ANNUAL REPORT 2018

草晶華破壁草本 更好吸收 服用便捷

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

Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lai Zhi Tian *(Chairman)*
Mr. Lai Ying Feng
Mr. Cao Xiao Jun
Mr. Cheng Jin Le

Non-executive Directors

Ms. Jiang Li Xia
Mr. Yang Ai Xing

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
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

Nomination Committee

Mr. Wong Kam Wah *(Chairman)*
Mr. Lai Zhi Tian
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

AUTHORIZED REPRESENTATIVES

Mr. Lai Ying Feng
Ms. Ho Wing Yan

COMPANY SECRETARY

Ms. Ho Wing Yan

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

OFFICE IN SHENZHEN

Unit A-H on the 20th Floor
Dream City Office Tower
Mei Lin Lu, Futian Qu, Shenzhen
PRC

AUDITOR

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

Corporate Information

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

Estera 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

Union Registrars Limited
Suites 3301-04, 33/F.,
Two Chinachem Exchange Square,
338 King's Road, North Point,
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 you the annual report and audited consolidated financial statements of the Group for the year ended 31 December 2018 (the "Reporting Period").

2018 BUSINESS REVIEW:

In 2018, with a strong foundational understanding of its strategic positioning, the Group continues to find success in forming a unique brand and in further maturing its sales strategies. In 2018, the Group conducted an organizational transformation which resulted in greater cross-department synergy; enabling the Group to stay at the top of the industry.

- In this year, our decoction pieces research won the First Prize of the Science and Technology Award from the China Association of Chinese Medicine. This signifies that our leading innovation in Chinese decoction pieces is, once again, recognised by the highest level of standards in the field. By the end of 2018, a total of 79 invention patents were obtained; of which, 13 new SC Food Product Permit labelled products were added, and 11 new products were introduced into the market in 2018.

- At the same time, the Company incorporated experience from selling at mainstream pharmacies to set up an "Entrepreneurial Business Division" to explore the channels of small and medium sized pharmacy chains. The division applies the distributor sales model and works closely with "entrepreneurs", empowering them to become proactive business partners; and the channel is already receiving positive feedback from the market. Furthermore, the Group experienced success in both its expansion into the e-commerce platform and its hospital channels. This further accelerates the sales momentum for the Company and helps to reinforce the brand with the public.

- During the Reporting Period, total revenue of the Group was approximately RMB1,142.2 million, up 20.9% than last year (2017: RMB944.6 million), achieving the milestone of breaking RMB1 billion in sales revenue. The Group's annual profit was approximately RMB85.1 million, up 21.4% than last year (2017: RMB70.1 million). The basic earnings per share was RMB10.21 cents (2017: RMB8.77 cents), up 16.4% than last year.

- The Board recommended a final dividend of HK2.00 cents per share for 2018, subject to the approval of its shareholders. Together with the interim dividend of HK2.65 cents per share, the basic dividend for fiscal 2018 will be HK4.65 cents per share. Total basic dividend for fiscal 2017 is HK4.085 cents per share. In appreciation for our investors, the Board has also recommended a special dividend of HK1.60 cents per share subject to the shareholders' approval. Together with all special dividends, the Group's total dividend for 2018 will be approximately HK7.95 cents (2017: HK5.794 cents) per share, increased by 37.21%.

Chairman's Statement

FUTURE AND OUTLOOK:

Greater Bay Area, Great Health, Great Brand

2019 is a year full of uncertainties, but we firmly believe that the coming year is also a year full of great opportunities:

- From the preconception of the "Greater Bay Area" plan proposed by the state in 2017 to the official release of the "Development Plan for Guangdong – Hong Kong – Macao Greater Bay Area" on 18 February 2019, the area has experienced substantial economic growth and it is expected to grow significantly more in the coming years. As a listed company in Hong Kong within the Greater Bay Area, and as a company in an industry fully supported by the state, the Company is expected to benefit greatly from the trends in the coming years. We vow to seize this excellent opportunity by effectively utilizing our advantages in technological advancement and sales expertise to further our market share in China, and to expand globally.

- The Traditional Chinese Medicine industry is an important component of the national strategy since 2016, and innovation within the field is supported by policies across many of the government facilitating bodies. According to projections based on the current economic trend and the development pattern of the health sector, the Traditional Chinese Medicine industry will reach a market size of RMB 3 trillion by year 2020. The Chinese medicine decoction pieces market will continue to experience leading growth rates in the industry. Meanwhile, the Group's Caojinghua Cell Broken Herb (草晶華破壁草本) (as a sub-category of Chinese medicine cell wall broken decoction pieces (中藥破壁飲片)) is sure to benefit from this trend.

- The "CaoJinghua (草晶華)" brand and the innovative category of "Cell-broken Herb (破壁草本)" are brand strategies collaboratively established by the Company and Trout & Partners China, a global strategic consulting company. Under the guidance of Trout & Partners team, the Company successfully pioneered the Cell-broken herb category (Chinese medicine cell wall broken decoction pieces) (破壁草本(中藥破壁飲片)) and market sales have been leaping forward rigorously since. With its growing demand in the mainstream pharmacy chain channel, the Cell-broken Herb (破壁草本) category products have become the fuse to reignite innovation in the Chinese medicine industry and to propel the economy forward.

Management Through Data Analytics

With the successful launch of SAP Phase II in 2018, the Company's internal management processes have been strengthened and improved. Overall management efficacy has been raised in areas such as sales, production, procurement, finance, research & development and human resources. Our business intelligence system is expected to deploy in 2019 and will allow our sales teams to utilize real time analytics to better tailor sales plans for our customers. The Company will enter into a new era of data analytics, which will greatly improve data driven decision making, efficiency management, control/risk management, cost reduction and much more.

Innovation Driving Possibilities

The Group takes the development of Caojinghua Cell-broken Herb (Zhongzhi Cell-broken Pieces) (草晶華破壁草本(中藥破壁飲片)) as its core development direction. In 2019, the Company will continue its effort in registering its products abroad, in countries such as Canada, United States, Germany, Japan and more. Research and development will continue to revolve around the breakthrough in new decoction pieces, health supplements and SC Food Product Permit labelled products.

Chairman's Statement

APPRECIATION:

In 2018, the Group celebrated its 25th anniversary since inception; adding another milestone to its history. From the humble beginnings of a small wholesale company, to building up the Company's chain pharmacy, to establishing the company's own product brands, the Group has always operated on the core value of "building a healthy lifestyle (智造健康生活)". Since 2001, the Group's chain pharmacy has been insisting on its "24-hour free delivery" service, adhering to the concept of prioritizing customers first, and positioning itself into "the best pharmacy for Zhongshan people". Today, the Group firmly abides by the mission to "promote Chinese medicine culture and to revitalize the Chinese medicine industry", giving birth to a new category of Chinese medicine – Caojinghua Cell-broken Herb (Zhongzhi Cell-broken Pieces) (草晶華破壁草本(中藥破壁飲片)). The Group's tenacity in quality control is demonstrated through every minor detail in the supply chain. From monitoring its plantation facilities, to implementing strict controls in logistics, to research and development, to production, the Company works to ensure every product sold represents the Company's best efforts. In the coming 25 years, the Group will continue to stick to its core believes, build Caojinghua (草晶華) into a globally renowned brand and internationalize Chinese medicine.

On behalf of the Company, I would like to express my sincere gratitude to our valued customers, employees, suppliers, shareholders and partners that have supported us through our journey to date. We expect the year ahead to be full of opportunities and challenges. As always, we will strive to create greater value for our shareholders and investors.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 25 March 2019

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 20.9% to approximately RMB1,142.2 million.

Profit attributable to owners of the parent increased by approximately 21.4% to RMB85.1 million due to the strong growth momentum of the modern decoction pieces (Caojinghua Cell-broken Herb) (草晶華破壁草本).

FINANCIAL ANALYSIS

Revenue

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

	Revenue for the year ended 31 December			**% of total revenue for the year ended 31 December**		
	2018	2017	Change	**2018**	2017	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**633,761**	507,482	+24.9	**55.5**	53.7	+1.8
Operation of chain pharmacies	**462,231**	425,003	+8.8	**40.5**	45.0	-4.5
Operation of on-line pharmacies	**46,158**	12,149	+279.9	**4.0**	1.3	+2.7
	1,142,150	944,634	+20.9	**100.0**	100.0	

Pharmaceutical manufacturing

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

Revenue derived from pharmaceutical manufacturing increased by approximately 24.9% to RMB633.8 million for the year ended 31 December 2018 (2017: RMB507.5 million) and accounted for 55.5% of the total revenue during the year (2017: 53.7%), attributable to the growth in sales as a result of the Group's effort to expand the distribution and marketing network. The modern decoction pieces (Caojinghua Cell-broken Herb) (草晶華破壁草本) thereby further increased the Group's market share and deepen market penetration, resulting in an increase in sales.

Management Discussion and Analysis

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 2018, the Group has 316 self-operated chain pharmacies in Zhongshan (2017: 260), of which 268 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies increased by approximately 8.8% to approximately RMB462.2 million for the year ended 31 December 2018 (2017: RMB425.0 million) and accounted for 40.5% of the total revenue during the year (2017: 45.0%), which were a result of (i) the improvement in marketing effort of the customer loyalty programme of the Group; and (ii) the increase in number of pharmacies during the Reporting Period.

Operation of on-line pharmacies

The Group commenced its on-line pharmacies business at the end of 2017. Revenue derived from operation of on-line pharmacies increased by approximately 279.9% to RMB46.2 million for the year ended 31 December 2018 (2017: RMB12.1 million) and accounted for 4.0% of the total revenue during the Reporting Period (2017: 1.3%). Through our marketing and online advertising effort, revenue from the operation of on-line pharmacies increased by RMB34.1 million as compared to corresponding period in last year.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB708.3 million, representing an increase of RMB144.0 million or 25.5% as compared with RMB564.3 million for the year ended 31 December 2017. 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		
	2018	2017	Change	**2018**	2017	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**458,474**	353,733	+29.6	**72.3**	69.7	+2.6
Operation of chain pharmacies	**210,864**	199,422	+5.7	**45.6**	46.9	-1.3
Operation of on-line pharmacies	**38,934**	11,098	+250.8	**84.3**	91.3	-7.0
	708,272	564,253	+25.5	**62.0**	59.7	+2.3

Pharmaceutical manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 29.6% to RMB458.5 million for the year ended 31 December 2018 (2017: RMB353.7 million). The gross profit margin increased to 72.3% for the year ended 31 December 2018 (2017: 69.7%), primarily resulted from the significant increase in the revenue of modern decoction pieces (Caojinghua Cell-broken Herb) (草晶華破壁草本) with higher gross profit margin. The revenue of modern decoction pieces (Caojinghua Cell-broken Herb) (草晶華破壁草本) increased by RMB115.2 million in the pharmaceutical manufacturing segment.

Management Discussion and Analysis

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 5.7% to RMB210.9 million for the year ended 31 December 2018 (2017: RMB199.4 million). The gross profit margin of the chain pharmacies segment decreased to 45.6% for the year ended 31 December 2018 (2017: 46.9%). The decrease was due to a slight fluctuation in the fiscal year's product mix.

Operation of on-line pharmacies

Gross profit of the on-line pharmacies segment increased by approximately 250.8% to RMB38.9 million for the year ended 31 December 2018 (2017: RMB11.1 million). The gross profit margin decreased to 84.3% for the year ended 31 December 2018 (2017: 91.3%), which was primarily attributable to the increase in sales of third party branded products which have a lower gross margin.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, interest income from bank financial products and government grants. For the year ended 31 December 2018, other income and gains of the Group were approximately RMB24.2 million (2017: RMB16.0 million), representing an increase of approximately RMB8.2 million as compared to last year which was mainly attributable to gain on disposal of an equity investment as well as an increase in interest income.

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 2018, selling and distribution expenses amounted to approximately RMB492.8 million (2017: RMB387.0 million), representing an increase of approximately 27.3% as compared to last year. Selling and distribution expense ratio increased to approximately 43.1% (2017: 41.0%) against revenue for the year ended 31 December 2018, which was mainly due to (i) an increase in marketing and promotion activities on the Company’s Caojinghua Cell-broken Herb brand（草晶華破壁飲片）through various channels and platforms; (ii) an increase in salaries for retaining and attracting outstanding talents; and (iii) expanding distribution networks such as the e-commerce platform and the hospital channel to meet the Group’s business expansion plan.

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 2018, administrative expenses amounted to approximately RMB77.8 million (2017: RMB64.9 million), representing an increase of approximately 19.9% as compared to last year. The increase was mainly due to the increase in employees’ salary and welfare expenses and the introduction of quality talents, which ensured smooth operations and catered for the Group’s talent development and business expansion plans.

