Zhongzhi Pharmaceutical Holdings Limited

中智藥業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 3737

ANNUAL REPORT 2016

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Lai Zhi Tian *(Chairman)*
Mr. Cao Xiao Jun
Mr. Cheng Jin Le (appointed on 19 September 2016)
Ms. Mou Li

Non-executive Director
Ms. Jiang Li Xia (re-designated on 19 September 2016)

Independent Non-executive Directors
Mr. Ng Kwun Wan
Mr. Wong Kam Wah
Mr. Zhou Dai Han

COMMITTEES OF THE BOARD

Audit Committee

Mr. Ng Kwun Wan *(Chairman)*
Mr. Wong Kam Wah
Mr. Zhou Dai Han

Remuneration Committee

Mr. Wong Kam Wah *(Chairman)*
Mr. Lai Zhi Tian
Ms. Mou Li
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

Nomination Committee

Mr. Wong Kam Wah *(Chairman)*
Mr. Lai Zhi Tian
Ms. Mou Li
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

AUTHORIZED REPRESENTATIVES

Ms. Mou Li
Mr. Cheng Tat Hei

COMPANY SECRETARY

Mr. Cheng Tat Hei

REGISTERED ADDRESS

Clifton House
75 Fort House
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HEADQUARTER IN THE PRC

No. 3 Kangtai Road South
Torch Development Zone
Zhongshan
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 10B, 15/F
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan, New Territories
Hong Kong

AUDITOR

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

COMPLIANCE ADVISER

CMB International Capital Limited
Unit 1803–4, 18/F
Bank of America Tower
12 Harcourt Road
Hong Kong

Corporate Information (continued)

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
China Construction Bank Corporation
Zhongshan Rural Commercial Bank Co., Ltd.

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

STOCK NAME

ZHONGZHIPHARM

STOCK CODE

3737

COMPANY WEBSITE

www.zeus.cn

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Zhongzhi Pharmaceutical Holdings Limited (the "Company" and together with its subsidiaries, the "Group"), I am pleased to present to the shareholders of the Company the annual report and audited consolidated financial statements of the Group for the year ended 31 December 2016 (the "Reporting Period").

BUSINESS REVIEW

China has placed high emphasis on the development of Chinese medicines and continuously introduced new policies on the industry. In February 2016, the "Outline of Strategic Planning on the Development of Chinese Medicine by the State Council 2016–2030" was promulgated, while the "Law on Chinese Medicines" will also be enforced from 1 July 2017. China has included Chinese medicines into a part of the national development strategies. With the adjustment of the overall national industry policies and the reform and opening across the last 30 years, most urban citizens are in suboptimal health status under fast pace of life and significant work pressure behind the rapid economic growth. As the need for conditioning one's own health increases, the demand for herbal health supplement has been completely stimulated. The sharp expansion of the market has paved a path of prosperity for the development of the Chinese medicine industry.

Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical") commenced research on modern decoction pieces since 2003, and has obtained 54 domestic and international invention patents over more than a decade, and owns the only key laboratory in the decoction pieces industry approved by the State Administration of Traditional Chinese Medicine of the PRC (the Key Laboratory of Modern Decoction Pieces Technology and Application of the State Administration of Traditional Chinese Medicine of the PRC) (國家中醫藥管理局中藥破壁飲片技術與應用重點實驗室). Since its introduction, our modern decoction pieces manages to achieve growth every year between 2012 and 2016, enjoying the pioneer advantage in the herbal health supplement category. The Group carried out brand rationalization in 2016, and re-established its brand as "Caojinghua (草晶華)"and categorized as "cell wall broken herbs (破壁草本)" with brand value of "better absorption and convenient consumption". For channels rationalization, the Group has optimized from the original single dimensional sales model to a set of marketing and management model with refined and thorough services and highly effective synergies. For upstream raw materials control, we have optimized the management systems of 17 plantation bases and established a tracking system, striving to enable source enquiry from information provided by each can of products in order to ensure the stability of supply and quality. For the construction of production platform, the second generation of 3,500 square meters GMP workshop for modern decoction pieces has been established with production capacity of 25.0 million cans. All of the above have laid a solid foundation for further rapid growth.

During 2016, Zhongzhi Chain Pharmacies Company Limited ("Zhongzhi Chain Pharmacies") has added 25 pharmacies, and the number of medical insurance designated pharmacy (醫保定點藥店) increased from 101 to 233. Our Chinese patent medicines with the brand name of Zeus (中智) and Liumian (六棉) maintained stable growth.

During the Reporting Period, the total revenue of the Group amounted to approximately RMB730.5 million, representing an increase of approximately 6.2% compared to the previous year (2015: RMB688.0 million) while the Group's profit for the year amounted to approximately RMB53.9 million, decreased by approximately 33.1% compared to the previous year (2015: RMB80.5 million). Basic earnings per share was RMB6.79 cents (2015: RMB11.61 cents), a decrease of approximately 41.5% compared to the previous year.

DIVIDEND

The Board is recommending a final dividend of HK1.0 cent per share for 2016 for approval by the Shareholders. Together with the interim dividend of HK1.6 cents per share, the total dividend for 2016 are to be HK2.6 cents per share, compared with HK3.5 cents per share in 2015.

Chairman's Statement (continued)

OUTLOOK & STRATEGY

(I) In 2017, we will continue to make development of our "Caojinghua" brand as our top priority. Efforts would be placed on the development of modern decoction pieces business, while this category strategy window would be captured with a focus on three aspects:

1. Leading the development of modern decoction pieces in the Chinese medicine field with technological innovation:

    a. By leveraging the advantages of our key laboratory and experts into full play, we will adhere to the scientific nature of modern decoction pieces and standardize establishment for the commencement of over 3 major projects.

    b. We will commence projects such as the research on intelligent manufacturing plants, quality assurance across the entire industry chain and source tracking system.

    c. We will commence production and academic research campaigns such as national and regional joint engineering laboratories and international exchange.

2. Creating high level of synergy by organizing functional reform:

    a. We will utilize the supervision function of sales management center.

    b. We have established an efficient human resource mechanism. Provided with both competitive remuneration and sales incentive as the bases for our performance management system, it strikes an excellence balance and operates efficiently.

    c. We will utilize Caojinghua training center of cultivating talents to provide for frontline staffs. Additionally, we will provide well-established training programs on Chinese medicine and health care consultation to our staff.

    d. We will upgrade our information system which enables us to systematically manage and control trainings in-store and mentorship trainings of frontline staff.

3. We will establish a complementary channel value chain to achieve a sustainable business model and build a three ways driven (business driven+sales driven+channel driven) sales and marketing model.

(II) Orderly business development:

1. Strategic development of modern decoction pieces according to pharmacies sales, online sales and hospital sales.

    a. Chain pharmacies sales: 100 offices will be established across China in 2017, focusing on promoting Caojinghua modern decoction pieces sales in pharmacies and providing comprehensive professional and refined services. We have commenced comprehensive strategic cooperation with mainstream pharmaceutical chains such as Laobaixing Pharmacy, Nepstar Drugstore, Yixintang Pharmacy and Yifeng Pharmacy. It shows promising prospect and good demonstrative effect. Meanwhile, with the focus on more than ten advanced cities (including Shenzhen, Changsha, Guangzhou, Wuhan, Chongqing, Jinan), it plays a leading role and promotes rapid growth of our business.

Chairman's Statement (continued)

b. Online sales: In 2017, an e-commerce company was established in Shenzhen. Its B2B business showed a good sales momentum by forming strategic cooperation with jianke.com and 360kad.com, which are well-known in the industry. B2C business operated independently with Caojinghua Tmall.com as core and has already established its own team. Leveraging on new online media resources, it has been continuously innovating marketing models and created rapid expansion.

c. Hospital sales: We will further take full advantage of no bidding process and independent pricing in 2017 after exploring its processes in 2016. We will also accelerate our pace on academic promotion. Sales team building and business are currently developing positively.

In conclusion, we are optimistic towards the prospect of sales revenue of modern decoction pieces in 2017. The Group will maintain cost control over sales teams building and advertisements spending.

2. Developing chain pharmacy business by leveraging on our resources: Zhongzhi Chain Pharmacies is renowned by its steady operation and maintains a leading role of rapid development in the industry. Due to the national policy change of medical insurance, Zhongzhi Chain Pharmacies obtained additional credential for medical insurance designated pharmacies on 132 of its pharmacies in 2016 (accounting for 54% of total stores number as at the end of 2016), which will contribute to the increase in sales of our chain pharmacy segment. Its general development perfectly adhered to our objectives and the development in 2017 is relatively optimistic. We will continue to open certain number of new stores and provide featured Chinese medicine trainings to all staff, striving for continuous business growth.

3. Steadily developing Chinese patent medicines business: Due to our development for years focusing on Cough Tablets (克咳片) under Zeus brand, the Chinese patent medicines business will maintain a stable growth in 2017.

(III) Building and upgrading Caojinghua brand

During January to March 2017, the Caojinghua brand developed rapidly. Through the comprehensive cooperation with a leading digital media group in China, all-rounded brand operation has been formed. Since one month after the cooperation, Caojinghua brand influence has been enhanced rapidly.

In summary, leveraging on a clear strategic positioning and sound strategic resource alignment, we expect the Group will have promising development in 2017.

GRATITUDE

On behalf of the Company, I would like to express my sincere gratitude to our valued shareholders, customers, suppliers, banks and to our management and employees for their continuous trust and support to our Group. We expect the year ahead to be full of opportunities and challenges. As always, we strive to create greater value for our shareholders and investors.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 24 March 2017

Management Discussion and Analysis

BUSINESS OVERVIEW

During the Reporting Period, the Group continued to engage principally in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong Province, the PRC. Revenue of the Group rose by approximately 6.2% to approximately RMB730.5 million.

However, profit decreased by approximately 33.1% to RMB53.9 million due to the increase in selling and distribution expenses incurred in 2016 which is attributed by the increase in advertising expenses for promoting the Company's products and brand name. To maintain the strong growth momentum of modern decoction pieces, the Company had increased its spending on advertisements through television, newspapers, medical journals, sign boards and online media.

FINANCIAL ANALYSIS

Revenue

The Group's operations can be divided into two segments in the PRC pharmaceutical industry, namely (i) pharmaceutical manufacturing; and (ii) operation of chain pharmacies in Zhongshan. Below is an analysis of revenue by segment.

	Revenue for the year ended 31 December			% of total revenue for the year ended 31 December		
	2016 RMB'000	2015 RMB'000	Change (%)	**2016 (%)**	2015 (%)	Change (%)
Pharmaceutical manufacturing	**341,156**	329,205	+3.6	**46.7**	47.8	–1.1
Operation of chain pharmacies	**389,316**	358,831	+8.5	**53.3**	52.2	+1.1
	730,472	688,036	+6.2	**100.0**	100.0	

Pharmaceutical Manufacturing

The Group is engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and modern decoction pieces) under the Group's brands in the PRC. The Group's brand include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 3.6% to RMB341.2 million for the year ended 31 December 2016 (2015: RMB329.2 million) and accounted for 46.7% of the total revenue during the year (2015: 47.8%), attributable to the growth in sales as a result of the Group's effort to expand the distribution and marketing network, with a view to further increase the Group's market share and deepen market penetration.

Operation of chain pharmacies

The Group has been operating chain pharmacies in Zhongshan under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 31 December 2016, the Group has 245 self-operated chain pharmacies in Zhongshan (31 December 2015: 220), of which 233 are medical insurance designated pharmacies (醫保定點藥店).

Management Discussion and Analysis (continued)

Segment revenue of the operation of chain pharmacies increased by approximately 8.5% to approximately RMB389.3 million for the year ended 31 December 2016 (2015: RMB358.8 million) and accounted for 53.3% of the total revenue during the year (2015: 52.2%). The increase in segment revenue was a result of the organic growth of the Group's chain pharmacies, driven by the increase in the overall market demand on pharmaceutical and healthcare products.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB399.4 million, representing an increase of RMB24.3 million or 6.5% as compared with RMB375.1 million for the year ended 31 December 2015. The analysis of gross profit by segment is as below:

	Gross profit for the year ended 31 December			Gross profit margin for the year ended 31 December		
	2016 RMB'000	2015 RMB'000	Change (%)	**2016 (%)**	2015 (%)	Change (%)
Pharmaceutical manufacturing	**218,490**	209,751	+4.2	**64.0**	63.7	+0.3
Operation of chain pharmacies	**180,948**	165,327	+9.4	**46.5**	46.1	+0.4
	399,438	375,078	+6.5	**54.7**	54.5	+0.2

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 4.2% to RMB218.5 million for the year ended 31 December 2016 (2015: RMB209.8 million). The gross profit margin increased to 64.0% for the year ended 31 December 2016 (2015: 63.7%), primarily resulted from the increase in the gross profit margin of our modern decoction pieces from 80.4% in 2015 to 81.7% in 2016.

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 9.4% to RMB180.9 million for the year ended 31 December 2016 (2015: RMB165.3 million). The gross profit margin of the chain pharmacies segment increased to 46.5% for the year ended 31 December 2016 (2015: 46.1%). The slight increase was mainly due to the increase in the sales of higher margin of non-own branded products.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, interest income from available-for-sale investments and government grants. For the year ended 31 December 2016, other income and gains of the Group were approximately RMB22.5 million (2015: RMB11.4 million), representing an increase of approximately RMB11.1 million as compared to last year which was mainly attributable to the increase in (i) interest income of approximately RMB6.1 million from available-for-sale investments; and (ii) government grants of approximately RMB3.6 million.

Selling and Distribution Expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of the Group's chain pharmacies. For the year ended 31 December 2016, selling and distribution expenses amounted to approximately RMB277.4 million (2015: RMB202.9 million), representing an increase of approximately 36.7% as compared to last year. Selling and distribution expense ratio increased to approximately 38.0% (2015: 29.5%) against revenue for the year ended 31 December 2016, which was mainly due to (i) the increase in advertising expenses for promoting the Company's products and brand name of approximately RMB36.4 million; and (ii) the increase in salary and welfare expenses of approximately RMB20.1 million.

Management Discussion and Analysis (continued)

Administrative Expenses

Administrative expenses mainly represent salaries and benefits of the administrative and management staff as well as legal and professional fees. For the year ended 31 December 2016, administrative expenses amounted to approximately RMB56.5 million (2015: RMB61.4 million), representing a decrease of approximately 7.9% as compared to prior year. The decrease was mainly due to the net impact of (i) the decrease of the listing expenses of approximately RMB11.9 million as a result of the listing of the Group in July 2015; and (ii) the increase in salaries by RMB5.7 million in order to retain high quality talents to ensure smooth operation and cater for the Group's expansion plan.

Finance Costs

There is no finance cost of the Group for the year ended 31 December 2016 (2015: RMB0.7 million) as the Group has not obtained any bank borrowings during the Reporting Period.

Income Tax Expense

Income tax expense amounted to RMB15.3 million for the year ended 31 December 2016 (2015: RMB20.7 million). Zhongshan Honeson Pharmaceutical Co., Ltd. (中山市恒生藥業有限公司) ("Honeson Pharmaceutical") enjoyed a preferential tax treatment because of its accreditation as a High and New Technology Enterprise and its applicable tax rate was 15%.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent decreased by 33.1% to RMB53.9 million for the year ended 31 December 2016 (2015: RMB80.5 million). The Group's net profit margin decreased to 7.4% for the year ended 31 December 2016 (2015: 11.7%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB361.9 million as at 31 December 2016 (2015: RMB450.9 million). The Group's cash and bank balances decreased from RMB426.6 million as at 31 December 2015 to RMB326.1 million (of which RMB273.8 million and RMB52.3 million are denominated in RMB and HK$ respectively) as at 31 December 2016. The current ratio of the Group decreased from approximately 4.1 as at 31 December 2015 to 3.1 as at 31 December 2016.

Borrowing and the Pledge of Assets

The Group had no outstanding borrowings as at 31 December 2016.

As at 31 December 2016, the Group has available unutilized banking facilities of RMB30.0 million (2015: RMB30.0 million).

Gearing Ratio

The Group had no outstanding borrowings as at 31 December 2016 (2015: Nil).

Management Discussion and Analysis (continued)

Capital Structure

The shares of the Company (the "Shares") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015 (the "Listing Date"). There has been no change in the capital structure of the Company since then. The capital of the Company comprises ordinary shares and other reserves.

Foreign Exchange Exposure and Exchange Rate Risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong dollars. In addition, the Company will pay dividend in Hong Kong dollars in the future. Any significant exchange rate fluctuations of Hong Kong dollars against RMB may have financial impacts on the Group. The Group did not use any forward contracts, currency borrowings or other means to hedge its foreign currency exposure for the year of 2016. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and Hong Kong dollars exchange rate movement.

EMPLOYEES AND EMOLUMENTS POLICY

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, commission, bonuses and the Group's contribution to mandatory provident funds or state-managed retirement benefits scheme. Other benefits include share options to be granted under the Share Option Schemes and shares to be granted under the Share Award Plan.

As at 31 December 2016, the Group had 2,396 employees (2015: 2,237) with a total remuneration of RMB178.0 million during the Reporting Period (2015: RMB150.6 million) (including pension scheme contributions, staff welfare expenses and equity-settled share award expense). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

Wealth Management Products

In order to maximize the utilization of the idle proceeds from the fund raised without affecting the Group's operational liquidity and fund security, the Group utilized certain idle proceeds to subscribe for highly secured principal-guaranteed wealth management product during the Reporting Period.

Management Discussion and Analysis (continued)

Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical"), an indirectly wholly owned subsidiary of the Company, made subscriptions for wealth management products offered by China Construction Bank Corporation ("CCB") under the first wealth management product master agreement with CCB on 8 September 2015 ("WMP 1") and the second wealth management product master agreement with CCB on 8 March 2016 ("WMP 2").

