014 is a provision for individually impaired trade receivables of RMB74,000, RMB24,000 and RMB17,000, respectively with a carrying amount before provision as at 31 December 2012, 2013 and 2014 of RMB74,000, RMB24,000 and RMB17,000, respectively.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Neither past due nor impaired	14,453	14,645	21,822
Less than 3 month past due	1,204	2,221	3,259
Over 3 months past due	391	179	283
	<u>16,048</u>	<u>17,045</u>	<u>25,364</u>

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

## 20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Prepayments	980	934	4,020
VAT recoverable	987	4,585	861
Deposits and other receivables	2,653	2,229	3,062
	<u>4,620</u>	<u>7,748</u>	<u>7,943</u>

## 21. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Cash and bank balances	25,044	29,077	58,004
Denominated in:			
— RMB	25,020	29,071	57,975
— HKD	24	6	29
	<u>25,044</u>	<u>29,077</u>	<u>58,004</u>

At the end of each of the Relevant Periods, most of the cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balance are deposited with creditworthy banks with no recent history of default.

## 22. TRADE PAYABLES

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade payables	49,458	54,218	52,802

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 3 months	38,366	45,764	43,740
3 to 6 months	6,583	3,962	5,539
6 to 12 months	2,541	2,772	2,137
over 12 months	1,968	1,720	1,386
	<u>49,458</u>	<u>54,218</u>	<u>52,802</u>

The trade payables are non-interest-bearing and are normally settled on terms not exceeding 60 days.

## 23. OTHER PAYABLES AND ACCRUALS

	Note	As at 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
Accruals and other payables		9,439	15,523	8,726
Accrued salary and welfare		12,582	20,725	16,686
Advances from customers		12,639	13,005	9,572
Endorsed notes	34	9,135	8,814	8,112
Deposits received		9,213	9,549	9,810
Payables for purchases of property and equipment		293	1,328	1,030
Other tax payables		4,458	6,912	6,869
		<u>57,759</u>	<u>75,856</u>	<u>60,805</u>

Other payables are non-interest bearing and have an average term of six months.

## 24. INTEREST-BEARING BANK BORROWINGS

## 2012

	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>			
Bank loans — secured	6.56–7.54	2013	<u>25,000</u>

## 2013

	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>			
Bank loans — secured	6.00–6.90	2014	<u>16,000</u>

## 2014

	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>			
Bank loans — secured	6.00–6.90	2015	<u>15,000</u>

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank loans and overdrafts repayable:			
Within one year or on demand	<u>25,000</u>	<u>16,000</u>	<u>15,000</u>

All of the Group's bank loans are secured by:

- (i) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB35,766,000, RMB33,012,000 and RMB25,467,000 as at 31 December 2012, 2013, and 2014, respectively; and were pledged as security for the bank borrowings of RMB25,000,000, RMB16,000,000 and RMB15,000,000 as at 31 December 2012, 2013, and 2014, respectively; granted to Zhongzhi Herbal Pieces, Honeson Pharmaceutical, and Zhongzhi Pharmaceutical; and
- (ii) mortgages over the Group's prepaid land lease payments, which had an aggregate carrying value of approximately RMB16,246,000, RMB15,776,000 and RMB15,306,000 as at 31 December 2012, 2013 and 2014, respectively.

In addition, Zhongzhi Pharmaceutical has guaranteed Honeson Pharmaceutical's bank loan of up to RMB30,000,000 as at 31 December 2014. Prior to 30 July 2014, Honeson Pharmaceutical's bank loan was guaranteed by Mr. Lai (the Controlling Shareholder) and Zhongzhi Pharmaceutical of up to RMB32,000,000.

## 25. DEFERRED INCOME

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
At 1 January	11,149	8,584	11,430
Received amounts	3,484	5,802	7,731
Released amounts	<u>(6,049)</u>	<u>(2,956)</u>	<u>(4,095)</u>
At 31 December	<u>8,584</u>	<u>11,430</u>	<u>15,066</u>
Current	2,485	1,921	6,019
Non-current	<u>6,099</u>	<u>9,509</u>	<u>9,047</u>
	<u>8,584</u>	<u>11,430</u>	<u>15,066</u>

The grants are related to the subsidies received from the government for the purpose of subsidies for expenses arising from research and development activities and improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

## 26. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

### Group

	<u>As at 31 December</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Deferred tax assets	3,966	5,534	4,976
Deferred tax liabilities	<u>(1,414)</u>	<u>(1,389)</u>	<u>(4,349)</u>