Management Discussion and Analysis

Other Expenses

Other expenses mainly represent expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the year ended 31 December 2018, research and development expenses amounted to approximately RMB52.5 million (2017: RMB34.5 million), representing an increase of approximately 52.2% compared to prior period. Such increase was mainly due to the increase in salary input used to strengthen the research on the scientific essence of Caojinghua Cell-broken Herb (cell wall broken decoction pieces) (草晶華破壁草本(破壁飲片)), aiming to demonstrating its security, effectiveness and controllable quality with more clinical research.

Finance Costs

Finance costs amounted to RMB0.2 million for the year ended 31 December 2018 (2017: Nil). Finance costs represented interest on bank borrowings.

Income Tax Expense

Income tax expense amounted to RMB16.8 million for the year ended 31 December 2018 (2017: RMB19.8 million). The decrease in income tax was due to changes in tax policy in favour of research and development activities in 2018.

Profit Attributable to Owners of the Parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 21.4% to RMB85.1 million for the year ended 31 December 2018 (2017: RMB70.1million). The Group's net profit margin amounted to 7.4% for the year ended 31 December 2018 (2017: 7.4%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB413.1 million as at 31 December 2018 (2017: RMB428.0 million). The Group's cash and bank balances decreased from RMB359.5 million as at 31 December 2017 to RMB332.7 million (of which RMB329.3 million and RMB3.4 million are denominated in RMB and HK$ respectively) as at 31 December 2018. The current ratio of the Group decreased from approximately 2.9 as at 31 December 2017 to 2.5 as at 31 December 2018.

Borrowing and the Pledge of Assets

The Group had no outstanding borrowings as at 31 December 2018.

As at 31 December 2018, the Group had available unutilised banking facilities of RMB30 million (2017: RMB30 million) and HK$20 million (2017: Nil).

Gearing Ratio

The Group had no outstanding borrowings as at 31 December 2018 (2017: Nil).

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"). The capital of the Company comprises ordinary Shares and other reserves. As at 31 December 2018, the number of issued shares of the Company was 840,000,000 ordinary Shares of HK$0.01 each.

Subscription of New Shares

On 27 October 2017, the Company entered into a subscription agreement with Novich Positioning Investment Limited Partnership ("Novich"), an exempted limited partnership registered in Cayman Islands which is an investment fund advised and managed by its general partner Novich Positioning Investment (Cayman) Limited (an indirect wholly-owned subsidiary of Shanghai Novich Positioning Investment Management Co., Limited* (上海諾偉其定位投資管理有限公司)), pursuant to which the Company conditionally agreed to allot and issue a total of 40,000,000 ordinary Shares of HK$0.01 each at the subscription price of HK$1.53 per Share (the "Subscription"). In respect of the Subscription Shares, there is a 2 years lock-up restrictions undertook by Novich.

The closing price per ordinary Share as quoted on the Stock Exchange on 27 October 2017, being the date of the subscription agreement was HK$1.79. The gross proceeds from the Subscription were approximately HK$61,200,000 and the net proceeds from the Subscription, after deduction of all relevant cost and expenses, were approximately HK$60,800,000, representing a net issue price of approximately HK$1.52 per subscription Share. The Company used the net proceeds to expand the distribution network of the Company so as to enhance the public awareness of the brand. The net proceeds was also used on the research and development activities of the company's own brand products.

The Board considers that, while broadening the shareholder base, the Subscription represents a valuable opportunity for the Company to bring in an investment fund as a shareholder which can enhance the corporate image of the Group. Also, the Board believes that the Group may leverage on the network of Novich in the consumer industry to provide synergy or business opportunities to the Group.

Details of the above Subscription were published in the Company's announcement dated 27 October 2017.

The equity fund raising activities conducted by the Company during the Reporting Period are set out below:

	Intended use of net proceeds from Subscription (Approximate)	Actual use of net proceeds from Subscription as of 31 December 2017 (Approximate)	Utilised net proceeds from Subscription to the year ended 31 December 2018 (Approximate)	Unutilised net proceeds from Subscription as at 31 December 2018 (Approximate)
For expanding the distribution network of the Company and applying on the research and development activities	HK$60,800,000	HK$27,785,000 for distribution network of the Company	HK$33,015,000 for distribution network of the Company	—

As at 31 December 2018, all net proceeds raised from Subscription have been fully utilised as intended.

Management Discussion and Analysis

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 2018. 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 2018, the Group had 3,398 employees (2017: 3,231) with a total remuneration of RMB283.0 million during the Reporting Period (2017: RMB230.6 million) (including wages and salaries pension scheme contributions, staff welfare expenses, equity-settled share award expenses and others). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

SIGNIFICANT INVESTMENTS

The Group had no significant investments held during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Reporting Period.

Management Discussion and Analysis

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. On 4 April 2018, the Board resolved to change the use of the remaining unutilised proceeds from Global Offering (the "Reallocation"). For details of the Reallocation, please refer to the announcement of the Company dated 4 April 2018. The following table sets forth the status of use of net proceeds from Global Offering:

Business objectives as stated in the Prospectus	Use of net proceeds from Global Offering prior to the Reallocation	The Reallocation	Use of net proceeds subsequent to the Reallocation	Utilised up to 31 December 2018	Unutilised balance up to 31 December 2018	Expected timeline for unutilised net proceeds subsequent to the Reallocation
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	
Expansion of pharmaceutical chain in the Guangdong province	135,870	(72,360)	63,510	63,510	—	N/A
Expansion of distribution network	90,580	72,360	162,940	149,728	13,212	by 2019
Providing funding for research and development activities	90,580	—	90,580	83,366	7,214	by 2019
Expansion of production capacity	90,580	—	90,580	80,331	10,249	by 2019
General working capital purposes	45,290	—	45,290	45,290	—	N/A
	452,900	—	452,900	422,225	30,675	

The unutilised net proceeds have been placed as (i) interest bearing deposits with licensed banks in Hong Kong and PRC pursuant to the Board intention as disclosed in the Prospectus; and (ii) have been utilised to purchase low risk wealth management products.

EVENT AFTER THE REPORTING PERIOD

There were no significant events after the Reporting Period up to the date of this report.

COMMITMENT

As at 31 December 2018, the Group's operating lease and capital commitment amounted to RMB139.7 million (2017: RMB122.5 million) and RMB10.0 million (2017: RMB29.3 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.

Management Discussion and Analysis

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, 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 2018 (2017: Nil).

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 51, is the founder, controlling shareholder, an executive Director, Chairman of the Board and general manager of our Group. He is also a member of each of the remuneration committee and the nomination committee of the Company. He joined our Group on 27 September 1999 and is responsible for formulating the corporate strategies and planning the business development of our Group. He is the spouse and father of Ms. Jiang Li Xia, a non-executive Director and Mr. Lai Ying Feng, an executive Director respectively.

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 Chang 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. Lai Ying Feng (賴穎豐), aged 27, was appointed as the executive Director on 14 May 2018 and is a member of each of the remuneration committee and the nomination committee of the Company. He joined the Group since April 2014 and has served as a director of sales in several sales divisions, helping to formulate sales strategies, and has served as the head of branding for the Company, leading the Group's brand and marketing strategies. Since July 2016, Mr. Lai has served as a director of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd.* (中山市中智藥業集團有限公司), a subsidiary of the Company, mainly responsible for organizing the formulation of business plan of the Company, investment and financing plan, and making decisions on major issues. He is the son of Mr. Lai Zhi Tian, an executive Director and Ms. Jiang Li Xia, a non-executive Director.

In July 2014, Mr. Lai obtained a bachelor's degree in economics from the Faculty of Arts and Social Sciences at Simon Fraser University in Canada and obtained a qualification certificate for the secretary of the board. Since April 2016, Mr. Lai has also been the vice president of the 1st Youth Entrepreneurs Association of Zhongshan Torch Hi-tech Industrial Development Zone*(第一屆中山火炬高技術產業開發區青年企業家協會).

** The English name is for identification purpose only*

Biographical Details of Directors and Senior Management

Mr. Cao Xiao Jun (曹曉俊), aged 51, was appointed as the executive Director on 30 January 2015 and is the chief financial officer and 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 56, was appointed as the executive Director 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.

NON-EXECUTIVE DIRECTORS

Ms. Jiang Li Xia (江麗霞), aged 54, was appointed as the executive Director on 12 September 2014 and was re-designated as the non-executive Director on 19 September 2016. She is the controlling shareholder of the Company. 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. She is the spouse and mother of Mr. Lai Zhi Tian, an executive Director and Mr. Lai Ying Feng, an executive Director respectively.

Mr. Yang Ai Xing (陽愛星), aged 51, was appointed as a non-executive Director on 14 May 2018. He obtained a Bachelor of Science degree in Chemistry from the Chemistry Department of Xiangtan University in 1988 and an executive MBA degree from the Royal Roads University in Canada in 2002.

From September 1988 to September 1995, Mr. Yang served as the technician, the deputy head of the quality control department, and the center chief chemist director of Zhuzhou Pharmaceutical Factory in Hunan Province*（湖南省株洲製藥廠）. From October 1995 to January 2016, he served as the sales director, marketing director, vice president of marketing and group chief executive of Jiaduobao Holdings Limited*（加多寶集團有限公司）. Since February 2016, he has been the managing partner of Shanghai Novich Positioning Investment Management Co., Limited*（上海諾偉其定位投資管理有限公司）.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwun Wan (吳冠雲), aged 55, was appointed as an independent non-executive Director on 8 June 2015. He is the chairman of the audit committee and a member of each of the remuneration committee and the nomination committee of the Company. 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 50, was appointed as an independent non-executive Director on 8 June 2015. He is the chairman of each of the remuneration committee and the nomination committee and a member of the audit committee of the Company. 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.

Mr. Zhou Dai Han (周岱翰), aged 78, was appointed as an independent non-executive Director on 8 June 2015. He is a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. 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.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Jiang Mei Fang (姜梅芳), aged 57, 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 47, 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).

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 45, 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.

Biographical Details of Directors and Senior Management

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 55, 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 39, 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).

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 the following deviation:

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.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

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 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 2018.

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.

Corporate Governance Report

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. Lai Ying Feng, Mr. Cao Xiao Jun and Mr. Cheng Jin Le; two non-executive Directors, namely Ms. Jiang Li Xia and Mr. Yang Ai Xing; 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 15 to 19 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 2018. 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 pages 81 to 85.

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 non-executive Directors of the Company is under a service contract with the Company for a period of three years commencing from 13 July 2018 (except for Ms. Jiang Li Xia whose contract commenced from the Listing day and shall continue thereafter and Mr. Yang Ai Xing whose contract commenced from 14 May 2018 and shall continue thereafter).

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.

Corporate Governance Report

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 2018:

	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	*6/6	–	1/1	1/1	2/2
Mr. Lai Ying Feng (appointed on 14 May 2018)	3/3	–	–	–	1/1
Mr. Cao Xiao Jun	6/6	–	–	–	2/2
Mr. Cheng Jin Le	6/6	–	–	–	2/2
Ms. Mou Li (retired on 14 May 2018)	4/4	–	1/1	1/1	2/2
Non-Executive Directors					
Ms. Jiang Li Xia	6/6	–	–	–	2/2
Mr. Yang Ai Xing (appointed 14 May 2018)	3/3	–	–	–	1/1
Independent Non-Executive Directors					
Mr. Ng Kwun Wan	6/6	*2/2	1/1	1/1	2/2
Mr. Wong Kam Wah	6/6	2/2	*1/1	*1/1	2/2
Mr. Zhou Dai Han	6/6	2/2	1/1	1/1	2/2

* representing chairman of the board or the committees

Corporate Governance Report

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.

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 Mr. Lai Ying Feng, and three independent non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah (Chairman) and Mr. Zhou Dai Han. Accordingly, a majority of the members are independent non-executive Directors.

During the year ended 31 December 2018, the Remuneration Committee has held one meeting. 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.

Corporate Governance Report

Nomination Committee

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 Mr. Lai Ying Feng, and three independent non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah (Chairman) and Mr. Zhou Dai Han. Accordingly, a majority of the members are independent non-executive Directors.

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.

During the year ended 31 December 2018, the Nomination Committee has held one meeting. 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.

Nomination Policy

The Board has adopted the nomination policy (the "Nomination Policy") on 29 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidates.

Corporate Governance Report

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

Board Delivery 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.

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.

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.

Corporate Governance Report

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code provision A.6.5, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2018, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2018, the Directors participated in the following continuous professional development:

Name of Directors	Training organized by professional organization[1]	Reading materials updating on new rules and regulations
Executive Directors		
Mr. Lai Zhi Tian	✓	✓
Mr. Lai Ying Feng (appointed on 14 May 2018)	✓	✓
Mr. Cao Xiao Jun	✓	✓
Mr. Cheng Jin Le	✓	✓
Ms. Mou Li (retired on 14 May 2018)	✓	✓
Non-executive Directors		
Ms. Jiang Li Xia	✓	✓
Mr. Yang Ai Ying (appointed on 14 May 2018)	✓	✓
Independent Non-executive Directors		
Mr. Ng Kwun Wan	✓	✓
Mr. Wong Kam Wah	✓	✓
Mr. Zhou Dai Han	✓	✓

Notes:

1. Professional training namely "Guidelines on disclosure of inside information" was arranged by the Company to update the Directors' knowledge.