(i)	Name of the wealth management product:	WMP 1: "乾元 — 日積利"(按日)開放式資產組合型人民幣理財產品 WMP 2: "乾元 — 日鑫月溢"(按日)開放式資產組合型人民幣理財產品
(ii)	Type of return:	principal-guaranteed with floating return and open-ended
(iii)	Valid period of product:	no nominal terms
(iv)	Expected rate of return:	WMP 1: 1.80% to 4.51% annually, depending on the length of the deposit period; WMP 2: 2.00% to 4.20% annually, depending on the length of the deposit period.
(v)	Redemption of principal and return:	redemption can be applied within the designated time in any statutory working days of the bank in the PRC. The entire redeemed amount will be deposited to Zhongzhi Pharmaceutical's designated bank account immediately upon redemption.
(vi)	Right of early termination:	CCB has the right to early terminate the wealth management product at any time, including but not limited to the circumstances of material adjustments to the national financial policies or material changes to the bonds market or other areas within the portfolio of this product which affect the normal functioning of this product. CCB shall notify Zhongzhi Pharmaceutical within two working days before the termination date and shall make payment of the principal and return within five working days after the termination date to Zhongzhi Pharmaceutical's designated bank account.

Zhongzhi Pharmaceutical made several subscriptions for WMP 1 since 5 January 2016 and increased the subscription amount from RMB165.0 million to RMB193.0 million. Zhongzhi Pharmaceutical also made 2 withdrawals from WMP 1 and fully withdrawn the subscription balance on 8 March 2016.

Zhongzhi Pharmaceutical made a number of subscriptions for WMP 2 since 8 March 2016 and increased the subscription amount from RMB195.0 million to RMB249.5 million. All of the subscription amount for WMP 2 had been withdrawn on 27 December 2016.

As at 31 December 2016, the Group have not subscribed to any wealth management products.

Management Discussion and Analysis (continued)

Acquisition of Properties in Shenzhen

As disclosed in the announcement of the Company dated 4 August 2016, Zhongzhi Pharmaceutical had entered into the following agreements in relation to the acquisition of properties in Shenzhen.

On 27 July 2016, Zhongzhi Pharmaceutical entered into a renovation agreement with Shenzhen Nantu Decoration and Design Company Limited (深圳市藍塗裝飾設計工程有限公司) in relation to the renovation of the office property at a consideration of approximately RMB4.1 million. On 4 August 2016, Zhongzhi Pharmaceutical entered into sale and purchase agreements with Shenzhen Xinrunyuan Property Development Company Limited (深圳市新潤園房地產開發有限公司) for the acquisition of certain office properties at a consideration of approximately RMB54.1 million. On the same date, Zhongzhi Pharmaceutical entered into the sale and purchase agreements with Mr. Zheng Yuan Zhi (鄭元治) for the acquisition of certain residential properties as staff quarters at a consideration of RMB10.0 million. The above transaction was completed before end of October 2016.

Saved as disclosed herein, the Group did not have any material acquisition, disposal or significant investments during the Reporting Period.

JOINT VENTURE

On 14 October 2016, Zhongzhi Pharmaceutical and Grant Talent Development Limited ("Grant Talent"), both indirect wholly owned subsidiary of the Company, together with MUST IPO Group Limited (澳科精英集團有限公司), a trust company of Macau University of Science and Technology Foundation (澳門科技大學基金會) and six individuals from the Macau University of Science and Technology, all of which are independent third parties to the Group, established a joint venture namely Scienwi Pharmaceutical Technology Company Limited ("科智醫藥科技有限公司") with a registered capital of Macau Pataca ("MOP") 1.0 million.

The Group, through Zhongzhi Pharmaceutical and Grant Talent, held a substantial equity interest of 48% in Scienwi Pharmaceutical Technology Company Limited which has been classified as an investment in a joint venture for a cash consideration of MOP480,000 (approximately HK$480,000). The cash consideration of MOP480,000 has not been paid as at 31 December 2016 due to additional time needed for bank account opening and is expected to be paid up before 30 June 2017.

Management Discussion and Analysis (continued)

USE OF PROCEEDS

The Group's business objectives and planned use of proceeds as stated in the prospectus dated 30 June 2015 (the "Prospectus") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The actual use of proceeds was based on the actual market development. The net proceeds from the public offer and placing of the Shares (the "Global Offering") were approximately HK$452.9 million. During the period from the Listing Date to the date of this report, the net proceeds from the Global Offering had been applied as follows:

Business objectives as stated in the Prospectus	Actual net proceeds HK$'000	Amount utilized up to 31 December 2016 HK$'000	Balance as at 31 December 2016 HK$'000
Expansion of pharmaceutical chain in the Guangdong province	135,870	(38,369)	97,501
Expansion of distribution network	90,580	(90,580)	—
Providing funding for research and development activities	90,580	(20,499)	70,081
Expansion of production capacity	90,580	(25,642)	64,938
General working capital purposes	45,290	(45,290)	—
	452,900	(220,380)	232,520

The unused net proceeds have been placed as (i) interest bearing deposits with licensed banks in Hong Kong and PRC; and (ii) WMP 1 and WMP 2 which were principal-guaranteed wealth management products issued by CCB in accordance with the intention of the Board as disclosed in the Prospectus.

COMMITMENT

As at 31 December 2016, the Group's operating lease and capital commitment amounted to RMB100.9 million (2015: RMB94.7 million) and RMB31.8 million (2015: RMB7.9 million), respectively. The capital commitment was mainly related to the purchasing of fixed assets for research and development activities and production plant of the Group's own-branded products.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Apart from strengthening the Group's current business and the future plans as disclosed in the Prospectus and the Chairman's Statement in this report, the Group will devote its best effort and resources to cope with the increasing market demand in the Group's own-branded products, in order to enhance shareholder's value. The Group will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 31 December 2016 (2015: nil).

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Reporting Period except CG Code provision A.2.1.

Pursuant to CG Code provision A.2.1, the role(s) of a chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lai Zhi Tian ("Mr. Lai") is the Chairman and the general manager of the Group. In view of Mr. Lai is the founder of the Group and has been operating and managing the Group since 1999, the Board believes that it is in the best interest of the Group to have Mr. Lai taking up both roles for effective management and business development. Therefore the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstances.

As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all the Directors and all Directors have confirmed compliance with the required standard as set out in the Model Code throughout the year.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code provisions A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not segregate the roles of chairman and chief executive officer and Mr. Lai Zhi Tian currently holds both of the Chairman and general manager positions, as explained in the paragraph headed "Corporate Governance Practices" above in the Corporate Governance Report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-Executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

The Company annually assesses the independence of each Independent Non-Executive Director during their terms of appointment. During the Reporting Period, the Company received from each of the Independent Non-Executive Directors a written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the Independent Non-Executive Directors are independent.

THE BOARD

The Board currently comprises four Executive Directors, namely Mr. Lai Zhi Tian (Chairman), Mr. Cao Xiao Jun, Mr. Cheng Jin Le and Ms. Mou Li; one Non-Executive Director, namely Ms. Jiang Li Xia; and three Independent Non-Executive Directors, namely Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han. The number of Independent Non-Executive Directors represents more than one third of the Board. The biographical details of and relationships among the members of the Board are disclosed under the section headed "Biographical Details of Directors and Senior Management" on pages 42 to 45 of this annual report.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership as all the Executive Directors possess extensive experience in management and professional knowledge in business, while the three Independent Non-Executive Directors possess professional knowledge and broad experience in finance, law and business. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders of the Company and the Company.

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 59 to 63.

The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

All Directors are appointed for a specific term. Each of the Executive Directors and Independent Non-Executive Directors of the Company is under a service contract with the Company for a period of three years commencing from the Listing Date (except for Mr. Cheng Jin Le whose contract commenced on 19 September 2016).

According to the articles of association of the Company (the "Articles"), all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's annual general meeting ("AGM"). Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment, and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next AGM.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. The Company recognises the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the businesses of the Company.

Corporate Governance Report (continued)

The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will review the board diversity policy, as appropriate, to ensure the effectiveness of the board diversity policy and also discusses any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

PROCEEDINGS OF BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

The Board may meet together for the dispatch of business, adjourn and otherwise regulate its meeting and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. An AGM and an extraordinary general meeting called for the passing of a special resolution shall be called by at least 21 days' notice in writing, and a meeting of the Company other than an AGM or an extraordinary general meeting for the passing of a special resolution shall be called by at least 14 days' notice in writing. A meeting of the Board of any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have connected relations, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.

Set out below are details of the attendance record of each Director at the Board, committee and general meetings of the Company held during the year ended 31 December 2016:

	Attendance/Number of Meetings Held				
Name of Directors	Regular Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	General Meeting
Executive Directors					
Mr. Lai Zhi Tian	*4/4	—	2/2	2/2	2/2
Mr. Cao Xiao Jun	4/4	—	—	—	2/2
Mr. Cheng Jin Le**	2/2	—	—	—	1/1
Ms. Mou Li	4/4	—	2/2	2/2	2/2
Non-Executive Director					
Ms. Jiang Li Xia***	4/4	—	—	—	2/2
Independent Non-Executive Directors					
Mr. Ng Kwun Wan	4/4	*3/3	2/2	2/2	2/2
Mr. Wong Kam Wah	4/4	3/3	*2/2	*2/2	2/2
Mr. Zhou Dai Han	4/4	3/3	2/2	2/2	2/2

* representing chairman of the board or the committees

** Mr. Cheng Jin Le was appointed as Executive Director on 19 September 2016

*** Ms. Jiang Li Xia was re-designated from Executive Director to Non-Executive Director on 19 September 2016

The Board has established three committees, namely, the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee"), for overseeing particular aspects of the Company's affairs. All committees have been established with defined written terms of reference, which were posted on the Stock Exchange (www.hkex.com.hk) and the Company website (www.zeus.cn). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee was established on 8 June 2015 with terms of reference (amended on 31 December 2015) in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the risk management and internal control systems of the Group. The Audit Committee comprises three members, all being Independent Non-Executive Directors, namely, Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The Group's accounting principles and policies, financial statements and related materials for the year had been reviewed by the Audit Committee.

During the year ended 31 December 2016, the Audit Committee has held three meetings for discussion on the audit and financial reporting related matters.

Full minutes of the Audit Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Audit Committee meetings are circulated to all members of the Audit Committee for comments and approval and all decisions of the Audit Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Audit Committee are available on the website of the Company and of the Stock Exchange.

The external auditor was invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on the audit and financial reporting related matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the board and the Audit Committee on the selection and appointment of the external auditor.

Remuneration Committee

The Remuneration Committee was established on 8 June 2015 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of the Group, to review and evaluate their performance in order to make recommendations on the remuneration package of each of the Directors and senior management as well as other employee benefit arrangements. The Remuneration Committee comprises a total of five members, being two Executive Directors, namely, Mr. Lai Zhi Tian and Ms. Mou Li, and three Independent Non-Executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han. Accordingly, a majority of the members are Independent Non-Executive Directors.

Corporate Governance Report (continued)

During the year ended 31 December 2016, the Remuneration Committee has held two meetings. Full minutes of the Remuneration Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are circulated to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Remuneration Committee are available on the website of the Company and of the Stock Exchange.

Nomination Committee

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. The appointment of a new director has been a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

The Nomination Committee was established on 8 June 2015 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment of Directors and the management of the Board succession. The Nomination Committee comprises a total of five members, being two Executive Directors, namely, Mr. Lai Zhi Tian and Ms. Mou Li, and three Independent Non-Executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han. Accordingly, a majority of the members are Independent Non-Executive Directors.

During the year ended 31 December 2016, the Nomination Committee has held two meetings. Full minutes of the Nomination Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Nomination Committee meetings are circulated to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Nomination Committee are available on the website of the Company and of the Stock Exchange.

CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

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

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

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

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

5. to review the Company's compliance with the CG code and disclosure in the Corporate Governance Report.

The corporate governance policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of the Group's operations with applicable laws and regulations.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant.

During the year, all Directors received regular briefings and updates on the Group's business, operations, internal controls and corporate governance matters. Relevant reading materials were provided to the Directors. They also attended courses and seminars organized by external professional bodies on topics relevant to the duties and responsibilities of a director during the year. All Directors have provided the Company with their respective training records pursuant to the CG Code.

EXTERNAL AUDITOR'S REMUNERATION

The Company engaged Ernst & Young as its external auditor for the year ended 31 December 2016. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

During the year ended 31 December 2016, the fee payable to Ernst & Young in respect of its audit services provided to the Company was RMB2.3 million. The major non-audit services provided by our external auditor during the year ended 31 December 2016 mainly include internal control review, risk management system review and environmental, social and governance reporting which amounts to RMB1.0 million.

INTERNAL CONTROL

Risk Management and Internal Control

The Board puts emphasis on risk management and has established and maintained suitable and effective risk management and internal control system. Such system aims to manage, rather than eliminate, risks of failure to achieve business objective, and provides reasonable, though not absolute, assurance against material misstatement or loss by the Group.

To attain the objective, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards and best practices from excellent management companies, the management balances the actual situation and business features of the Company, while continuously allocates resources to optimize risk management and internal control system. The management assessed the effectiveness and appropriateness of the internal control system on the ground of the above to ensure the effective operation of the control system.

Corporate Governance Report (continued)

Risk Management Organization System

With respect to the organizational structure, the Group has established a set of complete organizational structure to manage risks that the Group is exposed to.

Risk Supervision Function

The Board's Responsibilities to Shareholders Regarding the Effectiveness of Comprehensive Risk Management

- Recognizing overall objectives of risk management, risk appetite and risk tolerance of the corporation, approving risk management strategies and substantial risk-mitigating plans as well as risk management measures;
- Understanding every material risk that the corporation will encounter and its current risk management status and making effective risk-control decisions;
- Approving the annual comprehensive risk management report;
- Overseeing the cultivation of risk management culture of the corporation.

Risk Management Function

Audit Committee is the top risk management body of the Company and is held accountable to the Board

- Considering the construction plan of comprehensive risk management system;
- Determining the plan on set-up of risk management organizational structure and their duties;
- Approving the regulation, system and the key procedures in risk management;
- Considering and assessing on the strategies of the Group in risk management;
- Approving the annual risk management work plan;
- Considering and assessing the significant solutions and measures in risk management;
- Reviewing and submitting annual comprehensive risk management report to the Board.

Daily Risk Management Function

Risk Management Project Team leads daily risk management works and reports to Audit Committee

- Responsible for the establishment and improvement of the risk management system and mechanism of the Company;
- Proposing annual risk management work plan and submitting the plan to Audit Committee for consideration;
- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to identify and assess risks on regular basis, and identify significant risks the Company is exposed to;

- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to discuss and formulate risk response strategies and solutions for the risks the Company is exposed to and to prepare comprehensive risk management report;

- Organizing or jointly organizing various functions and departments of the Group and the respective subsidiaries to improve the internal control system based on the risk response plan;

- Following up the implementation of the risk response plan performed by various functions and departments of the Group and the respective subsidiaries, and reviewing the operational effectiveness of the internal control system.

Risk Management Implementation Function

Respective functional departments of the Company commences risk management under the coordination of risk management project team

- Executing basic procedures for risk management and internal control;

- Identifying and assessing risks, and recognizing significant risks that the Company is exposed to under the guidance of risk management project team;

- Discussing and implementing risk control measures and solutions against risks the Company is exposed to under the guidance of the risk management project team;

- Enhancing the internal control system of the functions and departments in accordance with the risk response plan.

Internal Audit Function

Internal Audit Department analyzes and makes independent assessment on the adequacy and effectiveness of the risk management and internal control system of the Group

- Responsible for establishing and amending the internal reviewing system and work mechanism of the Company;

- Formulating internal audit plan and determining internal audit focuses, audit methods and procedures, time of audit and staff arrangement/engagement arrangement of third party professional institutions based on the substantial risks and business fields the Company is exposed to, and submitting the Board and Audit Committee for consideration;

- Reviewing the effectiveness of risk management and the internal control system, including the annual comprehensive risk management report, risk management plan and daily risk management solutions; assessing the design and operational effectiveness of the internal control system;

- Auditing the assessment results of risk management and internal control system issued by the third party;

- Reporting the risk management and internal control works to Audit Committee and the Board.

Corporate Governance Report (continued)

Risk Management Procedures

The Group has established a set of complete risk management procedures to identify, assess and manage substantial risks, to review the effectiveness of risk management and the internal control system, and to resolve serious deficiencies on internal control. Specific procedures of risk management are as follows:

(a) Preliminary Risk Information Collection:
The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to extensively and continuously collect internal and external preliminary information related to risk management for the list of risk information.

(b) Identification and Assessment of Risks:
Risk assessment questionnaires were designed based on the list of risk information by the risk management project team. Various functions and departments of the Company and the Group and the respective subsidiaries are regularly organized to carry out risk analysis and assessment. Risks are sorted and significant risks are identified according to the assessment results.

For material issues, the risk management project team organizes and convenes special assessment meetings for the assessment of material issues and risk issues in order to provide support regarding decisions-making.

(c) Proposal of Risk Response Strategies:
The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to select management strategies for each of the risks.

(d) Formation of Risk Response Plans:
The risk management project team organizes various functions and departments of the Group and the respective subsidiaries to discuss and propose risk response plans and designs, amends or optimizes internal control files based on the risk response plans.

(e) Supervising and Improving the Implementation of Risk Management of Each Business Unit:
The risk management project team supervises and assesses the implementation of risk management and the effectiveness of internal control of each business unit; Keeping track of the development of material risk issues.

Internal audit department analyzes and makes independent assessment on whether risk management and the internal control system of the Group are sufficient and effective.

Identification, Assessment and Management of Risks

In 2016, the risk management project team, in accordance with the risk management procedures aforementioned, commenced risk identification and assessment from five dimensions, namely strategies, marketing, operation, compliance and finance. Senior management as well as middle-and-basic level staff of the Group were extensively organized to identify and assess the risks exposed to in the course of their work. In the light of the top ten significant risks assessed and identified, the risk management project team organized senior management of the Group to discuss and determine risk response strategies and specific risk response plans based on the level of risk tolerance. For other identified risks, the risk management project team assessed the risk response plans of business units and formed a comprehensive risk management report by proposing adjustments or recommendations for improvement.

The risk management project team kept track on the execution of response plans and measures of significant risks and reported to senior management of the Group.

Assessment on the Effectiveness of the Risk Management and the Internal Control System

In 2016, the Board continuously supervised and performed annual review on the effectiveness of the risk management and the internal control system of the Group and its subsidiaries through the Audit Committee. The review covered aspects of significant control, such as financial control, operational control, supervision on compliance and risk management. The directors are of the view that, the operation of the internal control system is effective and sufficient, and effectively controls various risks that might disturb the Company from achieving its objectives. The Board was not aware of any significant issues that might affect the shareholders and needed to be brought to their attention, and believed that the internal control of the Group has complied with every code provision in connection with internal control within the Corporate Governance Code, including the compliance of the requirements of laws and regulations.