## Group

	2012								
	Deferred tax assets								
	Decelerated depreciation for tax purposes	Impairment of inventories	Impairment of trade receivables	Government grants	Accruals	Unrealised profit from intercompany transactions	Losses available for offsetting against future taxable profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	288	16	—	2,667	—	752	515	112	4,350
Deferred tax credited/(charged) to the statement of profit or loss during the year	35	(1)	18	(640)	—	831	(515)	(112)	(384)
At 31 December 2012	<u>323</u>	<u>15</u>	<u>18</u>	<u>2,027</u>	<u>—</u>	<u>1,583</u>	<u>—</u>	<u>—</u>	<u>3,966</u>

## Group

	2013								
	Deferred tax assets								
	Decelerated depreciation for tax purposes	Impairment of inventories	Impairment of trade receivables	Government grants	Accruals	Unrealised profit from intercompany transactions	Losses available for offsetting against future taxable profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2012 and 1 January 2013	323	15	18	2,027	—	1,583	—	—	3,966
Deferred tax credited/(charged) to the statement of profit or loss during the year	29	(1)	(12)	272	750	530	—	—	1,568
At 31 December 2013	<u>352</u>	<u>14</u>	<u>6</u>	<u>2,299</u>	<u>750</u>	<u>2,113</u>	<u>—</u>	<u>—</u>	<u>5,534</u>

## Group

	2014								
	Deferred tax assets								
	Decelerated depreciation for tax purposes	Impairment of inventories	Impairment of trade receivables	Government grants	Accruals	Unrealised profit from intercompany transactions	Losses available for offsetting against future taxable profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2013 and 1 January 2014	352	14	6	2,299	750	2,113	—	—	5,534
Deferred tax credited/(charged) to the statement of profit or loss during the year	(138)	(14)	(2)	659	(198)	(871)	—	6	(558)
At 31 December 2014	<u>214</u>	<u>—</u>	<u>4</u>	<u>2,958</u>	<u>552</u>	<u>1,242</u>	<u>—</u>	<u>6</u>	<u>4,976</u>



## Group

	<b>Deferred tax liabilities</b>		
	<b>Fair value adjustment on acquisition</b>	<b>Withholding taxes</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
At 1 January 2012	(1,437)	—	(1,437)
Deferred tax credited/(charged) to the statement of profit or loss during the year	<u>23</u>	<u>—</u>	<u>23</u>
At 31 December 2012 and 1 January 2013	(1,414)	—	(1,414)
Deferred tax credited/(charged) to the statement of profit or loss during the year	<u>25</u>	<u>—</u>	<u>25</u>
At 31 December 2013 and 1 January 2014	(1,389)	—	(1,389)
Deferred tax credited/(charged) to the statement of profit or loss during the year	<u>40</u>	<u>(3,000)</u>	<u>(2,960)</u>
At 31 December 2014	<u>(1,349)</u>	<u>(3,000)</u>	<u>(4,349)</u>

Pursuant to the PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. At 31 December 2014, deferred tax of RMB3,000,000 has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China, which is related to the dividend amounting to RMB30,000,000 declared in April 2015. In the opinion of the Directors, after the distribution of RMB30,000,000, the unremitted earnings of the Group's subsidiaries in the Mainland China as at 31 December 2014 are expected to be used to fund their operations and capital expenditure and therefore it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled approximately RMB48,086,000 at 31 December 2014.

The Group has not provided deferred tax at 31 December 2012 and 2013 for withholding tax that would be payable on undistributed earnings generated by Zhongzhi Pharmaceutical, its subsidiary in Mainland China as all of the retained earnings as at 31 December 2012 and 2013 have been distributed to the shareholders of Zhongzhi Pharmaceutical which is registered in Mainland China before completion of the Reorganisation.

## 27. SHARE CAPITAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 September 2014 with an authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, of which 10,000 Shares were issued and allotted fully paid to Cheer Lik Development Limited ("Cheer Lik", a Company owned by Mrs. Lai) at par. On 2 February 2015, Cheer Lik entered into various share transfer agreements, pursuant to which Cheer Lik transferred 8,052 Shares, 1,000 shares, 200 shares and 44 shares to Crystal Talent Investment Group Limited (a Company owned by Mr. Lai), Advance Keypath Global Investments Limited, Metro Joy International Limited and Aces Chess Global Limited at par and such transfers were legally completed on the same date. As at 31 December 2014, the capital issued and fully paid amounted to total HK\$100.

Save for the aforesaid and the Reorganisation, the Company has not conducted any business since the date of its incorporation.

## 28. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for each for the Relevant Periods are presented in the combined statements of changes in equity on page 7 of this report.

### (b) Merger reserve

The merger reserve of the Group represents the capital contribution from its then shareholders of Zhongzhi Pharmaceutical amounting to RMB31,200,000

### (c) Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

### (d) Share-based payment reserve

The share-based payment reserve represent the difference between the fair value of the shares granted to employees of the Group and the costs paid by these employees through Zhongshan Yu Xin, which as an employee benefit expense with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at grant date based on the discounted cash flow method. As there were no future service conditions attached to the share-based payments, the share-based payments were vested immediately.