2. The Company received from each of the Directors the confirmations on taking continuous professional training.

EXTERNAL AUDITOR'S REMUNERATION

The Company engaged Ernst & Young as its external auditor for the year ended 31 December 2018. 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 2018, the fee payable to Ernst & Young, is set out as follows:

Nature of Services	Fee paid/payable RMB'000
Audit services	2,630
Non-audit services	861

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.

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.

Corporate Governance Report

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

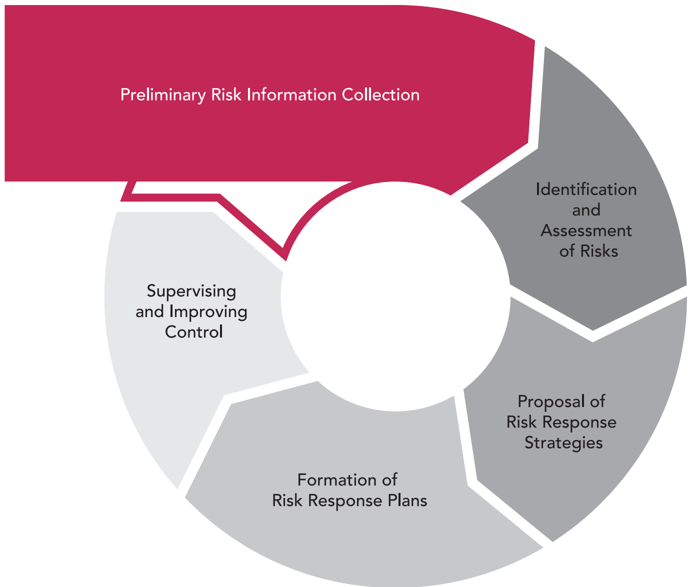
Internal Audit Department analyzes and makes independent assessment on the adequacy and effectiveness of the risk management and internal control system of the Group

- 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

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 2018, 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 2018, 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.

Corporate Governance Report

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 2018, 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 2018 issued by third party professional institution and no significant concern that constituted impacts to the Company's shareholders was found.

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

Ms. Ho Wing Yan ("Ms. Ho") has been appointed as the company secretary of the Company since 5 May 2017 and is responsible for overseeing all the company secretarial matters of the Group. In the opinion of the Board, Ms. Ho possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. During the year ended 31 December 2018, Ms. Ho confirmed that she has taken no less than 15 hours of relevant professional training. The Company will provide fund for Ms. Ho 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.

Corporate Governance Report

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.

Corporate Governance Report

DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") on 29 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

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 2018.

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

1.1 Overview

This report is the third environmental, social and governance (ESG) report published by Zhongzhi Pharmaceutical Holdings Limited. We focus on the disclosure of relevant information on the economic, social and environmental performance of the Company for the period from 1 January 2018 to 31 December 2018 under the principle of objectiveness and transparency. This report is reported on an annual basis.

1.2 Basis of preparation

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "Guidelines") of Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The contents of this report are determined in accordance with a set of systematic procedures, which include identifying and prioritizing key stakeholders, identifying and prioritizing key issues relating to ESG, determining reporting scope and boundary, collecting relevant materials and receipts, compiling data based on information, and reviewing information.

This report is prepared in line with the reporting principles of materiality, quantification, balance and consistency. In this report, the Company illustrates how to identify and engage with our stakeholders, determining the materiality matrix and key issues. On this basis, the Company has made quantifiable disclosures on the key performance metrics, enabling effective year-over-year comparison of environmental information, while comprehensively and fairly reporting on its ESG performance.

1.3 Reporting scope and boundary

The disclosure scope and boundary in this report are consistent with the 2018 annual report of Zhongzhi Pharmaceutical Holdings Limited.

1.4 Explanation for abbreviations

In order to facilitate the presentation and reading, for the purpose of this report, each of "Zhongzhi Pharmaceutical", the "Group", the "Company" and "We" refers to "Zhongzhi Pharmaceutical Holdings Limited" in this report.

1.5 Source of data and reliability assurance

The data and information in this report are mainly from the relevant documents, reports and statistic results of the Company. Zhongzhi Pharmaceutical, in the name of the board of directors (the "Board"), undertakes that this report contains no false statements or misleading statements, and is responsible for the truthfulness, accuracy and completeness of its contents.

1.6 Confirmation and approval

This report is confirmed by the management and approved by the Board on 25 March 2019.

Environmental, Social and Governance Report

2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRUCTURE

2.1 Management Mechanism of Environmental, Social and Governance

The ESG management within the Group is coordinated by the ESG Working Committee, which is chaired by Mr. Lai Ying Feng, an executive director of the Group and deputy general manager of the Company, with members including Mr. Qiao Wei Lin, Chair of Operations, Mr. Xu Ji Yin, Deputy Chair of Operations, all department heads at our head office and employees capable of identifying and managing ESG risks. In strict compliance with the Environmental, Social and Governance Reporting Guide and related guidelines issued by the Stock Exchange of Hong Kong and by reference to the Group's Social Responsibility System, the Committee regularly reviews the effectiveness of the Group's ESG-related management systems and reports to the Board on, among others, material ESG issues, relevant risks identified and achievements in ESG.

Table 1 ESG Management Level and Delineation of Function (2018)

Working Level	Function Setup	Specific Duties and Responsibilities
Decision-making level	Board of Directors	1. Discuss major environmental, social and governance (ESG) matters and future development 2. Review ESG action plans and results 3. Review ESG strategy and approach 4. Review the effectiveness of ESG management
Communication level	ESG Working Committee	1. Identify ESG risks 2. Coordinate stakeholder communications and materiality analysis of ESG issues 3. Develop ESG action plans and target management 4. Formulate ESG strategy and approach 5. Coordinate day-to-day ESG management and disclosure 6. Regularly report to the Board on ESG management status
Execution level	Coordinators in departments at the head office and subsidiaries	1. Implement ESG information and policy management 2. Report to the ESG Working Committee on relevant outcomes

2.2 Communication with Stakeholders

Zhongzhi Pharmaceutical maintains close communications with its stakeholders to understand their requirements for and expectations of the Group, which are adequately addressed through different ways of communication, including this report. In terms of the forms of communication, we communicate with all stakeholders in all respects by ways of, among others, face-to-face interview, telephone interview, questionnaire survey and on-site visit.

Environmental, Social and Governance Report

Table 2 2018 Stakeholders of Zhongzhi Pharmaceutical and Communication Issues

Stakeholders	Appeals and Expectations for the Company	Communication and Response
Customers and consumers	• Products and service quality • Protection of consumers' interest	• Implement customer satisfaction survey • Establish a complete customer compliant handling process • Establish a complete information exchange mechanism
Staff	• Reasonable remuneration and benefits • Staff training, development and promotion • Staff care and welfare • Democratic management	• Develop and regularly evaluate the compensation and benefit system • Support staff in skill learning and occupational development through training • Arrange for medical checks and care for mental and physical health of staff • Establish a feedback and communication mechanism with multiple channels
Investors	• Investment return • Timely and transparent disclosures	• General meetings • Announcements and disclosures • Investor relations email box
Partners and industry partners	• Maintain sound industrial development • Win-win partnership	• Conduct regular supervision on suppliers • Maintain long-term partnership with qualified suppliers • Host industry exchange and promotion activities
Media	• Positive interactive with media • Keep information transparent	• Improve an open media system • Provide publicity materials and products on a timely manner • Disclose information through multiple channels
Community	• Support for community charity • Promote healthy knowledge and culture	• Launch volunteer service and public charity campaigns • Promote knowledge of safety of food and pharmaceuticals to citizens
Environment	• Environment protection • Energy conservation	• Constantly improve the environment management and examination system • Proactively identify factors affecting the environment and potential risks • Effectively monitor, analyze and assess emission and energy consumption performance

Environmental, Social and Governance Report

2.3 Analysis of Material ESG Issues

As the Company's business continues to evolve in a fast changing external environment, it is necessary to determine the priorities of the contents and various issues addressed by the ESG report for the year by identifying and prioritising ESG issues material to Zhongzhi Pharmaceutical through stakeholder engagement and materiality analysis during the year, in order to respond to the concerns of stakeholders. By taking into account our development strategy, the approach of Zhongzhi Pharmaceutical to corporate social responsibility and the outcome of stakeholder communication, we have shortlisted the following 20 issues of most concern to our stakeholders, and then prioritised them based on their materiality to stakeholders and the Company.

Table 3 Zhongzhi Pharmaceutical's Material ESG Issues for 2018

Issues of high materiality	1	Product quality and safety
	2	Occupational health and safety
	3	Compliant operation
	4	Protection of intellectual property rights
	5	Anti-corruption
	6	Information security and transparency
Issues of medium materiality	7	Talent attraction and retention
	8	Prevention of child and forced labour
	9	Employee training and development
	10	Ecological environment protection
	11	New product research and development
	12	Energy conservation
	13	Supplier management
	14	Waste management
	15	Emission management
	16	Water conservation
	17	Packaging materials management
	18	Community engagement and contribution
Issue of low materiality	19	Relationship with government
	20	Greenhouse gas emissions

ZHONGZHI PHARMACEUTICAL'S ESG REPORTING ISSUES MATERIALITY MATRIX FOR 2018

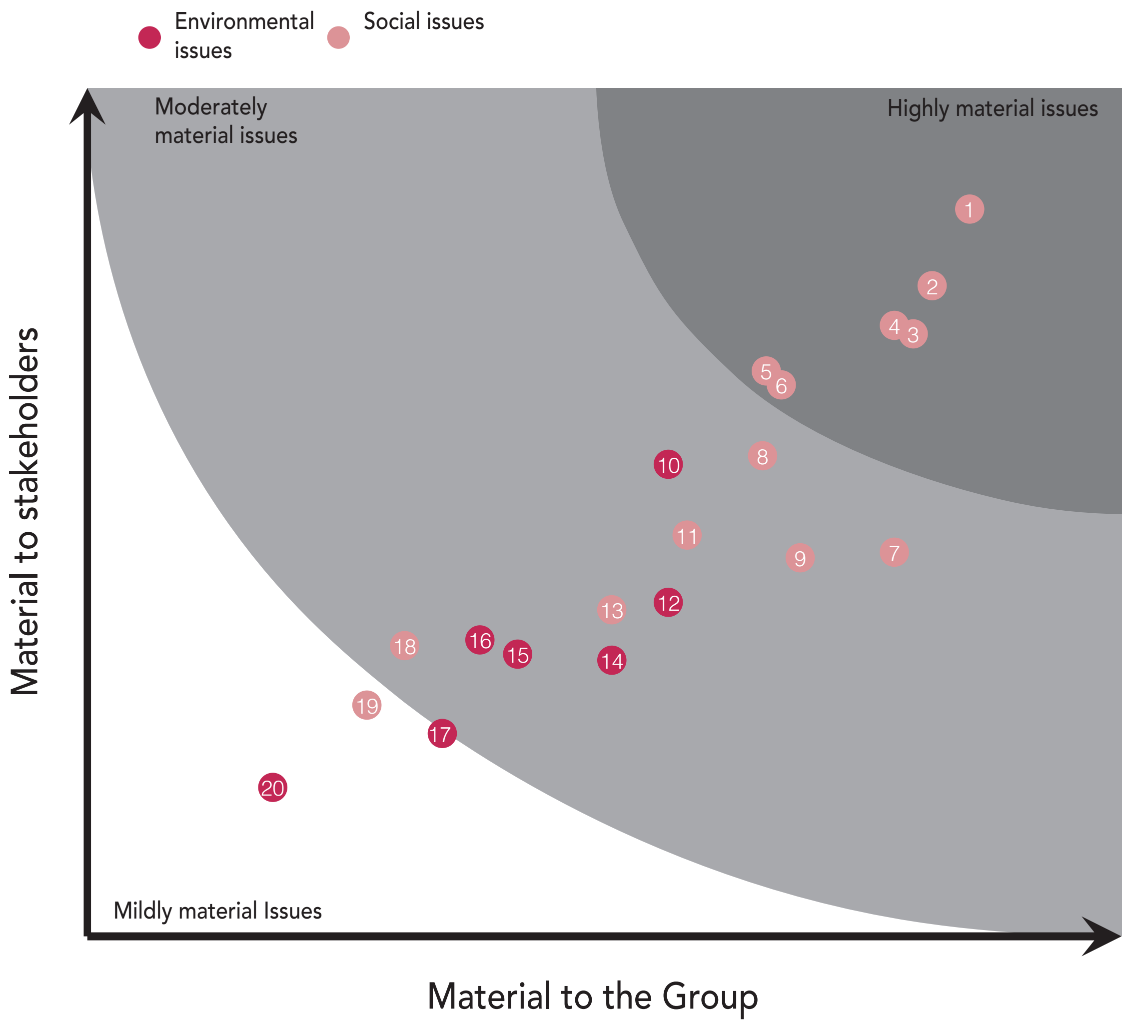


Chart 1 Zhongzhi Pharmaceutical's ESG Materiality Matrix for 2018

Environmental, Social and Governance Report

3. GREEN OPERATION

Zhongzhi Pharmaceutical upholds the philosophy of green operation and strictly complies with applicable laws and regulations on environmental protection, while regularly tracking our compliance with the requirements and robustly controlling risks in environmental protection compliance. We have established a comprehensive environment management system to quantify and monitor our emissions and usage of resources under an effective organizational and information framework. We continue to improve our environmental performance by carrying other dedicated projects. In 2018, the Chinese Medicine Herb in Pieces Co., Ltd. under the Group renewed its certification under the ISO14001 environment management system, improving the overall environmental management standard of the Group.