The Board has, with reference to the assessment made by Audit Committee, reviewed in the board meeting on whether the resources in accounting, internal audit and financial reporting functions, staff's qualification and experience, and training courses provided to staff and the relevant budget were sufficient.

In 2016, the Internal Audit Department, based on the aforementioned risk management procedures, entrusted third party professional institutions to conduct review and assessment on the effectiveness of design and operational compliance of the relevant internal control system in relation to risk management, control and governance practices, regarding the risk management system and the internal control system of significant business fields. Audit Committee under the Board reviewed the assessment results of risk management and internal control system of the Group for the year ended 31 December 2016 issued by third party professional institution and no significant concern that constituted impacts to the Company's shareholders was found.

Corporate Governance Report (continued)

Management of Inside Information

The Group has formulated a set of complete procedures for inside information management to supervise the inside information revealed during business development and standardized the practice of conveying relevant information to shareholders, media and analysts. Those management procedures state expressly that confidential or inside information is strictly prohibited to use without permission and set out the reply procedures in respect of the enquiry towards the Group's affairs made by external parties.

DELEGATION BY THE BOARD

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

COMPANY SECRETARY

Mr. Cheng Tat Hei ("Mr. Nicholas Cheng") has been appointed as the company secretary of the Company since 19 September 2016 and is responsible for overseeing all the company secretarial matters of the Group. In the opinion of the Board, Mr. Nicholas Cheng possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. During the year ended 31 December 2016, Mr. Nicholas Cheng confirmed that he has taken no less than 15 hours of relevant professional training. The Company will provide fund for Mr. Nicholas Cheng to take no less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 64 of the Articles, extraordinary general meeting shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 64 of the Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 113 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office and Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

INVESTORS RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

Constitutional Documents

The was no significant changes in the constitutional documents of the Company during the year ended 31 December 2016.

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

The Board is honored to release this environmental, social and governance report pursuant to the Environmental, Social and Governance Reporting Guide provided in Appendix 27 to the Listing Rules, which sets out the Company's policies and practices in four aspects, namely environmental protection, employment and labor practices, operating practices and community involvement for the year ended 31 December 2016. This report is designed to allow shareholders, investors (including potential investors) and the public to have a more comprehensive and profound understanding of the corporate governance and culture of the Company.

The Company is aware of the importance of having a reciprocal relationship with the society. The Board and management of the Company are committed to establishing good standards in environmental, social and corporate governance practices. Apart from pursuing corporate profits, the Group also took into consideration the sustainable development of the environment, the society and corporate governance in all aspect of the business operation of the Group, so that those standards could be sustained.

Currently, the Environmental, Social and Governance ("ESG") Committee is chaired by the Board. The Board will continue to formulate guidelines and spearhead initiatives that can be implemented in the whole group.

DIALOGUE WITH STAKEHOLDERS

Communication Mechanism for Stakeholders

Zhongzhi Pharmaceutical believes that the establishment of an effective communication mechanism with stakeholders is of significance in raising the transparency of the Company and building market confidence. The Company discloses information in accordance with the Listing Rules and publishes reports regularly to stakeholders and the public in order to make stakeholders such as shareholders, investors, creditors and suppliers understand the situation of the production and operation of the Company and safeguard their own interests effectively.

Stakeholders	Requests and Expectations for the Company	Communication and Feedback
Government	• Compliance with laws; legal operation • Job creation; tax payment according to laws	• Continuous enhancement of corporate compliance management so as to ensure the Company's operation is in compliance with laws • Full payment of tax in due course and creation of tax revenue and employment opportunities • Participation in the formulation and recommendations of policies in relation to pharmaceutical safety
Shareholder investors	• Management of the Company and value creation • Information disclosure and risk control	• Optimization of corporate governance and continuous enhancement of corporate values • Disclosure of operation statistics and establishment of investor hotline

Environmental, Social and Governance Report (continued)

Stakeholders	Requests and Expectations for the Company	Communication and Feedback
Customers and Consumers	• Products and services quality • Protection of consumers' interest	• Organization of periodic academic seminars, symposiums and inspection forums etc. for academic teams and industry associations • Implementation of customer satisfaction survey • Maintain complete customer service process • Maintain of complete customer complaint handling process • Establishment of a complete information exchange mechanism
Staff	• Reasonable remuneration and benefits • Staff training, development and promotion • Staff care	• Creation of a competitive remuneration system • Regular career trainings and setting up of a platform for staff career development • Care for the physical and mental well being of staff by providing regular body check • Implementation of democratic management by seeking staff advice regularly
Partner with Industry Associations	• Maintenance of sound industrial development • Win-win partnership with mutual benefits	• Regularly conducting audit on suppliers • Maintain long-term partnership with qualified suppliers
Media	• Positive interaction with media • Information disclosure	• Improvement of an open media system and disclosure of information via multi-channels • Commencement of communication, dialogues and positive interaction with non-governmental organizations
Community	• Support for community charity • Raising health awareness	• Launching volunteer campaigns • Promoting knowledge of food and pharmaceuticals safety to citizens
Environment	• Support for environmental protection, energy conservation and emission reduction • Formation of a mechanism for saving resources and environmental protection throughout the workflow	• Putting into use of environmentally-friendly and energy-saving equipment • Protection of ecological environment by handling waste water

Environmental, Social and Governance Report (continued)

In the course of preparation of this Environmental, Social and Governance Report, we have proactively obtained opinions from various groups of stakeholders through various channels so as to grasp their views towards Zhongzhi Pharmaceutical in environmental, social and governance aspects, which could serve as a key reference for the formulation of our current and future strategies and policies. By engaging with third party professional organizations, we carried out comprehensive communication with each group of stakeholders in various dimensions and forms including face-to-face communication, phone interviews, surveys, site visits, and eventually select issues which are concerned most by the stakeholders and disclose them in this report.

MAJOR ESG ISSUE ANALYSIS

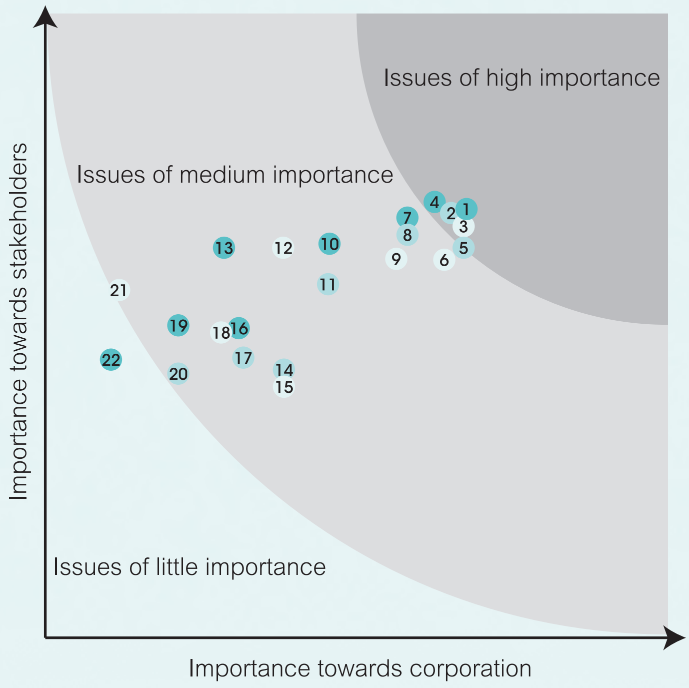
We ranks the importance of each issue to stakeholders based on the survey results as below:

Issues of high importance	1	Protection of intellectual property rights
	2	Inspection of products quality and recall
	3	Occupational health and safety measures
	4	Product soundness and safety
	5	Corruption and anti-corruption measures
Issues of medium importance	6	Staff personnel safety
	7	Consumer information security and confidentiality
	8	Avoidance of child labour and forced labour
	9	Types of social issues involved and its involvement
	10	Complaints for products and services
	11	Staff trainings and their participation
	12	Solid waste management
	13	Emission management
	14	Employment
	15	Product packaging materials management
	16	Environment and natural resources
	17	Energy use management
	18	Principles for suppliers' engagement
	19	Management of water resources usage
	20	Suppliers
	21	Greenhouse gas management
Issues of little importance	22	Staff turnover rate

Environmental, Social and Governance Report (continued)

The analysis model of ESG issues of importance is as follows:

Analysis Model of ESG Issues of Importance



A. ENVIRONMENTAL PROTECTION

The Company pledges to uphold quality management and implement policies for conserving resources and managing waste. The Company has established the following policies in compliance with environmental regulations:

1. The Company implemented internal procedures to prevent and manage pollution.

2. The Company commits to fulfill and comply with national and regional environmental protection regulations and establishes self-regulating frameworks and standards accordingly.

The Group conduct regular testing in relation to air, noise and waste water emitted or produced to ensure that our pollution levels are within the allowed levels as stipulated in the relevant PRC laws and regulations.

Environmental, Social and Governance Report (continued)

A.1 EMISSIONS MANAGEMENT

Emissions Management Policy

The Group puts strong emphasis on the environmental impact caused by the production process. As regards emissions management, we have formulated policies such as the "Environmental Protection Management System", the "Management System of Use of Dust Removal Equipment", the "Operating Procedures of Treatment of Waste Water from Production", the "Management Standard of Sewage Treatment Facilities" and the "Standard Operating Process of 3 Kinds of Waste in Laboratory", in an effort to lessen the pollution to the surrounding ecological environment caused by wastes, to optimize the establishment of the relevant systems and to ensure that the environmental impact posed by the production and operation activities are minimized.

Treatment Measures and Results

We have implemented the following requirements in respect of waste emissions in accordance with the "Environmental Protection Management System":

- We conduct irregular sample checks, monitoring and implementation of inspection in locations of waste emissions, in which those subject to the inspection should be inspected by the qualified units and the Company should establish the entries accordingly.

- The requirements of concentration level of hazardous substances in the air are enforced in accordance with national regulations. The tests of dust, toxin and noise are conducted at least once a year by regional occupational health supervisory institutions and the results are all documented into archives.

- Water should be used reasonably and for different purposes to decrease the consumption of fresh water and eliminate COD emission. Waste water emission by seepage pit, either directly or indirectly, is strictly prohibited in order to prevent contamination of underground water source.

- Waste residue emitted by the Company should be utilized comprehensively while those useless waste should be entrusted to qualified units for non-hazardous treatment.

- The management of water emission system network should be reinforced, with the diverge of rainfall and sewage included, to avoid infiltration, leakage, flow and blocking.

- Low-noise facilities and equipment in production workshops and workplaces have to be adopted to ensure factory noise is in compliance with the relevant required level.

A.2 INCREASE IN RESOURCES EFFICIENCY

Policies on Resource Utilization

Zhongzhi Pharmaceutical places strong emphasis on efficiency of resource utilization and energy conservation and emission reduction by continuously optimizing the establishment of relevant systems, gradually formulating and implementing policies including the "Workplace Safety Management System", the "Statutes on Safety Inspection and Check Management" and the "Management Standard of Electricity Facilities", so as to impose effective control over the use of resources of the Company.

Energy-saving Measures and Effects

Staff of the Group attaches great importance to resource conservation. Informal documents in office are printed or copied with recycled paper, and the number of papers saved are 20% more compared to than of the previous year; as for central air conditioning units and air compression units, automatic frequency conversion equipment is adopted and thus annual electricity consumption is 10% less than before. The Group also develops the "Environmental Protection and Management System", under which water-saving and pollution reduction campaigns are launched. Water is used in multiple ways and recycled so as to raise the integrated water utilization rate. To further encourage energy conservation and environmental protection, the Group proactively commenced a writing campaign about exploring new energy resources while saving the current ones in order to raise staff's awareness in this respect and advocates saving each drop of water, each watt of electricity and each piece of paper.

According to the requirements of the "Exploring New Energy Resources while Saving the Current Ones" of the Group, the Group has formed project groups to carry out relevant trainings and formulated the "Plan for Exploring New Energy while Saving the Current Ones and the "Implementation Plans for Exploring New Energy while Saving the Current Ones", and the key points are as follows:

- Energy-saving technological transformation of steam system: technical transformation of the steam condensing and drainage system is conducted while checks are made on the operation of the boiler specifications and the use of steam to ensure proper convergence with steam for production.

- Optimization of analysis and management of use of time for public system and production time of workshop, and conducting analysis and summary regarding energy consumption on a quarterly basis.

- Checks on the ratio of public system equipment in good conditions. Facilitation of the coordination of the public system supply.

- Irregular inspection on use of electricity, water and steam so as to reduce unreasonable usage.

Environmental, Social and Governance Report (continued)

A.3 PROTECTION OF ECOLOGICAL ENVIRONMENT

As a responsible green enterprise, the Group strive to balance corporate development and sustainable social development. To lessen environmental destruction and better protect the ecological environment, we strictly comply with national and regional laws and regulations concerning environmental protection and have formulated policies such as the "Environmental Protection Management System" and the "Environmental Protection Emergency Plan" accordingly, and proactively launched and consistently implemented these policies in Zhongzhi Pharmaceutical and its respective subsidiaries.

Relevant Measures and Results of Ecology Management

- Emissions of oil, acid liquid, lye or highly toxic liquid wastes and industrial waste residues to rain drainage system are prohibited.

- Washing tanks and containers containing oil, acid liquid, lye or highly toxic liquid wastes within the factory area are prohibited.

- The valve of tank area sewage drainage system is kept closed normally. The improper opening of the valve leading to rain drainage system is prohibited at times of sewage drainage. During the heavy rain period, the valve leading to sewage pool would be opened first to drain the rain water. With the confirmation that no oil is on the ground, the valve leading to sewage ground would be closed and then the valve leading to the rain drainage would be opened.

- Respective workshops clean trenches and wells within their governing areas so as to prevent debris from clogging trenches and wells and thus causing the spillover of sewage.

- Greening of the factory and improvement of production area and surroundings.

In addition, the Group requires that the industrial construction projects should adopt clean production processes which consume few energy and generate less pollutants, use natural resources reasonably and prevent environmental pollution and ecological destruction; as regards environmentally-friendly facilities management, it requires these facilities to operate simultaneously with the production facilities in order to achieve the goal of stabilizing waste emissions to reach related standards, while inspection in a timely manner is made to eliminate defaults of these facilities and potential hazards; emergency plan has to be commenced immediately when environmental incidents occur so as to prevent the worsening of the incident and to mitigate environmental pollution and property losses, and the causes of the incident have to be investigated in a serious manner to set up prevention measures.

All businesses of the Group did not pose any material impact on the environment and natural resources in 2016.

Environmental, Social and Governance Report (continued)

B. SOCIAL

B.1 LABOUR STANDARD AND B.4 EMPLOYMENT POLICY

Basic System and Employment Practices

Putting great emphasis on staff's contributions, the Group sets systematic standards and management in respect of employees recruitment, appointment, promotion, termination, staff training, code of conducts, working hours, performance appraisal, benefits packages, diversification and anti-discrimination through enacting and implementing the "Human Resources Management System" and the "Human Resources Management Structure".

Employment Policy

To help achieve the strategic objectives of the Company and further regulate the system and procedures for staff recruitment, the Group has, in particular, formulated the "Human Resources Management System". Upholding the people-oriented value concerning talents and the principles of justice, fairness and openness, we recruit employees both within and outside the Company. The recruitment of the Company complies with the double examination principle, that is all recruitment has to be double-checked by the department where the staff works in and the human resources department so as to ensure that the recruited employees meet the qualification requirements of the position and has a good code of occupational conducts; the Group also formulates the human resources plan based on its development plan and strategic objectives and conducts review periodically; apart from recruiting new staff by implementing the external recruitment plan, the Group has formulated internal staff training and talent retention plan, by setting up a selection and evaluation system for all positions in order to optimize the allocation of human resources and internal promotion, and to cultivate its employees to become future leaders of their respective fields. Besides, labour contracts or employment contracts are entered into between the Group and its employees, of which relevant particulars are clearly specified to protect the rights and interest of both parties. The Company also enhances communication with staff by regular staff and department meetings, internal publications and notice boards as well as intranet communication in order to achieve democratic management.

The Group treats all staff equally. The social identity of employees, which includes ethnicity, race, nationality, religion, gender, age, sexual orientation, political factions and marital status, is not taken into consideration when it comes to their employment, remuneration and promotion. The Group strictly complies with the "Provisions on the Prohibition of Using Child Labour" issued by the State Council and prohibits the use of child labour and forced labour; in case the Group discovers the use of child labour, the child labour would be sent to his/her original place of residence and handed to their parents or other guardians by the relevant authorities. Besides, the majority of the employees of the Group resides in China. We strictly comply with the requirements of the Labour Law of the PRC and the Labour Contract Law of the PRC, and no relevant rules and regulations are violated. Labour wages, overtime payment and relevant benefits are determined with reference to the requirements of local minimum wage whereas holidays and statutory paid leaves also comply with the requirements in the PRC.

Remuneration and Benefits

To systematically regulate matters regarding the attendance and leave and effectively safeguard staff remuneration and benefits, we formulated policies such as the "Attendance Management System" and the "Remuneration Structure Management Methods", which require that the major components of staff remuneration comprise basic salary, and (if applicable) other allowances, commissions, bonuses and public funds involved in mandatory provident fund or stated-managed retirement benefit scheme; other benefits include share options granted under the share option scheme and shares granted under the share award scheme. At the same time, we provide our staff with various holidays and benefits, such as paid holidays, social and commercial insurance, housing funds, corporate annuity, annual body check and education and continuing education opportunities.

Environmental, Social and Governance Report (continued)

Working Hours and Holidays

According to the "Attendance Management System", the Company implements 5 days per week and 8 hours per day work system, and in principle, we do not encourage staff to work overtime. Besides, staff can enjoy paid holidays including public holidays, causal leave, sick leave, paid leave for work injury, marriage leave, bereavement leave, maternity leave and family planning leave.