## 29. COMMITMENTS

### Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Leasehold improvement	—	1,612	545
Plant and machinery	1,807	1,304	1,745
	<u>1,807</u>	<u>2,916</u>	<u>2,290</u>

At the end of 31 December 2012, 2013 and 2014, the Group had no significant authorised but not contracted capital commitment.

**Operating lease commitments***As lessor*

The Group sublet certain of its leased properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Within one year	—	38	197
In the second to fifth years, inclusive	—	60	46
	<u>—</u>	<u>98</u>	<u>243</u>

*As lessee*

The Group leases certain of its land and buildings under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from 1 to 10 years. As at the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Within one year	16,561	17,113	16,894
In the second to fifth years, inclusive	46,591	31,548	34,561
Beyond five years	5,502	3,388	4,501
	<u>68,654</u>	<u>52,049</u>	<u>55,956</u>

**30. RELATED PARTY TRANSACTIONS****(a) Outstanding balances with related parties**

- (i) As disclosed in the combined statement of financial position, the Group had an outstanding balance due to its shareholder of RMB54,000, RMB53,000 and nil as at 31 December 2012, 2013 and 2014 respectively. These balances are unsecured, interest-free and have no fixed terms of repayment.
- (ii) Amounts due to related parties as at 31 December 2014 represent consideration received from the Registered Shareholders as part of the Reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interest of Zhongzhi Herb Pieces by the Group. The amounts are unsecured, interest-free and have no fixed term of repayment.

## (b) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	1,023	1,120	1,816
Pension scheme contributions	87	169	237
Share-based payment	4,274	—	—
	<u>5,384</u>	<u>1,289</u>	<u>2,053</u>

Further details of directors' and the chief executive's emoluments are included in note 8 to the Financial Information.

## 31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each of the Relevant Periods are as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
<b>Financial assets — loans and receivables</b>			
Rental deposits	2,491	2,505	3,275
Trade and notes receivables	26,806	28,804	35,489
Deposits and other receivables	2,653	2,229	3,062
Cash and cash equivalents	25,044	29,077	58,004
	<u>56,994</u>	<u>62,615</u>	<u>99,830</u>

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
<b>Financial assets — available-for-sale</b>			
Available-for-sale investments	10,450	25,000	—
	<u>10,450</u>	<u>25,000</u>	<u>—</u>

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
<b>Financial liabilities at amortised cost</b>			
Trade payables	49,458	54,218	52,802
Financial liabilities included in other payables and accruals	28,080	35,214	27,678
Amount due to a shareholder	54	53	—
Due to related parties	—	—	8,786
Interest-bearing bank borrowings	25,000	16,000	15,000
	<u>102,592</u>	<u>105,485</u>	<u>104,266</u>

### 32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

During the Relevant Periods, the Group and the Company had no financial instruments, other than those with carrying amounts that reasonably approximate to fair values.

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, deposits and other receivables, trades payables, financial liabilities included in other payables and accruals, and short-term interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The Group has carried all investment securities that are classified as available-for-sale investments at their fair values as required by IAS 39, except for unlisted investments which were stated at cost (note 17).

The fair value of bank financial products that are classified as available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risks and remaining maturities.

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments measured at fair value at level 2 Input. There is no assets measured at fair value using level 1 or level 3 Input.

**Assets measured at fair value:**

*Group*

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Available-for-sale investments			
— Investment in bank financial products	<u>10,000</u>	<u>25,000</u>	<u>—</u>

**33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise bank loans, available for sale investments, and cash and cash equivalents. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and accruals, which arise directly from its operations.

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

**Interest rate risk**

The Group does not have any variable rate debts. All of the Group's interest-bearing borrowings as at 31 December 2012, 2013 and 2014 bore interest at fixed rates. The interest rate risk of the Group is mainly due to the interest rate fluctuations attributed to cash deposits. Therefore the Group does not have any significant exposure to risk of changes in market interest rates. The Group currently does not have a specific policy to manage its interest rate risk and has not entered into interest rate swaps.

**Credit risk**

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type. There are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 19 to the Financial Information.