3.1 Green Production

The Group constantly enhances green production to establish itself as a green enterprise through improving system and framework development, refining environment information management and raising staff awareness of environmental protection.

3.1.1 Emission management

The Group puts strong emphasis on the environmental impact caused by its production process. In compliance with laws and regulations such as the Environmental Protection Law of the People's Republic of China and the Administrative Measures on Environmental Protection for Pharmaceutical Industry, we have formulated and implemented the "Environmental Protection Management System of Zhongzhi Pharmaceutical Company". All subsidiaries are required to develop their own detailed policies including the Sewage Discharge Management System, Gas Emission Management System and Solid Waste Management Measures in line with their own production processes and compliance requirements on environmental protection. We regularly assess the suitability of our environmental policies in view of the compliance requirements in the places where we operate and amend them where necessary. Zhongzhi Pharmaceutical is committed to reducing the waste pollution to the surrounding ecological environment, and ensuring that the impact of production and operation activities on the environment is minimized.

Overview of new environment management systems of Zhongzhi Pharmaceutical in 2018	
Sewage Discharge Management System	**Gas Emission Management System**
• Environmental impact risk evaluation is required for all construction and technical alteration projects related to sewage discharge • Sewage treatment facilitation must be maintained by qualified employees regularly as evidenced by documents • Anyone who fails to effectively comply with the requirements will be subject to punishment.	• Dedicated persons shall be appointed to manage gas emission and equipment maintenance • Packaging and storage environment for volatile chemicals shall be managed strictly. • Qualified agencies shall be engaged to monitor the gas emission of the Company • Anyone who fails to effectively comply with the requirements will be subject to punishment.

Environmental, Social and Governance Report

Gas emission management

The Group's gas emissions mainly come from organized emission arising from the operation of gas boilers. Key controlled emission metrics include nitric oxide, sulfur dioxide and particulate matters. We conduct regular repair and inspection on our boilers and related equipment, as well as environmental protection facilities, and have engaged a qualified third-party testing firm to monitor our gas emission, ensuring that they meet the standard. In 2018, Honeson Pharmaceutical Co., Ltd. under the Group replaced biomass fuels with natural gas, leading to a decrease of nearly 80% in particulate matter emission compared with that in 2017.

Sewage discharge management

The Group's sewage is generated mainly from the production of Chinese patent medicine and decoction pieces products and equipment maintenance, and discharged into the municipal drainage pipeline after being treated in the sewage treatment facility located in the factory. Then, it is further treated through the municipal sewage treatment system to further mitigate its impact on the environment. In accordance with the Water Pollution Prevention Law of the People's Republic of China and requirements the Sewage Discharge Management System, we make detailed records on the daily operation and maintenance of sewage treatment facility and conduct discharge examination each year. In case of equipment failure or emergency, our operators will take corresponding steps pursuant of the Environmental Protection Emergency Plan to avoid or mitigate water pollution.

We are driving the upgrade of our environmental facilities for sewage treatment. In 2018, the Group completed the optimization project for the sewage treatment system of the decoction pieces subsidiary, introducing industry-leading processes, while preparing for a number of projects designed to upgrade and transform sewage treatment equipment or pipelines.

Solid Waste management

In accordance with the Law of People's Republic of China on the Prevention and Treatment of Solid Waste Pollution to Environment, the National Hazardous Waste Directory and other local regulations and industry standards, Zhongzhi Pharmaceutical has formulated various policies including the Solid Waste Management Measures, to enable systematic management of wastes, which are classified as hazardous or non-hazardous, generated from research, production and office operation.

Hazardous wastes generated by the Group mainly include waste liquids from laboratory and reagents as well as waste medicines. Pursuant to the Pollution Control Standard for Hazardous Waste Storage of China and other rules, we have set up storage areas for hazardous wastes and prominent hazard warning signs, appointed dedicated personnel who are responsible for the storage, transport, handling and contingency management of hazardous wastes, and conducted prudent review and filing of important documents such as disposal contracts and transfer notes of hazardous wastes.

Non-hazardous wastes are classified as recyclable or non-recyclable. Recyclable wastes such as used cans, used corrugated paper are recovered by recycling agencies regularly, while non-recyclable wastes will be stored centrally and disposed of periodically.

Environmental, Social and Governance Report

Table 4 List of Emissions

Type of Emissions	Name	Unit	2018	2017
Waste gas and water emissions produced in the process of operation	NO_X	Tonne	2.94	2.19
	SO_2	Tonne	0.15	0.59
	PM	Tonne	0.10	0.47
	Chemical Oxygen Demand (COD)	Tonne	8.10	7.65
	Ammonia nitrogen	Kilogram	102	19.19
	Waste water from production	Tonne	161,673	156,592
	Office and domestic waste water	Tonne	24,845	21,111
Emission quantity of greenhouse gases	Emission quantity of greenhouse gases generated from combustion of fossil fuels	TCO_2e	2,654.27	256.99
	Emission quantity of greenhouse gases generated from consumption of power and steam	TCO_2e	10,558.31	8,196.50
	Total emission quantity of greenhouse gases	TCO_2e	13,212.58	8,453.49
	Total density of greenhouse gases	TCO_2e/output value (RMB in ten thousand)	0.54	0.36
Hazardous wastes quantity	Waste liquids from laboratory	Tonne	4.12	3.55
	Waste medicines	Tonne	1.19	0.30
	Other hazardous wastes	Tonne	0.29	0.80
	Total quantity of hazardous wastes	Tonne	5.60	4.64
	Total density of hazardous wastes	K.g./output value (RMB in ten thousand)	0.22	0.20
Non-hazardous wastes quantity	Office and domestic wastes	Tonne	221.29	213.05
	Discarded packaging materials	Tonne	46.50	34.66
	Wastes containing Herb residues	Tonne	744.80	902.15
	Other general industrial wastes	Tonne	1.04	2.00
	Total quantity of non-hazardous wastes	Tonne	1,013.63	1,151.86
	Total density of non-hazardous wastes	Tonne/output value (RMB in ten thousand)	0.039	0.049

Environmental, Social and Governance Report

3.1.2 Resource utilization

Energy conservation

Zhongzhi Pharmaceutical places strong emphasis on efficiency of resource utilization and energy conservation and emission reduction by continuously optimizing the establishment of relevant systems. It improves energy efficiency and reduces greenhouse gas emission through day-to-day lean management and implementation of transformation projects for energy conservation. The "Workplace Safety Management System of the Zhongzhi Pharmaceutical Group" provides that routine inspections must incorporate examinations of equipment operation, lighting management, pipeline closure and other aspects, to avoid energy waste. Workshops of each subsidiary embed energy management in safety inspection and energy-consuming equipment maintenance in line with their own circumstances.

For 2018, the Group's total energy consumption was 31.49 GWh, up approximately 55% from 2017, mainly due to:

- **Increased capacity:** the Chinese Medicine Herb in Pieces Co., Ltd. significantly increased its capacity in the year by 30% compared with 2017
- **Additional power-consuming areas and equipment:** Caojinghua Building was put into trial production in August 2018, where the commissioning and operation of the refrigerated storage led to increased overall energy consumption.

To reduce energy consumption, we intend to formally implement the "Plan for Cost Reduction and Efficiency Gain through Equipment and Facility Management of Zhongzhi Pharmaceutical Group" from March 2019", which aims to cut power consumption per unit of capacity by 10-15% compared with 2018 by making various improvements such as adopting energy-conserving equipment and electrical appliances, switch to energy-conserving technology, promoting power saving in offices, reasonable production arrangement and centralized production.

Water conservation

All subsidiaries of Zhongzhi Pharmaceutical consume water in the process of production and office work. The Environmental Protection Management System of Zhongzhi Pharmaceutical Group encourages reasonable utilization and recycling of water to continuously improve water utilization efficiency. By way of recycling water used for cleaning equipment for example, production units continue to reinforce staff awareness of water-saving. In 2018, the Group's density of water consumption was lower than that of 2017.

Packaging materials usage reduction

To ensure the quality of our diversified products, the Group uses packaging materials including composite membrane, paper materials and plastics. Without prejudice to product storage, Zhongzhi Pharmaceutical continues to upgrade its packaging process to reduce usage of packaging materials and printing ink, and to mitigate the impact on environment throughout the product life cycle.

Environmental, Social and Governance Report

Table 5 List of Resource Consumption

Type	Name	Unit	2018	2017
Fossil fuel	Gasoline	Liter	66,013	57,521
	Diesel	Liter	29,305	25,606
	Natural gas	m3	1,091,276	499,779
Purchased power	Outlet power consumption	KWh	4,755,546	3,001,996
	Office power consumption	KWh	1,645,702	1,211,585
	Power consumption in production	KWh	10,330,575	8,627,537
	Total power consumption	KWh	16,731,824	12,841,118
Purchased steam	Steam	Tonne	3,440	1,268
Total energy consumption		GWh	31.49	20.33
Density of total energy consumption		MWh/output value (RMB in ten thousand)	1.22	0.86
Water resource	Office and domestic water consumption	Tonne	33,852	29,276
	Water consumption for production	Tonne	176,016	174,862
	Total water consumption	Tonne	219,827	204,138
	Density of water consumption	Tonne/output value (RMB in ten thousand)	8.5	8.6
Packaging materials	Metal	Tonne	1,079.19	845.31
	Plastics	Tonne	504.23	745.58
	Paper materials	Tonne	1,137.4	1,112.3
	Composite membrane	Tonne	372.54	352.47
	Total consumption of packaging materials	Tonne	3,093.38	3,055.66
	Density of packaging material consumption	Tonne/output value (RMB in ten thousand)	0.12	0.13
Herbs	Raw herbal medicinal materials	Tonne	1,810	2,306

3.2 Protection of Ecological Environment

As a responsible green enterprise, Zhongzhi Pharmaceutical always strives to balance the corporate development and the sustainable social development. We identify the possible impact of our own activities, products and services on the ecological environment through a range of systematic procedures, while identifying, monitoring and reviewing stakeholders' expectations for ecological environment protection via clear internal division of duties. We have formulated and implemented the "Environmental Protection Emergency Plan", which seeks to minimise the negative impact of any accident occurring in production on the ecological environment.

The Group is also committed to the development of standardized plantation bases for Chinese medicine herbs, in order to develop Chinese medicine resources while contributing to biodiversity protection.

4. EMPLOYMENT

Zhongzhi Pharmaceutical adopts the talent strategy of "diversified recruitment on merit" and promotes "people-oriented" personalized management. All types of talents are provided with vast development opportunities through a combination of protection of staffs' interests, provision of staff training and staff care.

4.1 Protection of Staffs' Interests

4.1.1 Equal employment

Zhongzhi Pharmaceutical regards human resources as the utmost resource by delivering systematic and formal optimization management for resource personalization and revitalization. The Group strictly complies with labour laws and regulations promulgated by national and local government, and formulates and implements various systems, such as the "Human Resources Management System", which sets requirements in respect of employees recruitment, appointment, promotion, termination, staff training, code of conducts, working hours, performance appraisal, benefits packages, diversification and anti-discrimination, in order to fully achieve the talent strategic objectives of the Company.

During the year, we set higher requirements for candidates' degrees in recruitment to better align our workforce to the Company's future development. We continue to apply the double examination principle, which is that all of the recruitment shall be double checked by the department where the staff works in and the human resources department so as to ensure that the recruited employees have the skills required for the position and behave as required under the Company's Staff Code of Ethics. Besides, employment contracts are entered into between the Company and its employees after negotiation, to protect the rights and interest of both parties. The Company also manages the exits of its employees by setting forth exit approval procedures in our internal system.