Workforce

Total workforce by gender, employment type, age group and geographical region:

		Number of persons	Employees turnover rate
Total number of employees		2,396	28.5%
By gender	Male	828	26.3%
	Female	1,568	29.7%
By types of employees	Number of full-time employees	2,201	/
	Number of part-time employees	195	/
By age	<30	1,251	25.7%
	30–50	1,076	26.7%
	>50	69	21.7%
By region	South China Region	1,665	23.3%
	East China Region	250	35.1%
	North China Region	241	33.1%
	Central China Region	240	27.3%

B.2 SAFETY AND HEALTH

Safe Production

The Group strictly complies with the "Production Safety Law of the People's Republic of China" in order to provide workers with work environment and conditions which meet the occupational health requirements; to ensure the safety and health of employees during the production operation process, in accordance with the statutes of the "Law on Prevention and Control of Occupational Diseases of the People's Republic of China" and the "Management Systems of Occupational Health", we have formulated the "Management System of Corporate Potential Occupation Hazards", requiring the Company to review causes of occupational hazards and provide professional body check for workers involved on a regular basis. In 2016, the Company formulated the "Safety Training, Learning, Inspection and Rehearsal Work Plan in 2016", where we did not only place emergency facilities in the production premises and offer protection equipment, but also required staff to learn safety rules regularly, accept equipment and work area safety checks, take self-help training courses and crisis rehearsal. The Group also purchases accident insurance for staff.

Environmental, Social and Governance Report (continued)

Occupational Health

To reduce occupational hazards and prevent occupational health issues, the Group specifies relevant requirements for the Company's occupational health management and occupational hazards prevention and treatment in "Safety Standard Document" , pursuant to which, to provide work environment and conditions which meet the occupational health requirements, the Company is required to design production areas reasonably so as to separate hazardous operating area from non-hazardous ones; the department which generates dust is required to strictly manage all dust-generating equipment and opening and closing of dust source points; operators who are prone to occupational hazards perform body check every 1 to 2 years; in work places where acute occupational hazards may occur, alarm systems are installed, emergency plans are formulated, on-site emergency appliances are set and necessary venting areas are in place. Simultaneously, the Group has also incorporated the management of the operation related to safe production in the "High Voltage Power Grid" and implemented severe punishment policies, in order to guarantee the occupational safety and health of our staff.

In year 2016, there were no work injury related leave taken by employees of the Group, and there was neither serious injury nor fatal incident.

B.3 TRAINING AND DEVELOPMENT

To keep staff abreast of the latest development of pharmaceuticals manufacturing industry and to maintain quality organizational structure, the Company offers various training courses and funds its staff for training on an annual basis. We have specifically formulated the "Management System on Training" and the "Training Structure and Plan", and established a comprehensive training system and mechanism for providing staff with on-the-job education and training. Such measures aim to enhance staff capabilities and management skills, and hence lay a smooth promotion channel. The Company adopts the principle of "Uniform planning, Personnel classification by tiers, Varieties of measures and Integration of supervision and control" to allow staff to acquire training as incentives and development opportunities by achieving outstanding results and work performance. Talents are also selected by management via internal aptitude tests and recommendations from senior staff for prioritized training. The Company offers different types of trainings, including corporation-level training, department training, external training, orientation training, transfer training, promotion training, special work training, continuing education for staff and other specific training. In addition, the "Management System on Training" also sets forth detailed requirements on the preparation of training plans and training materials, management of internal training instructors and management of training appraisals, etc.

Environmental, Social and Governance Report (continued)

Training Hours of Employees under Training by Gender and Employment Type:

		Total Training Hours	Percentage
All employees		84,906	100.0%
By gender	Male	28,836	34.0%
	Female	56,070	66.0%
By types of employee	Full-time employee	78,879	92.9%
	Part-time employee	6,027	7.1%

For the year ended 31 December 2016, each of our staff on average received 36 training hours.

B.5 SUPPLY CHAIN MANAGEMENT

1.1 Assessment and Selection of Suppliers

To ensure that the procured materials satisfy the stipulated requirements and to guarantee the stability of its quality, the Group has formulated the "Management Standards on Suppliers" to regulate the supplier assessment methods, audit methods and types as well as the removal and replacement procedures for unqualified suppliers. Meanwhile, we have established a list of qualified suppliers and maintain long-term cooperative relationship with them, so as to ensure that raw materials procurement is in line with the internal standards of the Company and to secure the quality and safety of the products.

Assessment of Suppliers

We require suppliers to possess materials production and operation qualifications as well as relevant certificates, such as "Permits on Pharmaceuticals Production" and "Business Licenses for Corporations". Apart from providing relevant qualification certificates, major materials suppliers shall also provide information such as the pharmaceuticals registration certificates, drugs packaging certificates, quality standards and verification standards for relevant materials.

The quality management department of the Group is responsible for the quality assessment of suppliers of all materials for production, and makes objective assessment on suppliers in consideration of factors such as quality risks for pharmaceuticals produced by the enterprise, materials usage and the extent of materials' impacts on pharmaceutical quality. The quality management department will include those qualified suppliers into the list of qualified suppliers upon assessment, and specify the permitted scope of materials supply of each supplier. The procurement personnel could only procure materials from those suppliers confirmed qualified and the materials purchased shall only be within the scope of materials supply permission.

Environmental, Social and Governance Report (continued)

Audit Methods and Types

The audit on suppliers is classified as on-site audit and written audit: for ordinary materials or major materials which no on-site audit could be performed, written audit could be adopted, such as conducting assessment on suppliers with "Suppliers Questionnaire". For the first audit, audit conducted upon complaints on material quality issues and audit on rectification effects for major suppliers, on-site audit is conducted to enhance the reliability of audit results.

Removal and Replacement of Unqualified Suppliers

To ensure consistency of product quality, the Group conducts quality review and analysis on suppliers on regular basis, and delisted those suppliers with product quality issues, frequent difference on materials provided and with relevant qualifications and licenses expired from the qualified supplier list. The quality management department notifies suspension of procurement business with such supplier and seek for new qualified suppliers.

Diversified Procurement

The Group upholds the procurement principle of "quality comes first" for the selection of quality suppliers nationwide. During the year ended 31 December 2016, we had a total of 585 suppliers spreading over various regions, such as Northern China, Central China and Southern China.

Number of Suppliers and their Percentage by Region in 2016:

Region	Number	Percentage
Southern China	404	69.1%
Eastern China	61	10.4%
Northern China	53	9.1%
Central China	60	10.2%
Northeast	1	0.2%
Northwest	3	0.5%
Southwest	3	0.5%

Environmental, Social and Governance Report (continued)

B.6 PRODUCT LIABILITIES

Products and Services Quality

The Group stringently regulates its procurement, production and sales procedures while implements refined management system in accordance with the relevant national and industry quality standards, so as to ensure the provision of quality products and services to the society. Honeson Pharmaceutical, a subsidiary of Zhongzhi Pharmaceutical, has formulated policies including the "Management Standards on Recall, Re-work, Re-processing and Re-packaging", the "Operational Statutes for Quality Control Standards on Recalled Products" and the "Operational Statutes for Standards on Addressing Complaints". Products quality is under strict control and after-sales services for products are also enhanced with an aim to firmly safeguard the life and health of consumers.

Quality Examination and Products Recall

Unqualified products are recalled and re-worked while intermediate goods are re-processed with different production processes in order to meet the expected quality standards. In the course of packaging, the quality control department informs relevant departments to conduct re-packaging if the printed contents of the packaging are illegible caused by equipment malfunctions.

Upon thorough assessment of relevant quality risks, the quality control department would decide whether products recall is necessary. The period of validity of products recalled and handled would be determined by the production date of the earliest batch of products for the recall and handling. For recalled solvents reused in the same or different processes and steps for the same type, the quality control department appoints delegates to control and supervise the recall processes to ensure that the recalled solvents conform with the corresponding quality standards.

The Group has achieved desired effects with its stringent products quality and protection policies. In 2016, the percentage of products subject to recall due to safety and health reasons of the total number of products sold or transported throughout the year was 0%.

After-sales Services and Privacy Policies

To regulate after-sales services and establish excellent corporate and brand images, Zhongzhi Chain Pharmacies has formulated policies such as the "Management of Consumers' Complaints" and "Management and Measures on Consumers' Privacy Protection" to offer consumers with considerate and detailed after-sales services.

For complaints on services quality accepted, if they are related to suppliers and manufacturers, the person-in-charge of the procurement department shall make co-ordination and communication on a timely basis for duly handling; if they are related to the staff of the Group, personnel accepting the complaints shall promptly acknowledge the situation of the staff involved and duly handle the issue. After processing the complaints, specific details would be reported to the quality control department for it to propose handling opinions to the personnel directly responsible, which would be handled by the human resources department upon the approval by general manager. Upon receiving complaints on products quality issues, the person-in-charge of the quality control department would promptly contact the consumers for replacement in the original store where the products were purchased to the extent possible. In case no replacement could be made due to special reasons, products return would be conducted.

Environmental, Social and Governance Report (continued)

As a pharmaceuticals manufacturing and sales corporation, we have access to private information of our consumers. To prevent leakage of consumers' information, we regularly organize relevant training for our staff to enhance their commands of law and profession quality. Strict treatment would be imposed on those accountable for illegal leakage of consumers' private information.

In 2016, we have received 186 complaints on products and services. We make detailed record for each complaint, take it seriously and never treat consumers in a perfunctory manner. We will continue to enhance our products and services quality to strive to satisfy consumers' expectations so as to reduce the number of complaints.

Intellectual Property Rights

To safeguard the Company's legal rights and to put the effectiveness of the technology secret, an important asset of the Company, into full play, staff is encouraged to continuously create and proactively protect technology secret in a self-conscious manner. Zhongzhi Pharmaceutical has formulated the "Requirements on Relevant Works on Confidentiality of Corporate Technologies" in accordance with the relevant national and industry laws and regulations on intellectual property rights.

Zhongzhi Pharmaceutical makes classification of its technology secret based on confidentiality and period. In terms of confidentiality, the secrets include top secret, secret and confidential; In terms of period, the secrets include permanent, long term (10–20 years) and short term (3–5 years) secrets. The determination of confidentiality levels and duration is made by the Group's technology department with reference to the co-relation between such information or results and the Company's business benefits, the competition extent with industry peers and the importance level for Company's operation.

We uniformly place confidential information into a specific storage upon confidentiality labelling, registering and numbering, and establish entries for registration. The access to technology secret information shall be handled by information maintenance personnel with access approval letter to determine the access time. No delay of return after usage nor passing to others is allowed. No copy shall be made without the approval opinions from the head of intellectual property rights of the Company.

Meanwhile, we have also adopted a series of measures to guarantee the effectiveness of our technology secret protection:

- In the course of external technology co-operation, for those based on technology secret or other technology contracts involving the permission of technology secret, the Company would determine the value of technology secret via negotiation with partners. For those requiring value assessment by the third party, qualified intermediaries are entrusted and stringent confidentiality measures are agreed via contract.

- For those staff of the Company participating in the performance of technology contracts in relation to technology secret, the Company's technology secret shall be kept confidential in the co-operation, and the contact with partners and exchange of information shall only be within the scope of technology co-operation.

Environmental, Social and Governance Report (continued)

- Staff shall comply with the disciplines on confidentially of the Company when hosting or participating in external business negotiations. If negotiation on the Company's technology secret is involved, proposal on the negotiation shall be prepared in advance for the approval of the head of intellectual property rights of the Company. For technology results arising from technology co-operation, the form and the ownership of the intellectual property right shall be agreed in contract, and confidentiality measures shall be adopted for any technology secret belonging to the Company in accordance with agreement.

- For technology secret arising from staff's development or participation in technology innovation projects and from new product technology or creation and invention, if revenue is incurred in the course of external technology co-operation, the Company will offer awards based on relevant reward system.

B.7 ANTI-CORRUPTION

The Group is committed to preventing and monitoring any misconduct or immoral conducts via the formulation and stringent implementation of policies such as the "Integrity Policy" and the "Staff Code of Ethics". We communicate stringent anti-corruption and anti-fraud requirements to our staff, while providing them with whistleblowing channels, so as to enhance corporate governance and internal control as well as safeguard the legal interests of the Company and shareholders. Specific measures include:

- Staff shall refuse fraud conducts in a self-conscious manner and enhance the corresponding awareness of prevention thereon, while effectively prevent and report fraud conducts. The Company advocates honesty as its corporate culture, and encourages and protects its staff for honestly revealing any conducts in breach of laws and regulations and dishonesty within the Company.

- Staff shall be in strict compliance with the laws as well as regulations and regulatory requirements in relation to anti-business corruption, and distinguish the boundaries between ordinary business dealings and irregular trading. Breaches of business ethics and market rules as well as those improper trading conducts affecting fair competition in operation are strictly rectified. Co-operation with regulatory institutions based on the law is made for the investigation and handling of business corruption cases in breach of laws as well as of giving and receiving properties or other benefits.

- The Company shall strengthen safety management measures such as whistleblowing mail box, telephone hotline and email, and strictly distinguish the responsibilities and division of labour for whistleblowing information management and investigation. The usage of information and files shall undergo stringent approval procedures.

- All staff of the Company shall be subject to the supervision of national and capital market regulatory institutions based on the relevant law, and shall safeguard the legal interests of the Company in a self-conscious manner.

The Group has achieved excellent results for its stringent anti-corruption system. No corruption litigation case was initiated against the Group or its employees in 2016.

B.8 COMMUNITY INVESTMENT

Zhongzhi Pharmaceutical has long been adhering to the spirit of "benefiting from the society and giving back to the society", and is committed to giving back to the society as well as stay along with the community on top of pursuing quality growth in terms of operating results. We are dedicated to public welfare and charity activities. Apart from proactively investing in the health business in the community, we also help those in need from the perspective of social needs by offering them support in terms of capital and resources and create sustainable social value.

Community Health

As a highly responsible pharmaceuticals corporation, Zhongzhi Pharmaceutical proactively assumes the responsibility of facilitating health within the community. In March 2016, we commenced a reward program for those with chronic diseases under the support of the community. In September, we held a charity health maintenance talk to disseminate health knowledge. Meanwhile, the licensed pharmacist team of Zhongzhi Chain Pharmacies, a subsidiary of Zhongzhi Pharmaceutical, also commenced volunteer program to promote safety and health knowledge on food and pharmaceuticals to the public of Zhongshan, advocating the community to join Zhongzhi Chain Pharmacies for the social governance of food and pharmaceuticals governance and making Zhongshan a safe food city. In 2016, Zhongzhi Chain Pharmacies has conducted 68 volunteer activities with the participation of 275 volunteers.

Public Welfare and Charity

Zhongzhi Pharmaceutical is a big family filled with love. We encourage our staff to participate in various social welfare and charity campaigns to link the corporation with the society as inseparable partners, in turn proactively exemplifying our corporate influence.

Zhongzhi Pharmaceutical is committed to offering monthly caring services to elderly houses in various towns and regions. For this year, we organized the "Caring Home" welfare campaign in February and commenced the "Caring Angel" welfare campaign in June; in July, Zhongzhi Pharmaceutical also commenced a welfare campaign themed "Caring Hygiene Maintenance Workers". At the same time, with the support of Honeson Pharmaceutical, a subsidiary of Zhongzhi Pharmaceutical, the staff of Honeson Pharmaceutical participated in 2016 Zhongshan charity walkathon, which not only promoted the spirit of "fraternity" among Zhongshan people, but also displayed the brand of Zhongzhi Pharmaceutical in the event.

The Group has donated RMB0.6 million (mainly from Caojinghua Charity Fund) and 92,100 sets of pharmaceutical products to external parties. An aggregate of 469 staff have participated in social welfare campaigns with a total of 1,585 volunteer hours.

Biographical Details of Directors and Senior Management

Biographies of Directors and senior management team are set out below:

EXECUTIVE DIRECTORS

Mr. Lai Zhi Tian (賴智填), aged 49, is the spouse of Mrs. Lai. He is the founder, controlling shareholder, an executive Director, Chairman of the Board and general manager of our Group. He joined our Group on 27 September 1999 and is responsible for formulating the corporate strategies and planning the business development of our Group.

Mr. Lai has over 30 years of experience in the pharmaceutical industry and has extensive experience in pharmaceutical products development, manufacturing and distribution. From September 1981 to April 1994, he worked as a salesperson at the Puning Zhang Mei Herbs Shop* (普寧市長美藥材站). From May 1994 to September 1998, he worked as a salesperson at Zhongshan Herbs Company* (中山市藥材公司). Mr. Lai was a manager of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") before its transformation from a collective enterprise to a limited liability company. In September 1999, he became a shareholder of our Group. Under the leadership of Mr. Lai, our Group's business expanded from the distribution of pharmaceutical products to the operation of chain pharmacies and the production of pharmaceutical products.

Mr. Lai is currently the vice chairman of China Pharmaceutical Materials Association* (中國醫藥物資協會) and the president of Guangdong Pharmacies Union* (廣東藥店聯盟). Mr. Lai is an adjunct associate professor and a mentor of the Master's programme at the Research Centre of Chinese Herbal Resources (Science and Engineering)* (中藥資源科學與工程研究中心) of Guangzhou University of Chinese Medicine* (廣州中醫藥大學).

Mr. Cao Xiao Jun (曹曉俊), aged 49, was appointed as the executive Director of the Company on 30 January 2015 and is the deputy general manager of our Group. He joined our Group on 8 March 2010 and is responsible for supervising business development and overseeing sales and marketing activities of our Group. He obtained a Bachelor degree of Chemistry and Pharmacy Training from China Pharmaceutical University* (中國藥科大學) in July 1989. Mr. Cao was qualified as a pharmaceutical manufacturing engineer* (製藥工程師) and obtained a professional qualification in pharmacy* (藥學) in July 1999 and October 2002 respectively.

Mr. Cao has over 25 years of experience in the pharmaceutical industry. He served as the marketing manager in Guangdong Shiqi Pharmaceutical Company Limited* (廣東石岐製藥公司) from July 1989 to March 1997 and since then to June 2000, he became the deputy general manager of Shenzhen Wedge Pharmaceutical Chains Company Limited* (深圳市萬澤醫藥有限公司). From June 2000 to July 2009, he served as the deputy general manager of Shenzhen Naber Medicine Company Limited* (深圳市南北醫藥有限公司).

Mr. Cheng Jin Le (成金樂), aged 54, was appointed as the executive Director of the Company on 19 September 2016 and is the deputy general manager and chief engineer of the Group. He joined our Group in June 2003 and is responsible for overseeing the research and development of decoction pieces. Mr. Cheng is a licensed pharmacist* (執業中藥師) in the People's Republic of China and has over 35 years of experience in the pharmaceutical industry. Prior to joining our Group, he served as the chief pharmacist of Chinese medicine in the Hubei Macheng People's Hospital* (湖北麻城市人民醫院). Mr. Cheng is also an adjunct professor in the Guangzhou University of Chinese Medicine* (廣州中醫藥大學) since December 2007 and the Chairman of the Zhongshan Pharmaceutical Association* (中山市藥學會) since November 2013.