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

<b>As at 31 December 2012</b>					
	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to less than 12 months</b>	<b>1 to 2 years</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables	8,071	41,387	—	—	49,458
Financial liabilities included in other payables and accruals	—	15,190	5,388	7,502	28,080
Amount due to a shareholder	—	—	—	54	54
Interest-bearing bank borrowings	—	—	25,767	—	25,767
	<u>8,071</u>	<u>56,577</u>	<u>31,155</u>	<u>7,556</u>	<u>103,359</u>
<b>As at 31 December 2013</b>					
	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to less than 12 months</b>	<b>1 to 2 years</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables	9,257	44,961	—	—	54,218
Financial liabilities included in other payables and accruals	—	22,429	8,186	4,599	35,214
Amount due to a shareholder	—	—	53	—	53
Interest-bearing bank borrowings	—	—	16,510	—	16,510
	<u>9,257</u>	<u>67,390</u>	<u>24,749</u>	<u>4,599</u>	<u>105,995</u>
<b>As at 31 December 2014</b>					
	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to less than 12 months</b>	<b>1 to 2 years</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables	8,720	44,082	—	—	52,802
Financial liabilities included in other payables and accruals	267	15,741	6,660	5,010	27,678
Due to related parties	8,786	—	—	—	8,786
Interest-bearing bank borrowings	—	—	15,523	—	15,523
	<u>17,773</u>	<u>59,823</u>	<u>22,183</u>	<u>5,010</u>	<u>104,789</u>

#### Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The net debt includes trade payables, other payables and accruals, interest-bearing bank borrowings minus cash and cash equivalents borrowings. Capital includes equity attributable to owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	Notes	As at 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
Trade payables	22	49,458	54,218	52,802
Other payables and accruals	23	57,759	75,856	60,805
Interest-bearing bank borrowings	24	25,000	16,000	15,000
Less: Cash and cash equivalents	21	(25,044)	(29,077)	(58,004)
Net debt		<u>107,173</u>	<u>116,997</u>	<u>70,603</u>
Equity attributable to owners of the parent		<u>92,571</u>	<u>130,210</u>	<u>120,897</u>
Capital and net debt		<u><u>199,744</u></u>	<u><u>247,207</u></u>	<u><u>191,500</u></u>
Gearing ratio		<u>54%</u>	<u>47%</u>	<u>37%</u>

#### 34. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2012, 2013 and 2014, the Group endorsed certain notes receivables accepted by certain banks in the Mainland China (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). Subsequent to the Endorsement, the Group does not retain any rights on the use of the Endorsed Notes, including sale, transfer or pledge of the Endorsed Notes to any other third parties. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The total carrying amounts of the Endorsed Notes as at 31 December 2012, 2013 and 2014 were RMB31,484,000, RMB29,207,000 and RMB35,912,000, respectively of which the Endorsed Notes and the associated trade payables with carrying amounts of RMB22,349,000, RMB20,393,000 and RMB27,800,000 as at 31 December 2012, 2013 and 2014, respectively, had been fully derecognised. The Group carefully assesses the default risk of the PRC banks based on the credit rating reports from an independent PRC credit agency. The Group only derecognises the notes receivables that have been accepted by banks with high credit ratings as the Directors are of the view that the default risk of these banks is remote and the Group has transferred substantially all the risks and rewards relating to such notes (the "Derecognised Note"). The Derecognised Notes have a maturity from 1 to 5 months at the end of each of the Relevant Periods. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase the Derecognised Notes equals to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant, given the insignificant default risk of the related PRC banks.



During the year ended 31 December 2012, 2013 and 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year ended 31 December 2012, 2013 and 2014 or cumulatively. The Endorsement has been made evenly throughout the year ended 31 December 2012, 2013 and 2014.

The Group continued to recognise the carrying amount of the remaining Endorsed Notes and associated trade payables settled of RMB9,135,000, RMB8,814,000 and RMB8,112,000 as at 31 December 2012, 2013 and 2014, respectively, as the Directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

### **35. EVENTS AFTER THE REPORTING PERIOD**

The following significant events after the Relevant Periods took place subsequent to 31 December 2014:

- (a) The companies comprising the Group underwent the Reorganisation in the preparation for the listing of the Company's shares on the Main Board of the Stock Exchange.

Various equity transfer agreements were entered into by Grant Talent with Zhongshan Zhi Ying, Zhongshan Yu Xin, Guangdong Jun Ke and Zhongshan Rui Qi to acquire their respective equity interests of 80.52%, 10%, 2% and 0.44% in Zhongzhi Pharmaceutical. On 2 February 2015, such transfers were approved by the Department of Commerce of Guangdong Province and the same were legally completed on 6 February 2015 when the new business licence of Zhongzhi Pharmaceutical was issued. As a result, Zhongzhi Pharmaceutical became a wholly owned subsidiary of Grant Talent.

- (b) On 20 April 2015, Zhongzhi Pharmaceutical declared dividends of RMB30,000,000, which was fully paid by the end of April 2015. Such dividend was not accounted for in the Financial Information during the Relevant Periods.

### **36. SUBSEQUENT FINANCIAL INFORMATION**

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2014.

Yours faithfully,  
**ERNST & YOUNG**  
*Certified Public Accountants*  
Hong Kong