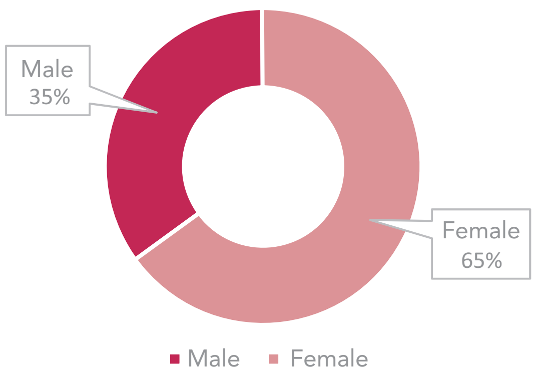
The Company has made clear provisions for new hire evaluation and employee rehiring. The Management Rules on the Confirmation of Probation for New Employees of the Group (2018 Trial) is designed to govern the management process of the confirmation of probation for new hires with comprehensive evaluations on their suitability for the job, together with support for employees to swiftly adapt to their job recruitment and corporate culture. The Company has formulated the Management Rules on Employee Rehiring (2018 Trial) to govern the rehiring mechanism for retirees and fully protect their lawful interests, helping them to comfortably make the most of their advantage in experience for the Company.

The Group adheres to upholding the principles of justice, fairness and openness, and will not discriminate any employee based on their social identity, such as ethnicity, race, nationality, religion, gender, age, sexual orientation, political factions and marital status, when it comes to their employment, remuneration and promotion. The Company strictly complies with the Labour Law, the Employment Contract Law and other laws of the People's Republic of China, and during the reporting period there is no non-compliance in relation to default in compensation payment or breach of the minimum wage standard. The Company also strictly complies with the "Provisions on the Prohibition of Using Child Labour" issued by the State Council with stringent scrutiny of candidate identity during recruitment. In case the Group discovers the employment of child labour, the child labour would be sent to his/her original place of residence and handed over to their parents or other guardians by the relevant authorities. In summary, Zhongzhi Pharmaceutical did not have any non-compliance or complaint related to human rights or labour practice with a significant impact on the Group during the reporting year.

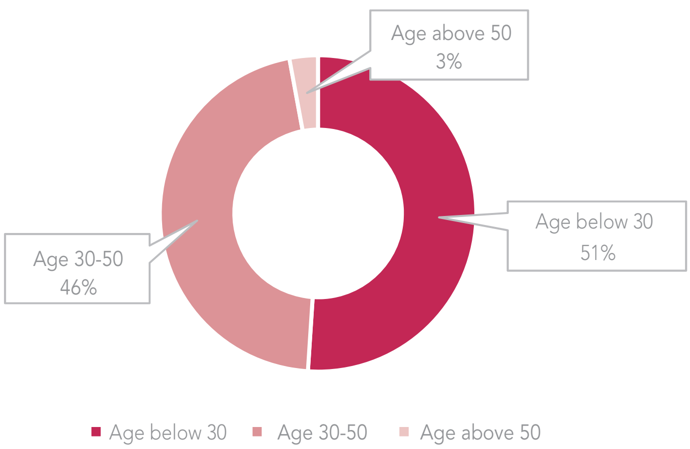
Environmental, Social and Governance Report

By 31 December 2018, the total number of employees is 3,398 (2017: 3,231), which is shown in the following charts by gender and age groups. The annual turnover rate is 34.08%** (2017: 26.63%).

Total number of employees by gender



Total number of employees by age



4.1.2 Protection of remuneration and benefits

To regulate matters regarding the attendance and leave and provide basis for entitlement to remuneration and benefits, the Company formulated policies such as the Attendance Management System and the Remuneration Structure Management Methods, effectively safeguarding employees' interests. The policies of the Company expressly require that the staff remuneration comprises of basic salary, and other allowances, commissions, bonuses and contributions to the 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 provided our staff with various holidays and benefits, such as paid holidays, social and commercial insurance, housing funds, corporate annuity, annual body check, education, and continuing education opportunities.

** Turnover rate is calculated as: number of leavers for the year / (total number of employees at the beginning of the year + total number of joiners for the year)*100%

4.1.3 Protection of safety and health

Zhongzhi Pharmaceutical consistently improves workplace safety conditions as the foundation for safeguarding the occupational health of employees.

Safe production

The Group strictly complies with the "Production Safety Law of the People's Republic of China" and formulated the Safety Standard Document. Under the document, the Group requires that production areas should be designed reasonably to separate hazardous operating area from non-hazardous ones, and that alarm systems are installed, emergency plans are formulated, on-site emergency appliances are set and necessary venting areas are in place, so as to provide work environment and conditions which meet the occupational health requirements.

The Group's annual training plan provides that the employees shall participate in the study of safety rules regularly and shall conduct equipment and workplace safety checks, and take part in self-help training courses and crisis rehearsal as well. The Company also purchases accident insurance for staff.

In 2018, the total days of common work injury related leave taken by the employees of the Group were 592 (2017: 372), there were 21 times (2017: 15 times) of common work injury incidents, mainly including collisions and minor cuts. There was neither serious nor fatal incident.

In view of the increase in work injury incidents during the year, we carefully reviewed all historical incidents and prepared targeted thematic safety training materials for conducting safety training specifically on work injuries among employees across the Company. Moreover, we require all departments and groups to highlight safety-related matters at weekly and monthly meetings to enhance staff awareness of safety, in an effort to achieve the goal of decreased work injury incidents for 2019 as compared with that of the year.

Case: Dedicated Training on Safe Enterprise
On 24 December 2018, Honeson Pharmaceutical Co., Ltd. Invited experts from the Guangdong Provincial Safety Standardization Committee to provide a dedicated training program entitled "Safe Enterprise", covering HSE (Health Safety Environment) management concept, safety emergency measures, to enhance the safety awareness and knowledge of staff on site.

Occupational health

The Group is dedicated to the protection of the health and related rights and interests of employees by mitigating occupational hazards and preventing occupational diseases. According to the Law on the Prevention and Control of Occupational Diseases of the People's Republic of China, the Management Rules of Occupational Health and other laws and regulations, we have formulated the Management System of Corporate Potential Occupational Hazards, performing regular review of causes of occupational hazards. In addition, the Company arranged for relevant personnel to have professional medical check, and those in special positions shall conduct special medical check at the Disease Control Center or the approved and recognized hospitals, and the result of the medical check shall be included in the "Occupational Health Monitoring File".

Environmental, Social and Governance Report

In accordance with the Management Rules of Occupational Health, We have prepared labor protection articles such as anti-static clothing, anti-dust respirators, sterilized gloves and others for every position in workshop, while requiring the department which generates dust to strictly manage all dust-generating equipment and opening and closing of dust source points. Warning signs were posted in obvious workplaces for the operational positions that are vulnerable to occupational diseases as a reminder for the threat imposing by such diseases.

To strengthen staff awareness of occupational health and safety, Zhongzhi Pharmaceutical makes use of both internal and external resources to conduct a range of occupational health training activities, helping employees protect their own interests and maintain mental and physical health.

Case: Training on Occupational Disease Protection Knowledge

On 6 July 2018, the Group organized a training session on the protection against occupational diseases by inviting professional physicians to provide detailed explanation on triggers of occupational diseases, such as high temperature, dusts and noises, in selected positions and how to protect against them.

Case: Mental Health Training "Learn Some Psychology"

On 22 June 2018, Zhongzhi Pharmaceutical invited experts from Zhongshan Huixin Counselling Service to host a seminar for employees under the theme of "learn some psychology to make family life more harmonious". More than 20 employees received professional education on mental health and had learned how to better take on family responsibility and achieve work-life balance.

4.2 Training and Development

4.2.1 Staff training

Zhongzhi Pharmaceutical values the improvement in the professional quality of staff and provides a comprehensive training system for employees to maintain occupational and professional competitiveness in support of its long-term development. The Company has formulated, among others, the Management System on Training, the Training Structure and Plan, adopted diversified training opportunities, including corporation-level training, department training, external training, orientation training, transfer training, promotion training, special work training, and other specific training, while encouraging employees to take further education in pursuit of higher degree and professional title.

Zhongzhi Pharmaceutical recognises corporate culture as the source of cohesion and solidarity for all staff, as well as their spiritual pillar. In 2018, we formulated the Corporate Culture Training System of the Group Companies, under which mid-level and senior management will conduct training on corporate culture each month, to help employees fit into the work environment quickly and enhance their sense of belonging. In the meantime, the Group strengthened training and education for the management team by engaging external experts or professors from universities to give four lectures per quarter, inspiring mid-level and senior management to innovate management ideas and boost their management capability.

During the year, each of our staff across Zhongzhi Pharmaceutical received approximately 73 training hours on average.

Support for Preparing for Licensed Pharmacist Examination

Certification represents effective recognition of professional standard. Employees are encouraged to obtain certification such as licensed pharmacist to enhance both personal and team competitiveness. We look into employees' interests for certification and engage external training providers to support them with learning and exam preparation.

Case: "Multiple Roles" Initiative for Front-line Production Employees of Honeson Pharmaceutical
To increase manpower utilization and production efficiency, and gradually achieve the management goal of "individual employee taking multiple roles", Honeson Pharmaceutical has formulated the Skill Rating Methods for Production Staff (2018), and rated the skill levels of production staff in October 2018. Based on the number of roles for which an employee is qualified, he or she is rated as Level 1, 2 or 3 and awarded a skill level certificate, with a view to motivating key employees to lead all staff to grow.

4.2.2 *Occupational development*

The Company adopts the principle of the "Integration of uniform plan, personnel leveling and diversification of methods with supervision control", encouraging employees to obtain occupational development opportunities through outstanding performances and work performances. On a semi-annual basis, we will evaluate the performance of managerial and technical employees, and offer promotions based on their performance. The Company has formed a talent pipeline program, conducted selection and evaluation for all the classes of position, so as to optimize human resource distribution and internal promotion, and train employees to become leaders of respective fields.

4.2.3 *Staff care and communication*

By putting in place various people management policies for staff care, and hosting a wide range of activities, such as garden party, annual tour and birthday gifts, the Group aims to create a harmonious and friendly workplace atmosphere and an active workplace environment for employees.

We have formulated the Management Procedures of Staff Whistle-blowing and Complaints to provide employees with communication and feedback channels such as regular staff and department meeting, internal publication and bulletin board, intranet communication, while conducting employee satisfaction survey to understand their needs and facilitate democratic management.

Case: Group Outreach Activity
On 26 May 2018, all management members of the Company traveled to Wuguishan for the one-day group outreach activity, where senior managers reinforced their time management, division of duty, communication and coordination and empathy thinking in various competitions, which will be applied to the operation and management of the Company.

Case: Icy Moon-cakes to Celebrate Mid-autumn Festival
On 14 September 2018, to celebrate the Mid-autumn Festival, Zhongzhi Pharmaceutical hosted an icy moon-cake making activity, allowing 160 staff to make their own moon-cakes and feel the care of the Company.

Environmental, Social and Governance Report

5. SUPPLIERS MANAGEMENT

5.1 Appraisal and Review of Suppliers

Zhongzhi Pharmaceutical upholds the procurement principle of "quality first", ensuring the procured materials satisfy the requirements of the Group. According to the Pharmaceutical Operation Quality Management Standard and "GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province", the Group has formulated the Management Regulations on Suppliers to appraise suppliers in terms of qualification, environmental safety and information access. In 2018, Zhongzhi Pharmaceutical included service providers and distributors in its share option scheme to recognise and reward their contributions to the Company's growth and development, thus reinforcing the relationship between the Company and service providers and distributors.

5.1.1 Stringent assessment to ensure material quality

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", and the pharmaceuticals registration certificates, drugs packaging certificates, quality standards and verification standards for relevant materials.

To ensure the quality and safety of medicine and other medical products are up to standard, the Company conducts quality assessment on materials and makes objective evaluation of suppliers in consideration of factors such as quality risks for pharmaceuticals, materials usage and the extent of materials' impacts on pharmaceutical quality. We will include those qualified suppliers into the list of qualified suppliers, and specify the permitted scope of materials supply of each supplier, so as to ensure that raw materials procurement is in line with the internal standards of the Company. Any pharmaceuticals or materials found to be sub-standard will be rejected and returned to the suppliers.

5.1.2 Support for accountability to drive common development

Zhongzhi Pharmaceutical supports the information-based operation of suppliers and builds a sustainable supply chain by strengthening the assessment of aspects including environmental risks and operational integrity of suppliers.

Environmental risk control: We perform environment evaluation on suppliers in the process of appraisal and sign environmental protection agreements with them to improve the management standard of environmental risks for our supply chain.

Operational integrity assessment: The Group implements disciplinary management on suppliers, which are required to sign an integrity agreement covering operation with integrity and self-discipline. Bribery of any kind is strictly prohibited in procurement.