Biographical Details of Directors and Senior Management (continued)

Ms. Mou Li (牟莉), aged 54, was appointed as the executive Director of the Company on 30 January 2015 and is the chief financial officer of our Group. Ms. Mou joined our Group on 1 March 2002 and is responsible for supervising the financial management and control of our Group. She has extensive experience in financial management, with particular expertise in financial control and management, internal control and internal audit. Ms. Mou graduated from the Central Party School of the Communist Party of the PRC* (中央黨校經濟管理專業本科) in December 1996. She was licensed as a senior accountant by the Heilongjiang Department of Human Resource* (黑龍江省人事廳) in September 1997.

Ms. Mou has over 30 years of experience in accounting and finance. Prior to joining our Group, she worked as an accountant in the Heilongjiang Hao Liang He Fertiliser Plant* (黑龍江浩良河化肥廠) from July 1982 to October 1989. She served as the financial manager in Heilongjiang Nongken Investment Invitation Bureau* (黑龍江農墾招商局) from November 1989 to July 1997. She worked as the financial manager in Heilongjiang Nongken Production Information Company* (黑龍江農墾生產資料總公司) from August 1997 to June 2001.

NON-EXECUTIVE DIRECTOR

Ms. Jiang Li Xia (江麗霞), aged 52, was appointed as the executive Director of the Company on 12 September 2014. Prior to joining our Group, Mrs. Lai has been a volunteer in the local community centre in a suburb of Vancouver, Canada from 2005 to 2008. She assisted in the operation of the centre where she gained her relevant experience in administration. Mrs. Lai joined our Group on 24 February 2009 and was responsible for supervising business administration of our Group. Her duties included overseeing human resources matters and co-ordinating among different departments to ensure sufficiency of office support for the operation of our Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwun Wan (吳冠雲), aged 53, was appointed as an independent non-executive Director of the Company on 8 June 2015. He obtained the Bachelor of Arts degree in Accounting and Finance from the Manchester Polytechnic in July 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in May 1990. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993.

Mr. Ng has over 20 years of experience in management. From November 1994 to October 1995 and from October 1995 to June 1998, Mr. Ng worked as a project manager for New World Development (China) Limited and New World Infrastructure Limited respectively. From July 1998 to August 2004, he worked for New World China Enterprises Projects Limited, a wholly owned subsidiary of New World Development Company Limited (Stock Code: 17), and his last position was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in the real estate department of Smart Faith Management Limited (a subsidiary of South China (China) Limited (Stock Code: 413)). Mr. Ng has been an independent non-executive director of China Flavors and Fragrances Company Limited (Stock Code: 3318) since December 2009.

Mr. Wong Kam Wah (黃錦華), aged 48, was appointed as an independent non-executive Director of the Company on 8 June 2015. He obtained his Bachelor's degree in Laws from the City Polytechnic of Hong Kong, the predecessor institution of the City University of Hong Kong, in December 1994. He obtained a postgraduate certificate in laws from the City University of Hong Kong in November 1995 and a Master degree in Laws from the King's College London, the University of London in November 1996. He further completed the Diploma in Insolvency held by the Hong Kong Institute of Certified Public Accountants in June 2010. Mr. Wong was admitted as a solicitor of Hong Kong in August 1999.

Mr. Wong has over 15 years of experience in legal practice. He is currently a partner of Messrs. Lau Edward, Wong & Lou.

Biographical Details of Directors and Senior Management (continued)

Mr. Zhou Dai Han (周岱翰), aged 76, was appointed as an independent non-executive Director of the Company on 8 June 2015. He obtained a Bachelor degree of Medical Treatment awarded by the Guangzhou College of Chinese Medicine* (廣州中醫學院) (the predecessor institution of the Guangzhou University of Chinese Medicine* (廣州中醫藥大學)) in August 1966. Mr. Zhou was accredited as an instructor of the Teaching and Inheritance of Experience of Famous and Veteran Doctors of Traditional Chinese Medicine* (全國老中醫藥專家學術經驗繼承指導老師) in November 2002. He was accredited as a Renowned Chinese Medical Practitioner of Guangdong Province* (廣東省名中醫) in October 2012.

Mr. Zhou has over 30 years of experience in the field of Chinese medicines. Since 1976, Mr. Zhou has been working at the Guangzhou College of Chinese Medicine as a lecturer, associate professor, associate dean of the tumor research center* (腫瘤研究室副主任), chief medical practitioner* (主任醫師), dean of the tumor department* (腫瘤科主任) and professor.

Mr. Zhou completed the Listed Companies Independent Directors Training Programme* (上市公司獨立董事培訓班) co-organised by the Securities Association of China and the Shenzhen Stock Exchange in January 2003.

SENIOR MANAGEMENT

Ms. Jiang Mei Fang (姜梅芳), aged 55, joined our Group on 1 June 2000 as a pharmacist (藥師) of Zhongzhi Chain Pharmacies Company Limited* (中山市中智大藥房連鎖有限公司) ("Zhongzhi Chain Pharmacies"). In March 1980, Ms. Jiang graduated from the School of Hygiene of Huangshi City of Hubei* (湖北省黃石市衛生學校). In 1995, Ms. Jiang became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部). In December 2011, she was qualified as a medical devices enterprise supervisor* (醫療器械企業負責人).

Prior to joining our Group, from March 1980 to May 1987, Ms. Jiang worked as a pharmacist (藥師) at Huangshi Hua Xin Hospital Company Limited* (黃石市華新醫院有限責任公司), formerly known as Hua Xin Cement Group Worker's Hospital* (華新水泥集團職工醫院). From June 1987 to June 2000, she worked as a supervisor at the pharmaceutical department of the same company. She has been the general manager of Zhongzhi Chain Pharmacies, an indirect wholly owned subsidiary of the Company, since June 2003. She is responsible for the overall management of Zhongzhi Chain Pharmacies.

Mr. Li Wu Yi (李武毅), aged 45, joined our Group on 12 July 2010 as the general manager of Zhongshan Zeus Pharmaceutical Manufacturing Limited. In January 2003, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部). In January 2010, Mr. Li obtained a Bachelor degree of Science in pharmacy awarded by the China Pharmaceutical University* (中國藥科大學).

Prior to joining our Group, from July 1995 to September 1997, Mr. Li worked as the laboratory supervisor at Guangxi Nanning Wan Shi Da Pharmaceutical Factory* (廣西南寧萬士達製藥廠). From April 1999 to April 2002, he worked as the qualitative analyst at Guangzhou Nan Xin Pharmaceutical Company Limited* (廣州南新製藥有限公司). From February 2002 to September 2006, he worked as the qualitative manager at Zhongzhi Honeson Pharmaceutical Co., Ltd* (中山市恒生藥業有限公司) ("Honeson Pharmaceutical"), an indirect wholly owned subsidiary of the Company. From October 2006 to June 2010, he worked as production manager at Dupont China Group Company Limited* (杜邦中國集團有限公司).

Biographical Details of Directors and Senior Management (continued)

From July 2010 to March 2011, he worked as the general manager of Zhongshan Zeus Pharmaceutical Manufacturing Limited. From April 2011 to March 2012, he worked as an assistant general manager of Zhongzhi Pharmaceutical. From July 2012 to August 2013, he worked as the production supervisor of Dongguan Jin Mei Ji Pharmaceutical Company Limited* (東莞市金美濟藥業有限公司). He has been the general manager of Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. (中山市中智中藥飲片有限公司) ("Zhongzhi Herb Pieces") since 2 September 2013. He is responsible for the overall management of Zhongzhi Herb Pieces.

Mr. Chen Jiong (陳炯), aged 43, joined our Group on 31 August 2007 as the production manager of Honeson Pharmaceutical. In July 1997, Mr. Chen obtained a Bachelor degree of Science in pharmacy awarded by the Guangdong Pharmaceutical University* (廣東藥學院). In February 2001, Mr. Chen became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from July 1997 to November 2001, Mr. Chen served as the production worker of Guangzhou Chen Li Ji Pharmaceutical Factory* (廣州陳李濟藥廠) responsible for the operation of the production line and maintaining the GMP production standard.

From January 2004 to December 2007, he worked as the manager of the production department of Honeson Pharmaceutical. From January 2008 to June 2008, he was the production supervisor of the same department. From July 2008 to December 2009, he worked as the assistant to the general manager of Honeson Pharmaceutical and was the general manager of Honeson Pharmaceutical from January 2010 to December 2015. Mr. Chen is now the general manager of Guangdong Caojinghua Cell-broken Herb Company Limited* (廣東草晶華破壁草本有限公司) ("Guangdong Caojinghua"), an indirect wholly owned subsidiary of the Company, and is responsible for the overall management of Guangdong Caojinghua.

Mr. Tang Lin (唐琳), aged 53, joined our Group on 31 August 2007 as the head of the technical development department of Honeson Pharmaceutical. In June 1985, Mr. Tang obtained a Bachelor degree of Science in Chinese Medicine awarded by the Hunan College of Chinese Medicine* (湖南中醫學院), the predecessor institution of the Hunan University of Chinese Medicine* (湖南中醫藥大學). In September 1996, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from August 1985 to May 1987, Mr. Tang worked as a pharmacist at Fuchuan Yaozu Autonomous Region People's Hospital* (富川瑤族自治縣人民醫院). From May 1987 to October 1994, he worked as an assistant factory manager of Guangxi Province Wuzhou Third Medicinal Factory* (廣西梧州地區第三製藥廠). From December 1997 to December 2000, he worked as a deputy head of the production department of Europharm Laboratories Co., Ltd.* (廣州歐化藥業有限公司). From March 2001 to October 2001, he worked as the head of the production department of Guangdong Jiangmen Ming Sheng Medicine Manufacturing Limited* (廣東江門名盛製藥有限公司). From November 2001 to December 2009, Mr. Tang worked as the head of technical development of Honeson Pharmaceutical. From January 2010 to December 2013, he worked as the general manager of the technical department of Zhongzhi Pharmaceutical. Since January 2010 and January 2014, he has been the chief engineer of Honeson Pharmaceutical and the head of the technical department of Zhongzhi Pharmaceutical respectively. Mr. Tang is also responsible for reviewing the quality control procedures performed by our quality control team.

Mr. He Gui Quan (何貴全), aged 37, joined Honeson Pharmaceutical in July 2003. He worked as a production supervisor from July 2003 to December 2007. From January 2008 to December 2009, he was the production manager of Honeson Pharmaceutical. From January 2010 to December 2015, he worked as the assistant to the general manager of Honeson Pharmaceutical and was promoted to general manager in January 2016, responsible for the overall management of Honeson Pharmaceutical.

Mr. He graduated from Guangdong Pharmaceutical University* (廣東藥學院) and is a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Report of Directors

The Directors are pleased to present to the Shareholders the second annual report and the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong province, the PRC. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 64 to 131.

The Board recommend the payment of a final dividend of HK1.0 cent per ordinary share for the year ended 31 December 2016 (2015: HK3.5 cents) to shareholders on the registrar of members on 31 May 2017, which will be subject to the approval of the Company's Shareholders at the forthcoming AGM. Details are set out in note 11 to the consolidated financial statements. The final dividend will be payable on or around 21 June 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2017 to 19 May 2017, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 15 May 2017.

To determine the entitlement of the proposed final dividend, the register of members of the Company will be closed from 26 May 2017 to 31 May 2017, both days inclusive, during which period no transfers of shares shall be effected. In order to eligible for receiving the final dividend, all completed transfers forms accomplished by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 25 May 2017.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

Report of Directors (continued)

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's article of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, the trustee of the share award plan (as adopted by the Group on 8 January 2016) (the "Share Award Plan"), pursuant to the rules and trust deed of the Share Award Plan, purchased on the Stock Exchange a total of 8,000,000 Shares of the Company at a total consideration of approximately HK$18.3 million. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period and up to the date of this report.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in the note 38 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserve available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB307.6 million, of which HK$8.0 million has been proposed as final dividend for the year after the reporting period. The amount of RMB307.6 million includes the Company's share premium and retained profits at 31 December 2016, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

CHARITABLE DONATIONS

The Group donated RMB0.6 million during the Reporting Period (2015: RMB0.9 million).

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

During the Reporting Period, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 6.8% and 31.3% (2015: 7.9% and 27.7%) of the total purchases of the year, respectively.

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

Report of Directors (continued)

DIRECTORS

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

Executive Directors
Mr. Lai Zhi Tian *(Chairman)*
Mr. Cao Xiao Jun
Mr. Cheng Jin Le (appointed on 19 September 2016)
Ms. Mou Li

Non-executive Director
Ms. Jiang Li Xia (re-designated on 19 September 2016)

Independent non-executive Directors
Mr. Ng Kwun Wan
Mr. Wong Kam Wah
Mr. Zhou Dai Han

Mr. Cheng Jin Le, Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han will retire in accordance with article 108(a) and article 112 of the Articles at the Company's forthcoming AGM and being eligible, offer themselves for re-election.

Every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Articles, a retiring Director shall be eligible for re-election at the meeting at which he or she retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 42 to 45 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors and Independent Non-Executive Directors has respectively entered into a service contract commencing from the Listing Date (except for Mr. Cheng Jin Le whose contract commenced on 19 September 2016) with the Company for a term of three years unless terminated by not less than three months' notice in writing served by either party on the other.

Apart from the foregoing, no Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment or compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this report, there was no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at 31 December 2016 or at any time during the Reporting Period.

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

As at 31 December 2016, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

(i) Long position in the ordinary shares of the Company

Name of Director	**Interest in a controlled corporation** Number of ordinary shares	**Family interest** Number of ordinary shares	**Total interest** Number of ordinary shares	**Approximate percentage of the issued share capital of the Company**
Mr. Lai Zhi Tian ("Mr. Lai") *(Note 1)*	483,120,000 *(Note 2)*	42,240,000 *(Note 3)*	525,360,000	65.67%
Ms. Jiang Li Xia ("Mrs. Lai")	42,240,000 *(Note 3)*	483,120,000 *(Note 2)*	525,360,000	65.67%

Notes:

1. Mr. Lai is personally interested in 21.518% shareholding interest in Advance Keypath Global Investments Limited which is interested in 7.5% shareholding in the Company.

2. Crystal Talent Investment Group Limited ("Crystal Talent"), which holds 483,120,000 ordinary shares of the Company, is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai. Accordingly, each of Mr. Lai and Mrs. Lai is deemed to be interested in the ordinary shares of the Company held by Crystal Talent under the SFO.

3. Cheer Lik Development Limited ("Cheer Lik"), which holds 42,240,000 ordinary shares of the Company, is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai. Accordingly, each of Mrs. Lai and Mr. Lai is deemed to be interested in the ordinary shares of the Company held by Cheer Lik under the SFO.

Report of Directors (continued)

(ii) Long position in Crystal Talent, an associated corporation of the Company

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
Mr. Lai	Beneficial owner	100%
Mrs. Lai	Family Interest *(Note)*	100%

Note: Crystal Talent is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai under the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective associates had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at the date of this report, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the following persons (other than the interests of the Directors of the Company as disclosed above) had interests or short positions in the ordinary shares of the Company or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the ordinary shares of the Company

Name	Beneficial interest Number of ordinary shares	Interest in a controlled corporation Number of ordinary shares	Family interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent *(Note 1)*	483,120,000	—	—	483,120,000	60.39%
Mr. Lai	—	483,120,000 *(Note 2)*	42,240,000 *(Note 3)*	525,360,000	65.67%
Mrs. Lai	—	42,240,000 *(Note 4)*	483,120,000 *(Note 3)*	525,360,000	65.67%
Cheer Lik *(Note 5)*	42,240,000	—	—	42,240,000	5.28%

Notes:

1. As Crystal Talent is 100% beneficially owned by Mr. Lai and regarded as a controlling shareholder of the Company, Crystal Talent is deemed to be interested in a total of 525,360,000 ordinary shares, which represent 65.67% interest of the Company.

2. Crystal Talent is legally interested in 483,120,000 ordinary shares of the Company. As Crystal Talent is 100% beneficially owned by Mr. Lai, Mr. Lai is deemed to be interested in the ordinary shares of the Company held by Crystal Talent under the SFO.

3. Mr. Lai is the spouse of Mrs. Lai. Accordingly, Mr. Lai is deemed to be interested in the ordinary shares of the Company in which Mrs. Lai has interest under the SFO and Mrs. Lai is deemed to be interested in the ordinary shares of the Company in which Mr. Lai has interest under the SFO.

4. Cheer Lik is legally interested in 42,240,000 ordinary share of the Company. As Cheer Lik is 100% beneficially owned by Mrs. Lai, Mrs. Lai is deemed to be interested in the ordinary shares of the Company held by Cheer Lik under the SFO.

5. As Cheer Lik is 100% beneficially owned by Mrs. Lai and regarded as a controlling shareholder of the Company, Cheer Lik is deemed to be interested in a total of 525,360,000 ordinary shares, which represent 65.67% interest of the Company.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2016 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and in the section "Share Option Scheme" below, at no time from the Listing Date to the date of this report was the Group a party to any arrangements to enable the Directors to acquire by means of acquisition of shares in, or debt securities, and including debentures, of the Group or any other body corporate.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Save as disclosed in the section headed "Connected Transactions" of this report, none of the Directors or any of their respective associates has engaged in or has any interest in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the Reporting Period and up to the date of this report.

Each of Mr. Lai, Mrs. Lai, Crystal Talent and Cheer Lik (together the "Controlling Shareholders"), had entered into a non-competition deed dated 8 June 2015 (the "Non-competition Deed") in favour of the Company (for itself and on behalf of all members of the Group), pursuant to which, each of the Controlling Shareholders would not, and would procure his/her/its associates not to (other than through the Group or in respect of each covenanter (together with his/her/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognized stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which may be in competition with the business carried on by the Group from time to time, except where the Company's approval is obtained.