Information management upgrade: In 2018, Zhongzhi Pharmaceutical updated the supplier management section on the SAP system to increase the requirements for information management of suppliers, in a bid to drive them to review and improve their management standard of information system and boost the information-based development of supply chain.

5.2 Geographical Distribution of the Suppliers

Zhongzhi Pharmaceutical selects quality suppliers from all over the country to ensure product quality. As of 31 December 2018, Zhongzhi Pharmaceutical had a total of 730 suppliers all from Mainland China, of which 509 were located in Southern China and the remaining 221 in the rest of China.

6. PRODUCT RESPONSIBILITY

6.1 Products Quality Assurance

6.1.1 Quality management system

Zhongzhi Pharmaceutical is mainly engaged in the research, development, production and sales of Chinese patent medicines and decoction pieces and has established a sound quality management system for both Chinese herb plantation bases and decoction pieces production units.

For Chinese herb plantation bases, the Company has formulated robust management systems, quality standards and production standard operating procedures, including the Quality Standard for the Ecological Environment in Standardized Chinese Herb Plantation Bases, the Selection and Assessment Criteria for Standardized Chinese Herb Plantation Bases and the Management System of Production and Operation for Standardized Chinese Herb Plantation Base, in order for the standardized management featuring centralized seedling planting, centralized cultivation, centralized management and consistent standards.

On top of that, the Company has established a management system of quality trace-ability throughout the production process of Chinese medicines. In accordance with the Technical Guidelines for the Development of Ecological and Traceable Bases of Chinese Decoction Pieces, we have formulated the Herbs Numbering Management System and the Assessment Criteria for the Chinese Herb Ecological and Traceable Bases of Zhongzhi Pharmaceutical Group, to ensure all operations in herb plantation are based on standards and documented with strict control over hazardous residues such as pesticide, sulfur dioxide and heavy metals. In this way, the authenticity, genuineness and safety of raw herbal medicinal materials used for Zhongzhi Chinese herb decoction pieces and other products can be secured from the source.

Regarding the production of Chinese herb decoction pieces, the Company strictly complies with the Medicine Management Law of the People's Republic of China, the Pharmacopoeia of the People's Republic of China, the Administrative Measures for Drug Registration, the Administrative Measures for Supervision on Drug Production, and other related laws and regulations. Based on the Quality Control Rules for Drug Production and the Pharmaceutical Operation Quality Management Standard, we have formulated an internal quality control system comprising the Management Standard for Medicine Instruction and Label Filing, the Management of Pharmaceutical Inspection and Acceptance, the Management Standards on Recall, Rework, Reprocessing and Re-packaging and other rules and statues, to ensure compliant operations at each stage of medicine production, storage and transportation.

Environmental, Social and Governance Report

By reference to the GMP management norms, the Company continues to develop its quality management system. In October 2018, Honeson Pharmaceutical, a manufacturing subsidiary of the Company, completed the renewal of GMP certification and received the new medicine GMP certificate.

Case: Self-check and Self-correction Practice Entitled "Lessons from Changchun Changsheng Problematic Vaccine Incident"

On 30 August 2018, the Company carefully listened to and learned from the lessons at the "Warning and Education Meeting on the Changchun Changsheng Problematic Vaccine Incident". On 6 September 2018, coupled with the GMP re-certification, the Company carried out a self-check practice, where the self-check group conducted a comprehensive review of the production quality management system and enterprise-wide operations against the Quality Control Rules for Drug Production. For issues identified, the group analyzed the cause and asses the risks and formulated relevant correction and prevention measures, which were implemented according to the plans.

6.1.2 Quality examination and products recall

Zhongzhi Pharmaceutical upholds the philosophy of "creating a healthy life through intelligent manufacturing", and is committed to providing quality products to customers. We strictly comply with the Administrative Measures for Supervision on Drug Production and the Administrative Measures for Drug Recalls. Pursuant to the Quality Control Rules for Drug Production and the Pharmaceutical Operation Quality Management Standard, we have formulated the Emergency Plan for Material Quality and Safety Incidents of Products, the Management System for Sub-standard Product Disposal, the Operating Procedures for Quality Control Standard of Returned Products, the Management of Drug Inspection and Acceptance and the Management of Drug Recalls, to ensure that the quality of medicines are secured through quality examination and that products can be traced and recalled in a timely manner in case of significant quality or safety incident.

For quality examination, the Company, led by the quality control department, conducts systematic sample checks on products against metrics including active content and heavy metal residual according to the Management of Drug Inspection and Acceptance as well as the GMP and GSP requirements. For sub-standard products identified in sample checks, handling measures such as destruction, recycling or rework will be adopted following adequate assessment of associated quality risk in accordance to the Management System for Sub-standard Product Disposal.

During the reporting period, the Company did not have any sold products that required a recall due to safety and health concerns.

6.1.3 After-sales services and privacy policy

Zhongzhi Pharmaceutical values the after-sales services for products and the protection of consumer privacy. Pursuant to laws and regulations including the Law on Protection of Consumer Interests, the Company has formulated various policies such as the Management of Consumer Complaints and the Management and Measures of Consumer Privacy Protection, to effectively protect the lawful interests and personal privacy of customers.

The Company adopts the "Proactive and Professional" approach to customer services to provide them with communication channels including service hotline, email box and official Weibo account, each with a dedicated department responsible for follow-up with customer feedback. Upon receipt of customer feedback, the competent department will communicate, classify, coordinate and deal with it according to the Standard Operating Procedures for Complaint Handling with reference to the Complaint Management Standard.

During the reporting period, we received 69 complaints on products and services, for which response were made to customers in line with relevant procedures.

Besides, we have printed product tracking codes on outer packing for search. Customers can enter the codes under the section headed "Quality Traceability" on the official website of Zhongzhi Pharmaceutical or scan the QR code with smart phone to access product information, enabling quality control and traceability of products during the whole journey.

Whole Journey Traceability System with QR Code

Zhongzhi Pharmaceutical has made a comprehensive upgrade to its product traceability system, allowing customers to access product traceability information, including the name, origin, planter, specie DNA report and plantation base photo of herbs used by products, by visiting our official website or using mobile devices. The traceability system allows us to "trace the source, track the whereabouts, control the process and maintain accountability" for the distribution of Chinese medicines, so as to deliver safe and reliable Chinese medicine to consumers.

Zhongzhi Pharmaceutical operates both chain pharmacies and e-commercial platform with possible access to personal data of end consumers. To protect consumers' personal data, we have formulated the Management and Measures of Consumer Privacy Protection. Regular training sessions are provided to employees to improve their legal and professional qualities, and all employees are required to keep consumer privacy in strict confidence with severe consequences for those responsible for illegal leakage of consumer private information.

6.2 Protection of intellectual property rights

Zhongzhi Pharmaceutical values technical innovation and has developed a range of distinct products with intellectual property rights owned by us. We have been granted 40 invention patents at home and abroad and developed more than 100 national and industrial standards, with core technology and products, such as Chinese medicine decoction pieces, leading domestic and foreign markets.

To protect our intellectual property rights, we have formulated the Requirements on Relevant Works on Confidentiality of Corporate Technologies according to the Patent Law of the People's Republic of China and the Law on Intellectual Property Rights of the People's Republic of China.

Environmental, Social and Governance Report

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 correlation 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; the applicant of the technology secret shall provide relevant advice.

We uniformly place confidential information into a specific storage upon confidentiality labeling, 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 or 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 valuation 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 cooperation and the contact with partners and exchange of information shall only be within the scope of technology cooperation.

- 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.

7. ANTI-CORRUPTION

Zhongzhi Pharmaceutical continues to promote operation with integrity and strictly complies with the Provincial Requirements for Prohibiting Commercial Bribery and other related laws and regulations. We have formulated the policies such as "Directors and Management's Code of Ethics", "Staff Code of Ethics", "Management Procedures of Staff whistle-blowing and Complaints", "Zhongzhi Pharmaceutical High-voltage Grid Commitment Letter" and "Integrity Policies", and the corruption behavior will be rigorously handled by the legal department and legal counsel. The Company communicates stringent anti-corruption and anti-fraud requirements to our staff, while providing them with whistle-blowing channels, so as to enhance corporate governance and internal control as well as safeguard the legal interests of the Company and shareholders.

Zhongzhi Pharmaceutical's Integrity Policies set out a range of requirements for business operation and employee behaviours:

- 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.

- 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. Cooperation 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 whistle-blowing mail box, telephone hotline and email, and strictly distinguish the responsibilities and division of labor for whistle-blowing information management and investigation. The usage of information and files shall undergo stringent approval procedures.

- 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.

No corruption litigation case was initiated against the Company or its employees for Zhongzhi Pharmaceutical during the reporting period.

Environmental, Social and Governance Report

8. COMMUNITY SUPPORT

Zhongzhi Pharmaceutical is committed to its social responsibility as its business continues to grow. We combine the performance of our corporate social responsibility with our strengths to launch various initiatives such as precise poverty alleviation through Chinese herb plantation, development of Chinese medicine talents and health and recreational activities, reinforcing the close relationship between the business and communities and supporting for the harmonious and sustainable development.

8.1 Precise poverty alleviation by developing specialty industry

8.1.1 Alleviating poverty in response to the State's call

In August 2017, the Ministry of Agriculture of China and five other departments and commissions including the State Administration of Traditional Chinese Medicine jointly issued the Notice Concerning the Issuance of the Action Plan for Poverty Alleviation by Developing Traditional Chinese Medicine (TCM) Industry (2017-2018), proposing to jointly facilitate precise poverty alleviation by leveraging on the strengths of the TCM industry with support from all parties involved.

Zhongzhi Pharmaceutical is of the view that the spirit and approach reflected by the Action Plan coincide with the Group's idea of developing the whole industry chain, which is to "build the TCM industry chain ecosystem with the TCM industry as the core to feedback TCM agriculture". Therefore, soon after the publication of the Action Plan, Zhongzhi Pharmaceutical took the lead to form the "Working Group for Precise Poverty Alleviation by Developing Authentic Herb Ecological Plantation Bases", with the Chairman as the team leader, deputy general manager and chief engineer Cheng Jin Le as the deputy team leader, and the TCM resources center team as members. It aims to coordinate resources to carry out a number of TCM poverty alleviation projects.

8.1.2 Developing specialty industry by matching resources

The "Precise Poverty Alleviation Project of the Development of Standardized Gastrodia Elata f.Glauca Plantation Base" executed in partnership with Zhaotong City, Yunan Province is a typical example of Zhongzhi Pharmaceutical's efforts in precise poverty alleviation. The Group invested RMB400,000 in Yizhu Village, Daguan County to carry out the "Precise Poverty Alleviation Project of the Development of Standardized Gastrodia Elata f.Glauca Plantation Base", with plans to build a standardized gastrodia elata f. glauca plantation base covering a site area of a thousand mu and lift a hundred professional planters out of poverty within three years.

Zhongzhi Pharmaceutical helps farmers to learn advanced herbs plantation technology, standardizes the plantation, processing, storage and transportation process of gastrodia elata f. glauca, expanding the local whole industry chain of gastrodia. It is expected to help local communities to shift from "external poverty alleviation" to "self-directed poverty alleviation", creating wealth with natural resources. In addition, we also help low-income families to earn more income by purchasing, processing and selling herbs farmed by them.

Environmental, Social and Governance Report

8.2 Development of pharmaceutical talents

TCM talents are vital to the revitalization of the TCM industry. In 2018, Zhongzhi Pharmaceutical leveraged on its influence to continue to help younger TCM talents grow and thrive through the "Caojinghua Charity Fund" and a range of distinct activities.

8.2.1 Caojinghua charity fund

In 2017, Zhongzhi Pharmaceutical initiated and established "Caojinghua Charity Fund". It has established a fund pool through cooperation with chain pharmacies and will draw down RMB0.37 from sales of every can of the "Caojinghua - Cell Wall Broken Herbs" product sold and deposit it into the fund pool, which is used for supporting employees of pharmacies in financial difficulties, providing famous teachers' lectures and other contents for the employees of pharmacies to grow in various respects. The Fund has formulated and implemented the Caojinghua Charity Fund Management Provisions in compliance with the Charity Law of the People's Republic of China and the Foundation Management Regulations of People's Republic of China. To ensure all donations are made to people in genuine needs, the application review and approval and other procedures are subject to stringent oversight. In 2018, Caojinghua Charity Fund donated a total of RMB215,900 to support 13 pharmacy employees in need jointly with 6 chain pharmacy enterprises.