Report of Directors (continued)

In order to ensure the Controlling Shareholders have complied with the Deed of Non-competition, each of the Controlling Shareholders has provided to the Company a written confirmation (i) in respect of his/her/its compliance with the Non-competition Deed for the Reporting Period; (ii) no personal interests were ever declared by any Controlling Shareholders who are also Directors at the Directors' meetings; and (iii) stating that they have not entered into any business which may be in competition with the business carried on by the Group from time to time. As there was no change in terms of the undertaking since the Company's listing on the Stock Exchange, the independent non-executive Directors of the Company are of the view that the Controlling Shareholders have complied with the Non-competition Deed and no matters are required to bring to the attention of the public.

SHARE OPTION SCHEME

A share option scheme was conditionally adopted on 8 June 2015 (the "Share Option Scheme"), which became effective on the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to recognize and motivate the contributions that eligible participants (as defined in the Prospectus) have made or may make to the Group.

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the share of the Company in issue at the Listing Date (i.e. 80,000,000 shares) unless approved by the shareholders of the Company.

The maximum entitlement for any one participant is that the total number of the Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue unless otherwise approved by the Shareholders at a general meeting of the Company.

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from date of adoption. No share option has been granted under the Share Option Scheme up to the date of this report.

SHARE AWARD PLAN

The Share Award Plan was adopted and became effective on 8 January 2016.

The Share Award Plan is a share incentive scheme and is established to recognize the contributions by certain Selected Persons (as defined in the Company's announcement on 8 January 2016) and to attract suitable individuals with experience and ability for further development and expansion of the Group.

The Share Award Plan shall be subject to the Board or the trustee of the Share Award Plan in accordance with its terms. The Board or the Remuneration Committee may select any eligible person for participation in the Share Award Plan and determine the number of awarded Shares to be awarded to the selected person(s), subject to any condition(s).

Subject to the terms and conditions of the Share Award Plan, the maximum number of shares which may be awarded by the Board throughout the duration of the Share Award Plan shall not, in aggregate, exceed 1% of the issued share capital of the Company as at 8 January 2016 (i.e. 8,000,000 shares). Nevertheless, the Board has the power to refresh the maximum limit of 1% of the issued share capital of the Company.

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Award Plan shall be valid and effective for a period of ten years from the date of adoption.

As at the date of this report, the trustee holds 7,851,000 Shares and 149,000 Share has been granted under the Share Award Plan.

CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

We have entered into a number of continuing agreements and arrangements ("Contractual Arrangements") with our connected persons in our ordinary and usual course of business, which constitute continuing connected transactions under the Listing Rules. We set out below details of the continuing connected transactions for our Group.

Contractual Arrangements

On 31 August 2014, our Group, Zhongzhi Herb Pieces and the holders of its equity interests ("Registered Shareholders") entered into the Contractual Arrangements, which consist of: (i) an operation services agreement; (ii) a call option agreement; (iii) an equity pledge agreement; (iv) a power of attorney; and (v) an exclusive intellectual property purchase agreement. For details of these contracts, please refer to the "Contractual Arrangements — Details of the Contractual Arrangements" section in the Prospectus.

The Contractual Arrangements that were in place as at 31 December 2016 are as follows:

1. Operation services agreement

   On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the operation services agreement. Pursuant to the operation services agreement, Zhongzhi Pharmaceutical was engaged exclusively to provide Zhongzhi Herb Pieces with, inter alia, management and consultancy services in consideration of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical. The service fee payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical for the year ended 31 December 2016 is approximately RMB4.8 million.

   The amount of fees payable by Zhongzhi Herb Pieces shall be calculated in accordance with the PRC accounting principles, which shall be the revenue of Zhongzhi Herb Pieces (which included sales of RMB58.9 million to Zhongzhi Pharmaceutical) after deducting, inter alia, all the expenses (which included rental fee of RMB1.6 million to Zhongzhi Pharmaceutical) and reserve fund. All the above transactions have been eliminated upon consolidation of the financial results of Zhongzhi Herb Pieces into the Group's consolidated financial statements.

Report of Directors (continued)

2. Call Option Agreement

   On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the call option agreement, pursuant to which the Registered Shareholders have granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their entire equity interests in Zhongzhi Herb Pieces according to the terms contained therein.

3. Equity Pledge Agreement

   On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the equity pledge agreement, pursuant to which the Registered Shareholders have pledged their entire equity interests in Zhongzhi Herb Pieces (together with the rights derived therefrom) in favour of Zhongzhi Pharmaceutical as security for the performance of all the contractual obligations by Zhongzhi Herb Pieces and the Registered Shareholders under the Operation Services Agreement, the call option agreement, the Power of Attorney and the Exclusive Intellectual Property Purchase Agreement.

4. Power of Attorney

   On 31 August 2014, the Registered Shareholders executed the power of attorney, pursuant to which, among others, the Registered Shareholders jointly and severally and irrevocably appointed Zhongzhi Pharmaceutical as their attorney to exercise their shareholders' rights in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical itself or through its nominee(s). The said shareholders' rights include but not limited to the rights to exercise voting rights in shareholders' meeting, to sign minutes of the shareholders' meetings, to file documents with the relevant government authorities, and to appoint directors and supervisors.

5. Exclusive Intellectual Property Purchase Agreement

   On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the Exclusive Intellectual Property Purchase Agreement, pursuant to which Zhongzhi Herb Pieces and the Registered Shareholders jointly and severally granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any of the intellectual property that Zhongzhi Herb Pieces has by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price and to the extent permitted by the applicable PRC laws and regulations.

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced between our Group, Zhongzhi Herb Pieces and the Registered Shareholders during the year ended 31 December 2016.

For the year ended 31 December 2016, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

Risk relating to the Contractual Arrangements

The following risks are associated with the Contractual Arrangements. Further details of the risks are set out on pages 37 to 41 of the Prospectus.

— The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies.

— Uncertainties of the interpretation under the relevant PRC laws, rules, regulations or explanatory notes may result in our Contractual Arrangements becoming invalid and illegal.

— Certain terms of the Contractual Arrangements may not be enforceable under the PRC laws.

— Our Group relies on the Contractual Arrangements for the production of decoction pieces in PRC, which may not be as effective in providing operational control as direct ownership.

— The Registered Shareholders may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

— Our exercise of the option to acquire equity interests of Zhongzhi Herb Pieces may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

Conflicts of Interests

We have implemented measures to protect against the potential conflicts of interest between our Group and the Registered Shareholders. Pursuant to the operation services agreement, the Registered Shareholders have undertaken that they will cause Zhongzhi Herb Pieces to strictly adopt and follow the advices and decisions made by Zhongzhi Pharmaceutical and will not raise objection to the same. If there is any potential conflict of interests between the Registered Shareholders and Zhongzhi Pharmaceutical, especially when the Registered Shareholders are also the directors or senior management of Zhongzhi Pharmaceutical, the Registered Shareholders shall protect, and shall not harm the interests of Zhongzhi Pharmaceutical. Under the call option agreement, the Registered Shareholders granted Zhongzhi Pharmaceutical an irrevocable and exclusive option to purchase all or any part of the equity interests in Zhongzhi Herb Pieces at the lowest price and to the extent permitted by the applicable PRC laws and regulations. Furthermore, under the power of attorney executed by the Registered Shareholders, Zhongzhi Pharmaceutical was irrevocably appointed as the attorney of the Registered Shareholders to exercise the shareholders' rights in Zhongzhi Herb Pieces on behalf of the Registered Shareholders. As a result, we have minimised the Registered Shareholders' influence on the business operations of Zhongzhi Herb Pieces.

Reasons for the Contractual Arrangements

The principal business of Zhongzhi Herb Pieces is the production of decoction pieces, of which the processing techniques such as steaming, stir-frying, moxibustion and calcinations, are prohibited from foreign investment under the relevant PRC laws and regulations. We cannot own any equity interest in Zhongzhi Herb Pieces. As a result, the Contractual Arrangements were necessary for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces flow to our Group. Other than the information that were disclosed in the Prospectus, there were no changes to the relevant PRC laws and regulations for the year ended 31 December 2016.

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms, in the ordinary and usual course of our Group's business and are fair and reasonable, and are in the interests of our Group and our Shareholders as a whole.

Waiver from the Stock Exchange and Annual Review

Zhongzhi Herb Pieces is owned as to 87.56% by Mr. Lai and is therefore an associate of Mr. Lai and hence a connected person of our Company pursuant to 14A.07(4) of the Listing Rules. The Group operates its decoction pieces business in the PRC through a series of Contractual Arrangements entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions under the Listing Rules.

Report of Directors (continued)

The Stock Exchange has agreed to grant a waiver from strict compliance with (i) announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, subject to the certain conditions as disclosed on page 203 to 205 of the Prospectus.

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during the year ended 31 December 2016 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and that the profit generated by Zhongzhi Herb Pieces has been substantially retained by Zhongzhi Pharmaceutical, (ii) no dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group during the year ended 31 December 2016, and (iii) any new contracts entered into, renewed or reproduced between the Group and Zhongzhi Herb Pieces during the year ended 31 December 2016 are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the shareholders of the Company as a whole.

Confirmations from our Company's Independent Auditor

The auditor of our Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into during the year ended 31 December 2016:

1. nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and

4. nothing has come to their attention that dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

Zhongzhi Herb Pieces

Revenue attributable to Zhongzhi Herb Pieces was approximately RMB59.2 million during the year ended 31 December 2016. As at 31 December 2016, the total asset and net asset attributable to Zhongzhi Herb Pieces was approximately RMB38.1 million and RMB19.8 million respectively.

FUTURE PROSPECT AND DEVELOPMENT

With reference to the Outlook & Strategy section of the Chairman's Statement, the Group will continue to focus on developing the PRC market in 2017 by building our Caojinghua brand, further expanding its distribution network, increasing the number of chain pharmacies in the Guangdong province and increasing production capacities. The Board will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

PUBLIC FLOAT

Based on publicly available information, and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its issued shares as required under the Listing Rules from the Listing Date up to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2016.

AUDIT COMMITTEE

The Audit Committee comprised of three independent non-executive Directors, namely Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The main duties of the Audit Committee are to examine, review and monitor the financial data and financial reporting procedure of the Company.

The Audit Committee had reviewed the audited annual results of the Group for the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the CG Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2016, save for the deviation as disclosed in Corporate Governance Report from pages 14 to 25, which provide further information on the Company's corporate governance practices. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Report of Directors (continued)

AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 19 May 2017 to seek Shareholders' approval on the appointment of Ernst & Young as the Company's auditor until the conclusion of the next AGM and to authorize the Board to fix their remuneration.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 24 March 2017

Independent Auditor's Report

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

To the shareholders of Zhongzhi Pharmaceutical Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zhongzhi Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 131, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report (continued)

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

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
We focused on the recoverability of trade receivables because a high level of management judgement is required in assessing whether there would be impairment provision for trade receivables. Furthermore, trade receivable balances were significant to the Group as they represented 5.1% of the total assets of Group as at 31 December 2016. Specific factors that management considers in the estimation of the impairment provision include the age of the balances, type of customers, existence of disputes, recent historical payment patterns and other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for the total balances receivable from customers. Related disclosures are included in notes 3, 20 and 36 to the consolidated financial statements.	We tested the controls of the Group's collection procedures and the Group's assessment of the impairment provision required at year end. We checked bank advices for the settlement of trade receivables made subsequent to the year end. We also assessed management's assumptions used to calculate the impairment amount of trade receivables by checking the correctness of the ageing of receivables and assessing significant overdue individual trade receivables.
Provision for obsolete inventories	
We focused on the provision of obsolete inventories because the inventory balance was material to the consolidated financial statements as it represented 16.0% of the total assets of the Group as at 31 December 2016 and significant management judgement is required in assessing whether there would be obsolete inventory at the year end. The specific factors considered by management in the estimation of the provision include types of inventories, conditions of the inventories, expiration dates of medicines, and the forecasted inventory usage and sales. Related disclosures are included in notes 3 and 19 to the consolidated financial statements.	We obtained an understanding of the management's process about how to identify the obsolete inventories and calculate the provision. We evaluated management's assumptions used to calculate the provision amount of obsolete inventories by checking the ageing of inventories and the subsequent usage and sales of inventories on a sampling basis. We tested samples of inventory items held by the companies of the Group with significant inventory balances to assess their cost and net realisable values. We also attended and observed management's inventory counts at all material inventory locations and in certain self-owned chain pharmacies of the Group.

Independent Auditor's Report (continued)

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report (continued)

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Ernst & Young
Certified Public Accountants
Hong Kong
24 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**730,472**	688,036
Cost of sales		**(331,034)**	(312,958)
Gross profit		**399,438**	375,078
Other income and gains	5	**22,497**	11,359
Selling and distribution expenses		**(277,350)**	(202,869)
Administrative expenses		**(56,534)**	(61,383)
Other expenses	6	**(18,892)**	(20,266)
Finance costs	7	**—**	(728)
PROFIT BEFORE TAX	6	**69,159**	101,191
Income tax expense	10	**(15,287)**	(20,652)
PROFIT FOR THE YEAR		**53,872**	80,539
Attributable to owners of the parent		**53,872**	80,539
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
— For profit for the year		**RMB6.79 cents**	RMB11.61 cents
Diluted			
— For profit for the year		**RMB6.73 cents**	RMB11.61 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**53,872**	80,539
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,390**	19,946
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**55,262**	100,485
Attributable to owners of the parent	**55,262**	100,485

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**180,053**	89,133
Prepayments for property, plant and equipment		**2,345**	3,385
Prepaid land lease payments	14	**13,896**	14,366
Goodwill	15	**1,628**	1,628
Other intangible assets	16	**1,709**	1,808
Investment in a joint venture	17	**430**	—
Available-for-sale investments	18	**8,650**	7,650
Deferred tax assets	26	**5,758**	5,756
Other non-current assets		**8,516**	3,782
Total non-current assets		**222,985**	127,508
CURRENT ASSETS			
Prepaid land lease payments	14	**470**	470
Inventories	19	**121,081**	99,894
Trade and notes receivables	20	**63,863**	56,446
Prepayments, deposits and other receivables	21	**20,694**	12,573
Cash and bank balances	22	**326,135**	426,637
Total current assets		**532,243**	596,020
CURRENT LIABILITIES			
Trade payables	23	**57,531**	53,576
Other payables and accruals	24	**81,482**	66,847
Amounts due to related parties	33(a)	**8,786**	8,786
Deferred income	25	**6,493**	5,734
Amount due to a joint venture	17	**430**	—
Tax payable		**15,589**	10,167
Total current liabilities		**170,311**	145,110
NET CURRENT ASSETS		**361,932**	450,910
TOTAL ASSETS LESS CURRENT LIABILITIES		**584,917**	578,418

Consolidated Statement of Financial Position (continued)

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	25	**14,693**	13,720
Deferred tax liabilities	26	**1,843**	2,010
Total non-current liabilities		**16,536**	15,730
Net assets		**568,381**	562,688
Equity			
Equity attributable to owners of the parent			
Issued capital	27	**6,309**	6,309
Reserves	30	**562,072**	556,379
Total equity		**568,381**	562,688

Lai Zhi Tian
Director

Mou Li
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent									
	Issued capital RMB'000 *Note 27*	Shares held for share award plan RMB'000 *Note 29*	Share premium RMB'000 *Note 27*	Merger reserve RMB'000 *Note 30(a)*	Statutory surplus reserve RMB'000 *Note 30(b)*	Share-based payment RMB'000 *Note 30(c)*	Share award reserve RMB'000 *Note 29*	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	—	—	—	31,200	6,003	5,680	—	—	78,014	120,897
Profit for the year	—	—	—	—	—	—	—	—	80,539	80,539
Exchange differences related to foreign operations	—	—	—	—	—	—	—	19,946	—	19,946
Total comprehensive income for the year	—	—	—	—	—	—	—	19,946	80,539	100,485
Issuance of shares	1,577	—	386,454	—	—	—	—	—	—	388,031
Capitalisation issue	4,732	—	(4,732)	—	—	—	—	—	—	—
Share issuance expense	—	—	(16,725)	—	—	—	—	—	—	(16,725)
Transfer from retained profits	—	—	—	—	24,236	—	—	—	(24,236)	—
Dividends declared by Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. *(note 11)*	—	—	—	—	—	—	—	—	(30,000)	(30,000)
At 31 December 2015	6,309	—	364,997	31,200	30,239	5,680	—	19,946	104,317	562,688
At 1 January 2016	**6,309**	**—**	**364,997**	**31,200**	**30,239**	**5,680**	**—**	**19,946**	**104,317**	**562,688**
Profit for the year	—	—	—	—	—	—	—	—	**53,872**	**53,872**
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	**1,390**	—	**1,390**
Total comprehensive income for the year	—	—	—	—	—	—	—	**1,390**	**53,872**	**55,262**
Shares purchased for the Share Award Plan	—	**(15,651)**	—	—	—	—	—	—	—	**(15,651)**
Equity-settled Share Award Plan	—	**292**	—	—	—	—	**11**	—	—	**303**
Transfer from retained profits	—	—	—	—	**1,776**	—	—	—	**(1,776)**	—
Final 2015 dividend declared	—	—	**(23,305)#**	—	—	—	—	—	—	**(23,305)**
Interim 2016 dividend	—	—	**(10,916)#**	—	—	—	—	—	—	**(10,916)**
At 31 December 2016	**6,309**	**(15,359)***	**330,776***	**31,200***	**32,015***	**5,680***	**11***	**21,336***	**156,413***	**568,381**

* These reserve accounts comprise the consolidated reserve of RMB562,072,000 (2015: RMB556,379,000) in the consolidated statement of financial position.