8.2.2 Ace TCM pharmacist competition

To provide young TCM talents with exchange, demonstration and training opportunities, Zhongzhi Pharmaceutical joined hands with Chinese pharmacies to organise the first "Caojinghua Cup" Ace TCM Pharmacist Competition from April to October 2018. The event attracted extensive attention within the industry and received applications from more than 10,000 pharmacists during the audition phase. After quizzes, TCM identification and skill competition, 19 candidates won the title of ace pharmacist or outstanding pharmacist at last. They also won an opportunity to receive professional training in Macau University of Science and Technology, so that they can make greater contributions to the TCM industry.

Environmental, Social and Governance Report

9. APPENDIX I — LIST OF MAJOR ESG POLICIES AND REGULATIONS

This form is a review of the major ESG policies and the relevant laws and regulations that have a significant impact on Zhongzhi Pharmaceutical mentioned in the report, and is based on the 11 ESG issues listed in the Environmental, Social and Governance Reporting Guide.

ESG Issue	Policies	Laws and regulations
A1. Emissions	• Environmental Protection Management System of Zhongzhi Pharmaceutical Company • Exhaust Emission Management System • Wastewater Discharge Management System • Solid Waste Management Measures	• Environmental Protection Law of the People's Republic of China • Environmental Protection Tax Law of the People's Republic of China • Water Pollution Prevention Law of the People's Republic of China • Air Pollution Prevention and Control Law of the People's Republic of China • Law of People's Republic of China on the Prevention and Treatment of Solid Waste Pollution to Environment • Administrative Measures on Environmental Protection for Pharmaceutical Industry
A2. Use of Resources	• Workplace Safety Management System of the Zhongzhi Pharmaceutical Group • Power Facility Management Standard	—
A3. The Environment and Natural Resources	• Environmental Protection Management System of Zhongzhi Pharmaceutical Company • "Environmental Protection Emergency Plan"	• Environmental Protection Law of the People's Republic of China
B1. Employment	• Human Resources Management System • Human Resource Management System • Management Rules on the Confirmation of Probation for New Employees of the Group (2018 Trial) • Management Rules on Employee Rehiring (2018 Trial) • Attendance Management System • Remuneration Structure Management Methods	• Labor Law of the People's Republic of China • Employment Contract Law of the People's Republic of China • Social Insurance Law of the People's Republic of China
B2. Health and Safety	• Management Rules of Occupational Health • Safety Standard Document • Management System of Corporate Potential Occupational Hazards • High Voltage Grid Commitment	• Production Safety Law of the People's Republic of China • Law on the Prevention and Control of Occupational Diseases of the People's Republic of China • Social Insurance Law of the People's Republic of China
B3. Development and Training	• Management System on Training • Training Structure and Plan • 2018 Training Program • Corporate Culture Training System of the Group Companies • Skill Rating Methods for Production Staff (2018)	—
B4. Labour Standards	• Human Resources Management System • Human Resource Management System • Attendance Management System	• Labor Law of the People's Republic of China • Employment Contract Law of the People's Republic of China • Provisions on the Prohibition of Using Child Labour

Environmental, Social and Governance Report

ESG Issue	Policies	Laws and regulations
B5. Supply Chain	• Supplier Management Standard	• Pharmaceutical Operation Quality Management Standard • GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province
B6. Product Responsibility	• Quality Standard for the Ecological Environment in Standardized Chinese Herb Plantation Bases • Selection and Assessment Criteria for Standardized Chinese Herb Plantation Bases • Management System of Production and Operation for Standardized Chinese Herb Plantation Base • Technical Guidelines for the Development of Ecological and Traceable Bases of Chinese Decoction Pieces • Assessment Criteria for the Chinese Herb Ecological and Traceable Bases of Zhongzhi Pharmaceutical Group • Herbs Numbering Management System • Administrative Measures for Drug Registration • Administrative Measures for Supervision on Drug Production • Quality Control Rules for Drug Production • Pharmaceutical Operation Quality Management Standard • Management Standard for Medicine Instruction and Label Filing • Management of Pharmaceutical Inspection and Acceptance • Management Standards on Recall, Rework, Reprocessing and Re-packaging • Administrative Measures for Drug Recalls • Emergency Plan for Material Quality and Safety Incidents of Products • Management System for Sub-standard Product Disposal • Operating Procedures for Quality Control Standard of Returned Products • Management of Drug Inspection and Acceptance • Management of Consumer Complaints • Management and Measures of Consumer Privacy Protection • Complaint Management Standard • Standard Operating Procedures for Complaint Handling • Management and Measures of Consumer Privacy Protection • Requirements on Relevant Works on Confidentiality of Corporate Technologies	• Medicine Management Law of the People's Republic of China • Pharmacopoeia of the People's Republic of China • Law on Protection of Consumer Interests • Patent Law of the People's Republic of China • Law on Intellectual Property Rights of the People's Republic of China
B7. Anti-corruption	• Directors and Management's Code of Ethics • Staff Code of Ethics • Management Procedures of Staff whistleblowing and Complaints • Zhongzhi Pharmaceutical High-voltage Grid Commitment Letter • Integrity Policies	• Anti-unfair Competition Law of the People's Republic of China • Provincial Requirements for Prohibiting Commercial Bribery
B8. Community investment	• Caojinghua Charity Fund Management Provisions	• Charity Law of the People's Republic of China • Foundation Management Regulations of People's Republic of China

Environmental, Social and Governance Report

10. APPENDIX II — LIST OF ESG DATA

ESG Indexes		Unit	Data of 2018	Data of 2017
A. Environmental				
A1. Emissions				
A1.1	**The types of emissions and emissions data**			
	NO_X	Tonne	2.94	2.19
	SO_2	Tonne	0.15	0.59
	PM	Tonne	0.10	0.47
A1.2	**Greenhouse gas emissions and intensity**			
	Greenhouse gas emissions Scope 1	TCO_2e	2,654.27	256.99
	Greenhouse gas emissions Scope 2	TCO_2e	10,558.31	8,196.50
	Total greenhouse gas emissions	TCO_2e	13,212.58	8,453.49
	Greenhouse gas emission intensity	output value (RMB in ten thousand) TCO_2e	0.54	0.36
A1.3	**Hazardous waste produced**			
	Waste liquids from laboratory	Tonne	4.12	3.55
	Waste medicines (WH03)	Tonne	1.19	0.30
	Other hazardous waste	Tonne	0.29	0.80
	Total amount of hazardous waste discharged	Tonne	5.60	4.64
	Intensity of hazardous waste	Kilogram/output value (RMB in ten thousand)	0.22	0.20
A1.4	**Non-hazardous waste produced**			
	Office and domestic wastes	Tonne	221.29	213.05
	Discarded packaging materials	Tonne	46.50	34.66
	Wastes containing Herb residues	Tonne	744.80	902.15
	Other general industrial wastes	Tonne	1.04	2.00
	Total quantity of non-hazardous wastes	Tonne	1013.63	1,151.86
	Non-hazardous waste intensity	Tonne/output value (RMB in ten thousand)	0.039	0.049
A2. Use of Resources				
A2.1	**Total consumption of energy and energy intensity**			
	Gasoline	Liter	66,013	57,521
	Diesel	Liter	29,606	25,606
	Office power consumption	KWh	1,645,702	1,211,585
	Power consumption in production	KWh	10,330,575	8,627,537
	Outlet power consumption	KWh	4,755,546	3,001,996
	Power consumption in total	KWh	16,731,842	12,841,118
	Steam	Tonne	3,440	1,268
	Natural gas	m^3	1,091,276	499,779
	Biomass particle	Tonne	0	1,520.23
	Total energy consumption	GWh	31.49	20.33
	Density of total energy consumption	MWh/output value (RMB in ten thousand)	1.22	0.86
A2.2	**Water consumption and intensity**			
	Office and domestic water consumption	Tonne	33,852	29,276
	Water consumption for production	Tonne	176,016	174,862
	Total water consumption	Tonne	219,827	204,138
	Intensity of water consumption in total	Tonne/output value (RMB in ten thousand)	8.50	8.60
A2.5	**Usage amount of raw and auxiliary materials and packaging materials**			
	Packaging materials: Metal	Tonne	1,079.19	845.31
	Packaging materials: Plastics	Tonne	504.23	745.58
	Packaging materials: Paper materials	Tonne	1,137.4	1,112.3
	Packaging materials: Composite membrane	Tonne	37.54	352.47
	Packaging materials in total	Tonne	3,093.38	3,055.66
	Density of packaging material consumption	Tonne/output value (RMB in ten thousand)	0.12	0.13
A3.1	Raw herbal medicinal materials	Tonne	1,810	2,306

Environmental, Social and Governance Report

ESG Indexes		Unit	Data of 2018	Data of 2017
B. Social				
B1. Employment				
B1.1	**Total workforce by gender, employment type, age group and geographical region**			
	Total number of employees	Persons	3,398	3,970
Gender	Male	Persons	1,186	1,508
	Female	Persons	2,212	2,462
Age	29 and above	Persons	1,734	1,885
	30-49	Persons	1,565	1,942
	50 and above	Persons	99	143
Employment type	Senior management	Persons	45	N/A
	Intermediate management	Persons	181	N/A
	Non-management	Persons	3,172	N/A
B1.2	**Employees turnover rate**			
	Employees turnover rate in total	Percentage	34.08%	26.63%
Gender	Male	Percentage	44.93%	N/A
	Female	Percentage	27.95%	N/A
B2.Health and Safety				
B2.1	**Number of work-related fatalities**			
	Number of work-related fatalities	Persons	0	0
	Number of work injury	Incidence	21	15
B2.2	**Lost days due to work injury**			
	Days of common work injury	Day	592	372
B3. Development and Training				
B3.1	**The percentage of employees trained**			
	Total number of employees trained	Number of people	90,437	43,051
B3.2	**Training hours of employees**			
	Average training hours	Hour	73.81	30.94
Gender	Male	Hour	57.68	N/A
	Female	Hour	82.46	N/A
Employment type	Senior management	Hour	14.78	N/A
	Intermediate management	Hour	24.70	N/A
	Non-management	Hour	77.14	N/A
B5. Supplier Management				
B5.1	**Number of Suppliers**			
Region	South China	Number	509	507
	non-South China	Number	221	104
B6. Product Responsibility				
B6.2	**Number of products and service related complaints received**			
	Subject to recall due to safety reasons	Incidence	0	1
	Subject to recall due to safety reasons	Batch	0	20
	Other complaints related to products and service	Incidence	69	52
B7. Anti-corruption				
B7.1	Number of legal cases regarding corrupt practices		0	0
	Initiated or concluded legal cases regarding corrupt practices	Incidence	0	0
B8. Community Investment				
B8.2	**Resources contributed to the focus area**			
	Monetary donation	RMB10,000	21.59	29.57
	Value of goods donated	RMB10,000	27.70	7.9
	Number of volunteers	Number of people	235	278
	Volunteer hours	Hour	900	752

Environmental, Social and Governance Report

11. APPENDIX III — ESG INDEX OF THE STOCK EXCHANGE

Environmental, Social and Governance Areas, General Disclosures and KPIs			Corresponding section
Environmental			
A1: Emissions	General Disclosure		3 Green operation
	A1.1	The types of emissions and respective emissions data	3 Green operation
	A1.2	Greenhouse gas emissions in total and intensity	3 Green operation
	A1.3	Total hazardous waste produced and intensity	3 Green operation
	A1.4	Total non-hazardous waste produced and intensity	3 Green operation
	A1.5	Description of measures to mitigate emissions and results achieved	3 Green operation
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	3 Green operation
A2: Use of Resources	General Disclosure		3 Green operation
	A2.1	Energy consumption in total and intensity	3 Green operation
	A2.2	Water consumption in total and intensity	3 Green operation
	A2.3	Description of energy use efficiency initiatives and results achieved	3 Green operation
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	3 Green operation
	A2.5	Total packaging material used for finished products and with reference to per unit produced	3 Green operation
A3: Environment and Natural Resources	General Disclosure		3 Green operation
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	3 Green operation
Social			
B1: Employment	General Disclosure		4 Employment
	B1.1	Total workforce by gender, employment type, age group and geographical region	4 Employment
	B1.2	Employee turnover rate by gender, age group and geographical region	4 Employment
B2: Health and Safety	General Disclosure		4 Employment
	B2.1	Number and rate of work-related fatalities	4 Employment
	B2.2	Lost days due to work injury	4 Employment
	B2.3	Description of occupational health and safety measures adopted , how they are implemented and monitored	4 Employment
B3: Development and Training	General Disclosure		4 Employment
	B3.2	The average training hours completed per employee by gender and employee category	4 Employment
B4: Labour Standards	General Disclosure		4 Employment
	B4.1	Description of measures to review employment practices to avoid child and forced labour	4 Employment
	B4.2	Description of steps taken to eliminate such practices when discovered	4 Employment
B5: Supply Chain Management	General Disclosure		5 Supply Chain Management
	B5.1	Number of suppliers by geographical region	5 Supply Chain Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	5 Supply Chain Management
B6: Product Responsibility	General Disclosure		6 Product and Service
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	6 Product and Service
	B6.2	Number of products and service related complaints received and how they are dealt with	6 Product and Service
	B6.3	Description of practices relating to observing and protecting intellectual property rights	6 Product and Service
	B6.4	Description of quality assurance process and recall procedures	6 Product and Service
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	6 Product and Service

Environmental, Social and Governance Report

Environmental, Social and Governance Areas, General Disclosures and KPIs			Corresponding section
B7: Anti-corruption	General Disclosure		7 Anti-corruption
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	7 Anti-corruption
	B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	7 Anti-corruption
B8: Community Investment	General Disclosure		8 Community Support
	B8.1	Focus areas of contribution	8 Community Support
	B8.2	Resources contributed to the focus area	8 Community Support

Report of Directors

The Directors are pleased to present to the Shareholders the fourth annual report and the audited consolidated financial statements for the year ended 31 December 2018.