\# Dividend income arising from the shares held for the share award plan of RMB235,000 is deducted from the aggregate of final 2015 dividends and of RMB104,000 is deducted from the aggregate of interim 2016 dividends.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**69,159**	101,191
Adjustments for:			
Finance costs	7	**—**	728
Interest income	5	**(8,698)**	(1,955)
Loss on disposal of items of property, plant and equipment	5, 6	**87**	185
Depreciation	6, 13	**21,651**	16,049
Recognition of prepaid land lease payments	6, 14	**470**	470
Amortisation of other intangible assets	6, 16	**296**	242
Equity-settled share award expense	6	**303**	—
Government grants released	25	**(11,899)**	(8,313)
Write-down of inventories to net realisable value	6	**290**	—
		71,659	108,597
Increase in inventories		**(21,477)**	(11,423)
Increase in trade and notes receivables		**(7,417)**	(17,643)
Increase in prepayments, deposits and other receivables		**(8,121)**	(5,897)
Increase in non-current assets		**(4,734)**	(507)
Increase in trade payables		**3,955**	774
Increase in other payables and accruals		**12,904**	5,664
Increase in deferred income	25	**12,300**	10,301
Cash generated from operations		**59,069**	89,866
Income tax paid		**(10,034)**	(33,826)
Net cash flows from operating activities		**49,035**	56,040
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(111,059)**	(29,864)
Decrease/(Increase) in prepayments for purchase of property, plant and equipment		**1,040**	(1,284)
Proceeds from disposal of items of property, plant and equipment		**132**	928
Purchase of other intangible assets	16	**(197)**	(685)
Receipt of government grants	25	**1,331**	2,400
Purchases of available-for-sale investments, non-current		**(1,000)**	(7,650)
Purchases of available-for-sale investments, current		**(30,000)**	—
Proceeds upon maturity of available-for-sale investments		**30,000**	—
Interest received	5	**8,698**	1,955
Decrease/(Increase) in non-pledged time deposits with original maturity of more than three months when acquired		**94,438**	(94,438)
Net cash flows used in investing activities		**(6,617)**	(128,638)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		—	388,031
New bank borrowings		—	10,000
Repayments of bank borrowings		—	(25,000)
Dividends paid		**(34,221)**	(30,000)
Interest paid		—	(728)
Payment of listing expenses		—	(15,461)
Purchase of shares held under the Share Award Plan		**(15,651)**	—
Net cash flows (used in)/from financing activities		**(49,872)**	326,842
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(7,454)**	254,244
Cash and cash equivalents at beginning of year		**332,199**	58,004
Effect of foreign exchange rate changes, net		**1,390**	19,951
CASH AND CASH EQUIVALENTS AT END OF YEAR		**326,135**	332,199
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**276,348**	245,028
Non-pledged time deposits	22	**49,787**	181,609
Cash and bank balances as stated in the statement of financial position		**326,135**	426,637
Non-pledged time deposits with original maturity of more than three months when acquired		—	(94,438)
Cash and cash equivalents at end of year		**326,135**	332,199

Notes to the Consolidated Financial Statements

31 December 2016

1. CORPORATE AND GROUP 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 shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015 (the "Listing Date").

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 in the People's Republic of China (the "PRC"). There has been no significant change in the Group's principal activities during the year.

In the opinion of the directors, as at the date of this report, the immediate and ultimate holding company of the Company is Crystal Talent Investment Group Limited, a company incorporated in the British Virgin Islands ("BVI").

Notes to the Consolidated Financial Statements (continued)

31 December 2016

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries:

Particulars of the Company's subsidiaries as at 31 December 2016 are as follows:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Windom Talent Company Limited ("Windom Talent")	BVI 16 September 2014, BVI	US$1	100%	—	Investment holding
Grant Talent Development Limited ("Grant Talent")	Hong Kong 1 August 2014, Hong Kong	HK$1	—	100%	Investment holding
Zhongzhi Pharmaceutical[(a)]	PRC 27 September 1999, Mainland China	RMB220,000,000	—	100%	Sale of pharmaceutical drugs
Zeus Medicine Hong Kong Limited	Hong Kong 14 April 2011, Hong Kong	HK$10,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chain Pharmacies Company Limited ("Zhongzhi Chain Pharmacies")	PRC 27 July 2001, Mainland China	RMB4,600,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Zhongzhi Herb Pieces")[(b)]	PRC 10 July 2001, Mainland China	RMB6,600,000	—	100 %	Manufacture and sale of Chinese decoction pieces
Zhongshan Honeson Pharmaceutical Co., Ltd. ("Honeson Pharmaceutical")	PRC 2 March 1986, Mainland China	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Guangdong Caojinghua Cell-broken Herb Co., Ltd. ("Guangdong Caojinghua") [(c)]	PRC 10 December 2014, Mainland China	RMB500,000	—	100%	Manufacture and sale of food
Yulin Yixian Chinese Medicinal Materials Co., Ltd. ("Yulin Yixian")	PRC 8 August 2016, Mainland China	RMB2,000,000	—	100%	Manufacture and sale of Chinese herb

(a) Zhongzhi Pharmaceutical was registered as a wholly-foreign-owned enterprise under PRC law.

(b) Zhongzhi Herb Pieces was ultimately controlled by the Company as a result of series of contractual arrangements between Zhongzhi Pharmaceutical with Zhongzhi Herb Pieces and its registered shareholders.

(c) Zhongshan Zhongzhi Food Technology Company Limited changed name to Guangdong Caojinghua Cell-broken Herb Co., Ltd. on 8 November 2016.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under a historical cost convention. These financial statements are 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 consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.1 BASIS OF PREPARATION (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised *IFRSs* for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	*Amendments to a number of IFRSs*

The adoption of the above new and revised standards has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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 these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
IFRS 9	*Financial Instruments*[2]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IFRS 12 included in *Annual Improvements 2014–2016 Cycle*	*Disclosure of Interests in Other Entities*[1]
Amendments to IAS 28 included in *Annual Improvements 2014–2016 Cycle*	*Investments in Associates and Joint Ventures*[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019

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

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

In July 2014, the IASB issued the final version of IFRS 9, 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. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

IFRS 15 establishes a new five-step model to account for 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. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018. During the year ended 31 December 2016, the Group performed a preliminary assessment on the impact of the adoption of IFRS 15.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

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

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

Business combinations and goodwill

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset 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);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity) ; and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 improvements	1–10 years
Buildings	5–43 years
Machinery	2–20 years
Motor vehicles	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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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:

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.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

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 consolidated statement of financial position) when:

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

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

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

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of the reporting period 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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, an 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.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, 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 outside profit or loss, 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 the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if 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.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Share-based payments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

Notes to the Consolidated Financial Statements (continued)

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. 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 translated 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.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was 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 RMB at the exchange rates prevailing 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 consolidated statement 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 statements 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 judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Contractual arrangements

Zhongzhi Herb 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 1, as part of the Reorganisation, the equity interests in Zhongzhi Herb Pieces were transferred to the Registered Shareholders and the Group exercises control over Zhongzhi Herb Pieces and enjoys all economic benefits of Zhongzhi Herb Pieces through the Contractual Arrangements.

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are 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 amount of goodwill at 31 December 2016 was RMB1,628,000. Further details are given in note 15.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 the reporting period. 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 receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade 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 receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade receivables amounted to nil as at 31 December 2016 (2015: Nil).

Provision for obsolete inventories

Management reviews the aged analysis of inventories of the Group at the end of each reporting period, and makes provision for inventory items identified that are no longer suitable for sale. The assessment of the provision amount required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and provision charge/write-back in the period in which estimate has been changed. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether provision needs to be made in respect of any obsolete inventories identified. The Group carries out an inventory review at the end of each reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period. The directors of the Company are satisfied that sufficient provision for obsolete and slow-moving inventories has been made in the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

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 channels 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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Geographical information

Since over 90% of the Group's revenue and operating profit were generated in the PRC and over 90% of the Group's non-current assets were located in the PRC, no geographical segment information in accordance with IFRS 8 *Operating Segments* is presented.

Information about major customers

During each of the years ended 31 December 2016 and 2015, no revenue from transactions with a single customer amounted to 10% or more of the Group's sales.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2016:

	Year ended 31 December 2016		
	Operation of chain pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Segment revenue:			
Revenue from external customers	389,316	341,156	730,472
Intersegment sales	—	39,352	39,352
Elimination of intersegment sales	—	(39,352)	(39,352)
Revenue	389,316	341,156	730,472
Cost of sales	(208,368)	(122,666)	(331,034)
Segment results	180,948	218,490	399,438
Reconciliation:			
Other income and gains			22,497
Selling and distribution expenses			(277,350)
Administrative expenses			(56,534)
Other expenses			(18,892)
Finance costs			—
Profit before tax			69,159

Notes to the Consolidated Financial Statements (continued)

31 December 2016

4. OPERATING SEGMENT INFORMATION (continued)

Operating segment information for the year ended 31 December 2015:

	Year ended 31 December 2015		
	Operation of chain pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Segment revenue:			
Revenue from external customers	358,831	329,205	688,036
Intersegment sales	—	37,716	37,716
Elimination of intersegment sales	—	(37,716)	(37,716)
Revenue	358,831	329,205	688,036
Cost of sales	(193,504)	(119,454)	(312,958)
Segment results	165,327	209,751	375,078
Reconciliation:			
Other income and gains			11,359
Selling and distribution expenses			(202,869)
Administrative expenses			(61,383)
Other expenses			(20,266)
Finance costs			(728)
Profit before tax			101,191

Notes to the Consolidated Financial Statements (continued)

31 December 2016

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	2016 RMB'000	2015 RMB'000
Revenue			
Sale of pharmaceutical products		730,472	688,036
Other income			
Interest income		1,263	570
Interest income from available-for-sale investments		7,435	1,385
		8,698	1,955
Gains			
Government grants:	25		
— Related to assets		1,293	153
— Related to income		10,606	8,160
Gain on disposal of items of property, plant and equipment		49	9
Others		1,851	1,082
		13,799	9,404
		22,497	11,359

Notes to the Consolidated Financial Statements (continued)

31 December 2016

6. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold	4	**331,034**	312,958
Depreciation	13	**21,651**	16,049
Recognition of prepaid land lease payments*	14	**470**	470
Amortisation of other intangible assets*	16	**296**	242
Write-down of inventories to net realisable value		**290**	—
Reversal of provision for impairment of trade receivables	20	**—**	(17)
Minimum lease payments under operating leases		**31,796**	23,175
Auditor's remuneration		**2,408**	2,791
Listing expenses		**—**	14,337
Employee benefit expenses (including directors' remuneration *(note 8)*):			
Wages and salaries		**155,331**	130,896
Pension scheme contributions (defined contribution scheme)		**10,153**	7,851
Staff welfare expenses		**12,165**	11,835
Equity-settled share award expense		**303**	—
		177,952	150,582
Other expenses:			
Research and development costs		**17,689**	18,784
Loss on disposal of items of property, plant and equipment		**136**	194
Others		**1,067**	1,288
		18,892	20,266

* The recognition of prepaid land lease payments and the amortisation of other intangible assets for the reporting period is included in "Administrative expenses" in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings	—	728

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2016 RMB'000	2015 RMB'000
Fees	**2,369**	1,000
Other emoluments:		
Salaries, allowances and benefits in kind	**1,075**	853
Pension scheme contributions	**163**	110
	3,607	1,963

(a) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
Ng Kwun Wan	**154**	69
Wong Kam Wah	**154**	69
Zhou Daihan	**154**	69
	462	207

Notes to the Consolidated Financial Statements (continued)

31 December 2016

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

(b) Executive directors, non-executive directors and the chief executive

2016	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Lai Zhitian	657	307	41	1,005
Cheng Jinle	124	256	44	424
Mou Li	428	256	41	725
Cao Xiaojun	428	256	37	721
	1,637	1,075	163	2,875
Non-executive director:				
Jiang Lixia	270	—	—	270
	1,907	1,075	163	3,145

2015	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Lai Zhitian	292	315	38	645
Jiang Lixia	119	—	—	119
Mou Li	191	269	38	498
Cao Xiaojun	191	269	34	494
	793	853	110	1,756

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

Notes to the Consolidated Financial Statements (continued)

31 December 2016

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2015: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2015: two) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries, allowances and benefits in kind	**246**	544
Pension scheme contributions	**30**	72
	276	616

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

	2016	2015
Nil to HK$1,000,000	**1**	2

During the reporting period, 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 profits tax rate is 16.5% (2015: 16.5%) of assessable profits derived from Hong Kong during the year. Since the Group had no such profits during the reporting period, 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 reporting period was 25% of their taxable profits.

Honeson Pharmaceutical is qualified as a high and new technology enterprise and was subject to income tax at a preferential tax rate of 15% for the reporting period.

10. INCOME TAX EXPENSE (continued)

Zhongzhi Pharmaceutical applied for the high and new technology enterprise accreditation in 2016. The notice of Zhongzhi Pharmaceutical being qualified as high and new technology enterprise was announced in November 2016 by Guangdong Provincial Government. However, as the result of national evaluation has not yet been announced, for prudent consideration management still adopt the income tax rate of 25% for calculating the tax provision of Zhongzhi Pharmaceutical for the reporting period.

The income tax expenses of the Group for the reporting period are analysed as follows:

	2016 RMB'000	2015 RMB'000
Mainland China		
Current income tax	**15,456**	23,771
Deferred income tax credit *(note 26)*	**(169)**	(3,119)
Total income tax expense	**15,287**	20,652

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

	2016 RMB'000	2016 %	2015 RMB'000	2015 %
Profit before tax	**69,159**		101,191	
Tax at the PRC statutory tax rate	**17,290**	**25.0**	25,298	25.0
Effect of different applicable tax rates for certain subsidiaries	**(3,641)**	**(5.3)**	(2,919)	(2.9)
Reversal of withholding tax at 10% on the distributable profits of the Group's subsidiaries in the PRC	**—**	**—**	(3,000)	(3.0)
Effect on opening deferred tax of increase in rates	**—**	**—**	(316)	(0.3)
Expenses not deductible for tax	**1,638**	**2.4**	1,589	1.6
Tax charge at the Group's effective tax rate	**15,287**	**22.1**	20,652	20.4

The effective tax rate of the Group was 22.1% in 2016 (2015: 20.4%).

Notes to the Consolidated Financial Statements (continued)

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11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Interim — HK1.6 cents (2015: Nil) per ordinary share	11,020	—
Proposed final — HK1.0 cent (2015: HK3.5 cents) per ordinary share:	7,167	23,540
	18,187	23,540

The dividends declared by Zhongzhi Pharmaceutical to its then shareholders during the year ended 31 December 2016 was nil (2015: RMB30,000,000).

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

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

The calculation of basic earnings per share for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 793,606,296 (2015: 693,698,630) in issue during the year.

The calculation of the diluted earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share award plan.

The number of ordinary shares for the purpose of calculating basic earnings per share has been retrospectively adjusted for the Capitalisation Issue described in note 27 as if the shares had been in issue throughout the year ended 31 December 2015.

The calculations of basic and diluted earnings per share are based on:

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	53,872	80,539

Notes to the Consolidated Financial Statements (continued)

31 December 2016

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (continued)

	2016	2015
Shares		
Weighted average number of ordinary shares in issue	800,000,000	693,698,630
Weighted average number of shares held for the share award plan *(note 29)*	(6,393,704)	—
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	793,606,296	693,698,630
Effect of dilution — weighted average number of ordinary shares: Share awarded shares	6,393,704	—
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	800,000,000	693,698,630

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016:							
Cost	62,661	57,290	38,612	4,267	14,424	5,130	182,384
Accumulated depreciation	(36,646)	(29,342)	(17,092)	(3,337)	(6,834)	—	(93,251)
Net carrying amount	26,015	27,948	21,520	930	7,590	5,130	89,133
At 1 January 2016, net of accumulated depreciation	26,015	27,948	21,520	930	7,590	5,130	89,133
Additions	14,631	63,339	11,983	440	1,805	20,592	112,790
Disposals	—	(2)	(141)	(15)	(61)	—	(219)
Depreciation provided during the year *(note 6)*	(12,338)	(3,169)	(2,845)	(339)	(2,960)	—	(21,651)
Transfers	—	—	5,014	—	—	(5,014)	—
At 31 December 2016, net of accumulated depreciation	28,308	88,116	35,531	1,016	6,374	20,708	180,053
At 31 December 2016:							
Cost	77,292	120,588	53,538	4,402	15,728	20,708	292,256
Accumulated depreciation	(48,984)	(32,472)	(18,007)	(3,386)	(9,354)	—	(112,203)
Net carrying amount	28,308	88,116	35,531	1,016	6,374	20,708	180,053

Notes to the Consolidated Financial Statements (continued)

31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 1 January 2015:							
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	18,641	30,736	14,175	1,151	3,908	10,755	79,366
At 1 January 2015, net of accumulated depreciation	18,641	30,736	14,175	1,151	3,908	10,755	79,366
Additions	10,691	—	4,524	81	5,974	5,130	26,400
Disposals	—	—	(519)	(3)	(62)	—	(584)
Depreciation provided during the year *(note 6)*	(8,572)	(2,788)	(2,160)	(299)	(2,230)	—	(16,049)
Transfers	5,255	—	5,500	—	—	(10,755)	—
At 31 December 2015, net of accumulated depreciation	26,015	27,948	21,520	930	7,590	5,130	89,133
At 31 December 2015:							
Cost	62,661	57,290	38,612	4,267	14,424	5,130	182,384
Accumulated depreciation	(36,646)	(29,342)	(17,092)	(3,337)	(6,834)	—	(93,251)
Net carrying amount	26,015	27,948	21,520	930	7,590	5,130	89,133

As at 31 December 2016, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB568,000 (2015: RMB640,000). The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**14,836**	15,306
Recognised during the year	**(470)**	(470)
Carrying amount at 31 December	**14,366**	14,836
Current portion	**(470)**	(470)
Non-current portion	**13,896**	14,366

15. GOODWILL

	2016 RMB'000	2015 RMB'000
At 1 January and 31 December	**1,628**	1,628

Goodwill is acquired through the business combination of Honeson Pharmaceutical in the prior year. Goodwill acquired through business combinations is allocated to the pharmaceutical drugs cash-generating unit for impairment testing. There was no impairment charge made against goodwill for the years ended 31 December 2016 and 2015.

Impairment testing of goodwill

The recoverable amount of the cash-generating unit has 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 was 5.5% as at 31 December 2016 (2015: 5.5%) and the growth rate beyond the five-year period has been projected as 3% (2015: 3%).

Assumptions were used in the value in use calculation of cash-generating unit for 31 December 2016 and 31 December 2015. 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 rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions on market development and discount rate are consistent with external information sources.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Total RMB'000
31 December 2016		
At 1 January 2016:		
Cost	2,899	2,899
Accumulated amortisation	(1,091)	(1,091)
Net carrying amount	1,808	1,808
At 1 January 2016, net of accumulated amortisation	1,808	1,808
Additions	197	197
Amortisation provided during the year *(note 6)*	(296)	(296)
At 31 December 2016, net of accumulated amortisation	1,709	1,709
At 31 December 2016:		
Cost	3,096	3,096
Accumulated amortisation	(1,387)	(1,387)
Net carrying amount	1,709	1,709

Notes to the Consolidated Financial Statements (continued)

31 December 2016

16. OTHER INTANGIBLE ASSETS (continued)

	Software RMB'000	Total RMB'000
31 December 2015		
At 1 January 2015:		
Cost	2,217	2,217
Accumulated amortisation	(851)	(851)
Net carrying amount	1,366	1,366
At 1 January 2015, net of accumulated amortisation	1,366	1,366
Additions	685	685
Disposals	(1)	(1)
Amortisation provided during the year *(note 6)*	(242)	(242)
At 31 December 2015, net of accumulated amortisation	1,808	1,808
At 31 December 2015:		
Cost	2,899	2,899
Accumulated amortisation	(1,091)	(1,091)
Net carrying amount	1,808	1,808

Notes to the Consolidated Financial Statements (continued)

31 December 2016

17. INVESTMENT IN A JOINT VENTURE

	2016 RMB'000	2015 RMB'000
Share of net assets	**430**	—

Particulars of the joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activity
Scienwi Pharmaceutical Technology Company Limited	Ordinary shares	Macao	48%	Sale of pharmaceutical products

The above investment is held through the wholly-owned subsidiaries of the Company.

The capital injection of the joint venture has not been completed as at 31 December 2016 due to administrative process, and is expected to be completed before the end of June 2017.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Non-current		
Unlisted equity investments, at cost	**8,650**	7,650

As at 31 December 2016, the fair value of the unlisted equity 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. The Group does not intend to dispose of it in the near future.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

19. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**17,613**	19,060
Work in progress	**8,272**	10,049
Finished goods	**95,196**	70,785
	121,081	99,894

20. TRADE AND NOTES RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**38,216**	38,920
Notes receivable	**25,647**	17,526
	63,863	56,446
Less: Impairment of trade receivables	**—**	—
	63,863	56,446

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not more 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 good track records, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

20. TRADE AND NOTES RECEIVABLES (continued)

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

	2016 RMB'000	2015 RMB'000
Within 1 month	25,325	29,652
1 to 3 months	6,619	4,726
3 to 6 months	3,836	1,046
6 to 12 months	1,417	3,112
Over 12 months	1,019	384
	38,216	38,920

The notes receivable are settled within 180 days. No notes receivable were discounted as at 31 December 2016 and 2015. As at 31 December 2016, the Group has endorsed notes receivable of RMB12,651,000 (2015: RMB11,427,000) to settle trade payables (note 37).

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

	2016 RMB'000	2015 RMB'000
At beginning of year	—	(17)
Impairment losses reversed *(note 6)*	—	17
	—	—

Included in the above provision for impairment of trade receivables as at 31 December 2016 was a provision for individually impaired trade receivables of nil (2015: nil), with a gross carrying amount before provision of nil (2015: nil).

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	28,600	33,276
Less than 3 months past due	4,526	3,423
Over 3 months past due	5,090	2,221
	38,216	38,920

Notes to the Consolidated Financial Statements (continued)

31 December 2016

20. TRADE AND NOTES RECEIVABLES (continued)

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.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	14,682	8,610
VAT recoverable	1,935	227
Deposits and other receivables	4,077	3,736
	20,694	12,573

22. CASH AND BANK BALANCES

	2016 RMB'000	2015 RMB'000
Cash and bank balances	276,348	245,028
Time deposits	49,787	181,609
	326,135	426,637
Denominated in:		
— RMB	273,816	279,526
— Hong Kong Dollars ("HK$")	52,319	147,111
	326,135	426,637

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB and HK$. 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 six months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

23. TRADE PAYABLES

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**48,817**	39,148
3 to 6 months	**4,541**	10,578
6 to 12 months	**2,603**	1,403
over 12 months	**1,570**	2,447
	57,531	53,576

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

24. OTHER PAYABLES AND ACCRUALS

	Note	2016 RMB'000	2015 RMB'000
Accruals and other payables		**10,173**	7,531
Accrued salaries and welfare		**27,789**	23,041
Advances from customers		**7,433**	6,074
Endorsed notes	37	**12,651**	11,427
Deposits received		**13,450**	8,247
Payables for purchases of property and equipment		**4,667**	2,936
Other tax payables		**5,319**	7,591
		81,482	66,847

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

Notes to the Consolidated Financial Statements (continued)

31 December 2016

25. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
At 1 January	**19,454**	15,066
Received amounts	**13,631**	12,701
Released amounts	**(11,899)**	(8,313)
At 31 December	**21,186**	19,454
Current	**6,493**	5,734
Non-current	**14,693**	13,720
	21,186	19,454

Deferred income represents grants received from the government for the purpose of subsidising the expenses arising from research and development activities and the 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 reporting period are as follows:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	**5,758**	5,756
Deferred tax liabilities	**(1,843)**	(2,010)

Notes to the Consolidated Financial Statements (continued)

31 December 2016

26. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (continued)

	2016 Deferred Tax Assets						
	Decelerated depreciation for tax purposes RMB'000	Impairment of trade receivables RMB'000	Government grants RMB'000	Accruals RMB'000	Unrealised profit from intercompany transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	—	25	4,163	—	1,561	7	5,756
Deferred tax credited/ (charged) to the statement of profit or loss during the year	—	(25)	281	—	(262)	8	2
At 31 December 2016	—	—	4,444	—	1,299	15	5,758

	2015 Deferred Tax Assets						
	Decelerated depreciation for tax purposes RMB'000	Impairment of trade receivables RMB'000	Government grants RMB'000	Accruals RMB'000	Unrealised profit from intercompany transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	214	4	2,958	552	1,242	6	4,976
Deferred tax credited/ (charged) to the statement of profit or loss during the year	(214)	21	1,205	(552)	319	1	780
At 31 December 2015	—	25	4,163	—	1,561	7	5,756

Notes to the Consolidated Financial Statements (continued)

31 December 2016

26. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (continued)

	2016 Deferred tax liabilities			
	Depreciation allowance in excess of related depreciation RMB'000	**Fair value adjustment on acquisition RMB'000**	**Withholding taxes RMB'000**	**Total RMB'000**
At 1 January 2016	**(699)**	**(1,311)**	**—**	**(2,010)**
Deferred tax credited to the statement of profit or loss during the year	**129**	**38**	**—**	**167**
At 31 December 2016	**(570)**	**(1,273)**	**—**	**(1,843)**

	2015 Deferred tax liabilities			
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2015	—	(1,349)	(3,000)	(4,349)
Deferred tax credited/(charged) to the statement of profit or loss during the year	(699)	38	3,000	2,339
At 31 December 2015	(699)	(1,311)	—	(2,010)

Notes to the Consolidated Financial Statements (continued)

31 December 2016

26. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (continued)

Deferred tax assets have not been recognised in respect of the following items:

	2016 RMB'000	2015 RMB'000
Tax losses		
Unused tax credit	3,263	—
Deductible temporary differences	290	—
Total	3,553	—

At 31 December 2016, the Group has tax losses arising in Mainland China of RMB3,553,000 (2015: nil) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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 2015 and 31 December 2016, no deferred tax 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. In the opinion of the directors, 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 RMB171,515,000 at 31 December 2016 (2015: RMB111,044,000)

27. ISSUED CAPITAL

	2016	2015
Issued and fully paid:		
800,000,000 (2015: 800,000,000) ordinary shares of HK$0.01 each (HK$'000)	**8,000**	8,000
Equivalent to RMB'000	**6,309**	6,309

A summary of movements in the Company's issued capital is as follows:

	Notes	Number of Issued and fully paid ordinary shares	Share capital RMB'000
At 1 January 2015:	(a)	10,000	—
Capitalisation Issue	(b)	599,990,000	4,732
Issuance of new shares under the global offering	(c)	200,000,000	1,577
At 31 December 2015 and 31 December 2016		800,000,000	6,309

(a) 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.

(b) Pursuant to the written resolution passed on 8 June 2015, an aggregate of 599,990,000 shares of HK$0.01 each of the Company were allotted and issued, credited as fully paid at par, by way of capitalisation of the sum of HK$5,999,900 (equivalent to approximately RMB4,732,000) from the share premium account (the "Capitalisation Issue"). Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering (the "IPO") as detailed in (c) below.

(c) In connection with the Company's IPO, 200,000,000 shares of HK$0.01 each were issued at a price of HK$2.46 per share for a total cash consideration, before listing expenses, of approximately HK$492,000,000 (equivalent to approximately RMB388,031,000). Dealings of these shares on the Stock Exchange commenced on 13 July 2015.

Notes to the Consolidated Financial Statements (continued)

31 December 2016

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Scheme was conditionally adopted on 8 June 2015 which became effective on 13 July 2015.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within the date as specified in the offer letter issued by the Company, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors in its absolute discretion, save that no option may be exercised more than ten years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

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

Further details of the Company's share option scheme are set out in the Group's Report of the Directors on page 52.

No share options were granted during the year ended 31 December 2016 and no share options were outstanding under the Scheme as at 31 December 2016 and 2015.

29. SHARE AWARD PLAN

A share award plan was adopted on 8 January 2016 (the "Share Award Plan"). The Share Award Plan is a share incentive scheme and is established to recognise the contributions made by certain selected persons and to attract suitable individuals with experience and ability to further development and expansion of the Group.

The awarded shares will be either (i) allotted and issued by the Company, by using the general or specific mandates granted or to be granted to the board of directors by the shareholders of the Company at general meetings of the Company from time to time, or (ii) acquired by an independent trustee ("the Trustee") from the open market by utilizing the Company's resources provided to the Trustee. The maximum number of shares in respect of which options may be granted under the Share Award Plan cannot result in the aggregate number of shares awarded by the board of directors throughout the duration of the plan exceeding 1% of the issued share capital of the Company.

Notes to the Consolidated Financial Statements (continued)

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29. SHARE AWARD PLAN (continued)

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Plan, the plan will be valid and effective for a term of 10 years commencing on the date of adoption.

During the year ended 31 December 2016, based on the Company's instructions, the Trustee has purchased a total of 8,000,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK$2.15 to HK$2.40 per share at a total consideration of approximately HK$18,313,000 (equivalent to approximately RMB15,651,000).

The Company granted 149,000 shares to certain employees on 20 June 2016 and the vesting date of the shares is 20 June 2016. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$2.37) on the day of the grant, amounting to HK$353,000 (equivalent to approximately RMB303,000). The Group recognised a share award expense of RMB303,000 during the year.

As at 31 December 2016, 7,851,000 shares of the Company are held by the Trustee and have yet to be awarded.

30. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity on page 68.

(a) Merger reserve

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

(b) 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.

(c) Share-based payment reserve

The share-based payment reserve represents 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 Investment Limited with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at the 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 in 2012 and was recognised as an employee benefit expense.

Notes to the Consolidated Financial Statements (continued)

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31. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group sublets certain of its leased properties under operating lease arrangements, with leases negotiated for terms ranging from one 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 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**243**	46
In the second to fifth years, inclusive	**145**	—
	388	46

(b) 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 the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**26,376**	24,854
In the second to fifth years, inclusive	**65,283**	58,398
Beyond five years	**9,294**	11,436
	100,953	94,688

Notes to the Consolidated Financial Statements (continued)

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32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Leasehold improvements	**3,817**	4,772
Plant and machinery	**27,936**	3,154
	31,753	7,926

At the end of 31 December 2016 and 2015, the Group had no significant authorised, but not contracted, capital commitment.

33. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2016 and 2015 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:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**4,360**	2,784
Pension scheme contributions	**294**	225
	4,654	3,009

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

Notes to the Consolidated Financial Statements (continued)

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34. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Notes	2016 RMB'000	2015 RMB'000
Financial assets — loans and receivables			
Rental deposits		**4,402**	3,782
Trade and notes receivables	20	**63,863**	56,446
Deposits and other receivables	21	**4,077**	3,736
Cash and bank balances	22	**326,135**	426,637
		398,477	490,601
Financial assets — available-for-sale			
Available-for-sale investments	18	**8,650**	7,650
Financial liabilities at amortised cost			
Amount due to a joint venture		**430**	—
Trade payables	23	**57,531**	53,576
Financial liabilities included in other payables and accruals		**40,941**	30,141
Due to related parties	33(a)	**8,786**	8,786
		107,688	92,503

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

During the reporting period, 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 bank balances, trade and notes receivables, deposits and other receivables, trades payables, financial liabilities included in other payables and accruals, and amount due to a joint venture 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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, available-for-sale investments, and cash and bank balances. 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, foreign currency 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

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and time deposits at banks. 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.

Foreign currency risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in HK$. In addition, the Company will pay dividends in HK$ in the future. Any significant exchange rate fluctuations of HK$ against RMB may have financial impacts on the Group.

The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Group during the reporting period. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and HK$ exchange rate movement.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rate, with all other variables held constant, of the Group's profit before (or after) tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

Notes to the Consolidated Financial Statements (continued)

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in profit before (or after) tax RMB'000	Increase/ (decrease) in equity* RMB'000
2016			
If RMB weakens against the HK$	5	—	16,156
If RMB strengthens against the HK$	(5)	—	(16,156)
2015			
If RMB weakens against the HK$	5	—	19,507
If RMB strengthens against the HK$	(5)	—	(19,507)

* Excluding retained profits

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 bank balances, 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 20.

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.

Notes to the Consolidated Financial Statements (continued)

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

	2016			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Amount due to a joint venture	**430**	**—**	**—**	**430**
Trade payables	**35,105**	**22,426**	**—**	**57,531**
Financial liabilities included in other payables and accruals	**20,562**	**13,137**	**7,242**	**40,941**
Due to related parties	**8,786**	**—**	**—**	**8,786**
	64,883	**35,563**	**7,242**	**107,688**

	2015			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade payables	32,477	21,099	—	53,576
Financial liabilities included in other payables and accruals	10,501	13,370	6,270	30,141
Due to related parties	8,786	—	—	8,786
	51,764	34,469	6,270	92,503

Notes to the Consolidated Financial Statements (continued)

31 December 2016

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 reporting period.

The Group monitors capital using a gearing ratio, which is calculated by dividing total interest-bearing bank borrowings by total equity. Capital represents equity attributable to owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratio as at the end of the reporting period was as follows:

	2016 **RMB'000**	2015 RMB'000
Interest-bearing bank borrowings	**—**	—
Equity attributable to owners of the parent	**568,381**	562,688
Gearing ratio	**—**	—

37. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2016 and 2015, the Group endorsed certain notes receivable accepted by certain banks in 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 to 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 amount of the Endorsed Notes as at 31 December 2016 was RMB42,654,000 (2015: RMB40,558,000), of which the Endorsed Notes and the associated trade payables with a carrying amount of RMB30,003,000 as at 31 December 2016 (2015: RMB29,131,000), had been fully derecognised. The Group carefully assesses the default risk of the PRC banks. The Group only derecognises the notes receivable that have been accepted by banks with high credit reputation 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 Notes"). The Derecognised Notes had a maturity of 1 to 5 months at the end of the reporting period. 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 is equal 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.

Notes to the Consolidated Financial Statements (continued)

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37. TRANSFERS OF FINANCIAL ASSETS (continued)

During the years ended 31 December 2016 and 2015, 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 years ended 31 December 2016 and 2015 or cumulatively. The Endorsement has been made evenly throughout the years ended 31 December 2016 and 2015.

The Group continued to recognise the carrying amount of the remaining Endorsed Notes and associated trade payables settled of RMB12,651,000 as at 31 December 2016 (2015: RMB11,427,000) 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.

Notes to the Consolidated Financial Statements (continued)

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38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	309,644	247,437
Total non-current assets	309,644	247,437
CURRENT ASSETS		
Prepayments, deposits and other receivables	143	121
Cash and bank balances	51,703	143,552
Total current assets	51,846	143,673
CURRENT LIABILITIES		
Due to subsidiaries	17,285	16,170
Other payables and accruals	8	21
Total current liabilities	17,293	16,191
NET CURRENT ASSETS	34,553	127,482
TOTAL ASSETS LESS CURRENT LIABILITIES	344,197	374,919
Net assets	344,197	374,919
Equity		
Issued capital	6,309	6,309
Reserves *(Note)*	337,888	368,610
Total equity	344,197	374,919

Notes to the Consolidated Financial Statements (continued)

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38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium* RMB'000	Share held for share award plan* RMB'000	Share award reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000
At 1 January 2015	—	—	—	(22)	(4,432)	(4,454)
Loss for the year	—	—	—	—	(14,616)	(14,616)
Exchange differences on translation of foreign operations	—	—	—	22,683	—	22,683
Total comprehensive income for the year	—	—	—	22,683	(14,616)	8,067
Issuance of shares for the IPO	386,454	—	—	—	—	386,454
Capitalisation issue	(4,732)	—	—	—	—	(4,732)
Share issuance expense	(16,725)	—	—	—	—	(16,725)
At 31 December 2015	364,997	—	—	22,661	(19,048)	368,610
Loss for the year	**—**	**—**	**—**	**—**	**(4,116)**	**(4,116)**
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**22,963**	**—**	**22,963**
Total comprehensive income for the year	**—**	**—**	**—**	**22,963**	**(4,116)**	**18,847**
Shares repurchased	**—**	**(15,651)**	**—**	**—**	**—**	**(15,651)**
Equity-settled share award expense	**—**	**292**	**11**	**—**	**—**	**303**
Dividends declared	**(34,221)**	**—**	**—**	**—**	**—**	**(34,221)**
At 31 December 2016	**330,776**	**(15,359)**	**11**	**45,624**	**(23,164)**	**337,888**

* Included in reserves in the statement of financial position of the Company.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2017.

Financial Summary

The following is a summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the Prospectus and published audit financial statements of the Group. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
REVENUE	**730,472**	688,036	595,565	482,805	410,052
PROFIT BEFORE TAX	**69,159**	101,191	114,810	46,803	23,449
Income tax expense	**15,287**	(20,652)	(28,122)	(9,165)	(6,195)
PROFIT FOR THE YEAR AND ATTRIBUTABLE TO OWNERS OF THE COMPANY	**53,872**	80,539	86,688	37,638	17,254

ASSETS AND LIABILITIES

	As at 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
TOTAL ASSETS	**755,228**	723,528	297,924	298,874	239,621
TOTAL LIABILITIES	**186,847**	160,840	177,027	168,664	147,050