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.

BUSINESS REVIEW

The business review of the Group for the year is set out in the sections of Financial Summary, Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report and the paragraphs below.

The Group complies with the requirements under the Hong Kong Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. No important event affecting the Group has occurred since the end of the year.

KEY RISK FACTORS

The following lists out the key risks and uncertainties facing the Group.

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees, Customers and Suppliers

The Group recognises the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year.

The Group places great emphasis on working relationships with suppliers to meet our customers' needs in an effective and efficient manner. Our departments work closely with our suppliers to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

Report of Directors

Our major suppliers are generally providing materials for pharmaceutical production and had business relationship with the Group for over six years on average, which spreading over various regions, such as Northern China, Central China and Southern China.

The payment terms granted by suppliers were generally from telegraphic transfers before shipment to 120 days. The payables were usually settled within the credit period. Up to the date of this report, 85% of the trade payables to the major suppliers has been settled.

The Group is principally engaged in the pharmaceutical manufacturing in the PRC and the quality of the procured materials from the suppliers is important. In order to alleviate quality risks for pharmaceuticals produced, the Group has formulated the "Management Regulations on Suppliers" based on the "Pharmaceutical Operation Quality Management Standard" and the "GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province", which regulates and makes specific requirements in respect of the supplier assessment methods, audit methods and types as well as the removal and replacement procedures for unqualified suppliers, and ensured the legality and safety of the operation of the Group.

During the Reporting Period, the Group did not have any significant disputes with our major suppliers.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

Our major customers are wholesale customers and the trading terms with them are mainly on credit. The credit period is generally not more than three months for major customers. As to new customers, payment in advance is normally required. The years of business relationship with the Group ranged from an average of four to six years. Up to the date of this report, 87% of the trade receivables of the major customers has been settled.

In order to alleviate the credit risk, the Group trades only with recognized and creditworthy third parties and 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.

During the Reporting Period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any major product dispute with our customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 86 to 169.

The Board recommend the payment of a final dividend of HK2.0 cents per ordinary share (2017: HK2.2 cent) and a special dividend of HK1.6 cents per ordinary share (2017: HK1.709 cents) for the year ended 31 December 2018 to shareholders on the registrar of members on 27 May 2019, which will be subject to the approval of the Company's Shareholders at the forthcoming AGM. Details are set out in note 12 to the consolidated financial statements. The final dividend and special dividend will be payable on or around 10 June 2019.

Report of Directors

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 10 May 2019 to Friday, 17 May 2019, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrar Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Thursday, 9 May 2019.

To determine the entitlement of the proposed final dividend and special dividend, the register of members of the Company will be closed from Friday, 24 May 2019 to Monday, 27 May 2019, both days inclusive, during which period no transfers of shares shall be effected. In order to be eligible for receiving the final dividend and special dividend, all completed transfers forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrar Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Thursday, 23 May 2019.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 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 29 to the consolidated financial statements.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in the note 40 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Report of Directors

DISTRIBUTABLE RESERVES

As at 31 December 2018, 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 RMB264.9 million, of which RMB26.5 million has been proposed as final dividend and special dividend for the year after the Reporting Period. The amount of RMB264.9 million includes the Company's share premium and retained profits at 31 December 2018, 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 RMB0.2 million during the Reporting Period (2017: RMB0.1 million).

MANAGEMENT CONTRACTS

Save as disclosed in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

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 10.1% and 31.6% (2017: 6.9% and 28.6%) 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

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. Lai Ying Feng (appointed on 14 May 2018)
Mr. Cao Xiao Jun
Mr. Cheng Jin Le
Ms. Mou Li (retired on 14 May 2018)

Non-executive Directors
Ms. Jiang Li Xia
Mr. Yang Ai Xing (appointed on 14 May 2018)

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

In accordance with article 108(a) of the Articles, Mr. Cheng Jin Le, Ms. Jiang Li Xia and Mr. Ng Kwun Wan retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with article 112 of the Articles, Mr. Lai Ying Feng and Mr. Yang Ai Xing will hold office only until the forthcoming annual general meeting of the Company 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 15 to 19 of this annual report.

Report of Directors

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and the non-executive Director has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter (except for Mr. Cheng Jin Le whose contract commenced on 19 September 2016, Mr. Lai Ying Feng whose contract commenced on 14 May 2018 and Mr. Yang Ai Xing whose contract commenced on 14 May 2018) and each of the independent non-executive Directors has enter into a service agreement with the Company for an initial term of three years commencing from the Listing Date. All the service agreements may be terminated by either party by giving to the other party not less than three months' prior notice in writing.

None of the 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.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transaction, arrangement or contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2018, 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 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:

Report of Directors

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

Name of Director	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 the issued share capital of the Company
Mr. Lai Zhi Tian ("Mr. Lai") (Note 1)	1,176,000	471,105,000 (Note 2)	42,240,000 (Note 3)	514,521,000	61.25%
Ms. Jiang Li Xia ("Mrs. Lai")	—	42,240,000 (Note 3)	472,281,000 (Note 2)	514,521,000	61.25%
Mr. Lai Ying Feng	5,990,000	—	—	5,990,000	0.71%
Mr. Yang Ai Xing ("Mr. Yang")	—	—	643,000 (Note 4)	643,000	0.08%

Notes:

1. Mr. Lai is personally interested in 21.518% shareholding interest in Advance Keypath Global Investments Limited which is interested in 7.14% shareholding in the Company.

2. Crystal Talent Investment Group Limited ("Crystal Talent"), which holds 471,105,000 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.

4. Mr. Yang is the spouse of Ms. Wang Qing and is therefore deemed to be interested in the 643,000 shares held by Ms. Wang Qing under the SFO.

(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.

(iii) Long position in Cheer Lik, an associated corporation of the Company

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

Note: Cheer Lik 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 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 2018, 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:

Report of Directors

Long positions in the ordinary shares of the Company

Name	Beneficial interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent (Note 1)	471,105,000	471,105,000	56.08%
Cheer Lik (Note 2)	42,240,000	42,240,000	5.03%
Advance Keypath Global Investment Limited (Note 3)	60,000,000	60,000,000	7.14%
Novich Positioning Investment Limited Partnership (Note 4)	51,058,000	51,058,000	6.07%

Notes:

1. These 471,105,000 shares are held by Crystal Talent, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Lai.

2. These 42,240,000 shares are held by Cheer Lik, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mrs. Lai.

3. These 60,000,000 shares are held by Advance Keypath Global Investment Limited, a company incorporated in the British Virgin Islands with limited liability.

4. These 51,058,000 shares are held by Novich Positioning Investment Limited Partnership, a company incorporated in the Cayman Islands.

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 2018 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.

ARRANGEMENT FOR DIRECTORS TO PURCHASE 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 during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

Report of Directors

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.

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.

EQUITY-LINKED AGREEMENT

Details of the equity-linked agreement entered into during the year or subsisting at the end of the year are set out below:

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.

Report of Directors

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.

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of:

(i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option;

(ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option; and

(iii) the nominal value of a Share on the offer date.

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date).

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. The remaining life of the Share Option Scheme is 7 years. There is no share option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2018.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 80,000,000, representing approximately 9.52% of the issued shares of the Company.

SHARE AWARD PLAN

A share award plan was adopted and became effective on 8 January 2016 ("the Share Award Plan").

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 announcements on 8 January 2016 and 7 December 2018) 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.

In 2016, the Company purchased 8,000,000 of its ordinary shares through the trustee of the Share Award Plan 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 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.70) on the day of the grant, amounting to HK$1,823,000 (equivalent to approximately RMB1,618,000). During the year ended 31 December 2018, there were no shares granted by the Company under the Share Award Plan.

At the date of this report, 6,778,500 shares of the Company are held by the trustee and have yet to be rewarded.

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 2018 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 2018 is approximately RMB10.7 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 RMB111.8 million to Zhongzhi Pharmaceutical) after deducting, inter alia, all the expenses (which included rental fee of RMB3.1 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

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 2018.

For the year ended 31 December 2018, 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.

Actions taken to mitigate the risks

In light of the above risks associated with the Contractual Arrangements, the Group has adopted relevant procedures and internal control measures to ensure the effective operation of the Group and the implementation of the Contractual Arrangements, including (i) discuss and make all necessary modification to the Contractual Arrangements in order to maintain the economic interests; (ii) regular report by relevant divisions of the Group to the senior management of the Company in relation to the compliance of the Contractual Arrangements; (iii) regular report by the senior management of the Group to the Board any non-compliance issues; (iv) retain legal adviser and/or other professional to assist the Group to deal with specific issues arising from the Contractual Arrangements, if required; and (v) annual review by the independent non-executive Directors the compliance of the Contractual Arrangements.

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.

Report of Directors

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 2018.

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 89.56% 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.

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 pages 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 2018 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 2018, and (iii) any new contracts entered into, renewed or reproduced between the Group and Zhongzhi Herb Pieces during the year ended 31 December 2018 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.

Report of Directors

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 2018:

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 governing such transactions; and

4. nothing has come to their attention that causes the auditor to believe 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 RMB112.6 million during the year ended 31 December 2018. As at 31 December 2018, the total asset and net asset attributable to Zhongzhi Herb Pieces was approximately RMB62.2 million and RMB38.4 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 2018 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 during the Reporting Period up to the date of this report.

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 2018.

Report of Directors

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 2018, save for the deviation as disclosed in Corporate Governance Report from pages 20 to 34, 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.

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 17 May 2019 to seek Shareholders' approval on the appointment of Ernst & Young as the Company's auditor until the conclusion of the next AGM and to authorise the Board to fix their remuneration.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 25 March 2019

Independent Auditor's Report

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

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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 86 to 169, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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

KEY AUDIT MATTERS *(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 the expected credit losses ("ECL") for trade receivables. Furthermore, trade receivable balances were significant to the Group as they represented 11.7% of the total assets of Group as at 31 December 2018. The Group applied the simplified approach to calculate the ECL which is based on lifetime expected credit losses at each reporting date. Specific factors that management considered in the estimation of the ECL included the type of customers, ageing of the balances, historical default rates, recent historical payment patterns, existence of disputes and forward-looking information. Related disclosures are included in notes 3, 22 and 38 to the consolidated financial statements.	We evaluated the controls of the Group's collection procedures and assessed the Group's policy for determining the ECL in accordance with the requirements of IFRS 9. We assessed the ECL provision, by checking the correctness of the ageing of receivables, assessing recent repayment history of debtors and the related forward-looking information, used to determine the expected credit losses.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
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 17.7% of the total assets of the Group as at 31 December 2018 and significant management judgement is required in assessing whether there would be obsolete inventories at the year end. The specific factors considered by management in the estimation of the provision included 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 21 to the consolidated financial statements.	We obtained an understanding of 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 Group 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.

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.

Independent Auditor's Report

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.

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.

Independent Auditor's Report

- 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.

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
25 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**1,142,150**	944,634
Cost of sales		**(433,878)**	(380,381)
Gross profit		**708,272**	564,253
Other income and gains	5	**24,208**	16,019
Selling and distribution expenses		**(492,781)**	(386,990)
Administrative expenses		**(77,808)**	(64,881)
Other expenses	6	**(59,829)**	(38,526)
Finance costs	7	**(239)**	—
PROFIT BEFORE TAX	8	**101,823**	89,875
Income tax expense	11	**(16,754)**	(19,819)
PROFIT FOR THE YEAR		**85,069**	70,056
Attributable to owners of the parent		**85,069**	70,056
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
— For profit for the year		**RMB 0.10**	RMB 0.09
Diluted			
— For profit for the year		**RMB 0.10**	RMB 0.09

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	**85,069**	70,056
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,787**	(4,359)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**87,856**	65,697
Attributable to owners of the parent	**87,856**	65,697

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**256,464**	203,198
Prepayments for property, plant and equipment		**813**	3,206
Prepaid land lease payments	15	**12,956**	13,426
Goodwill	16	**1,628**	1,628
Other intangible assets	17	**8,877**	10,413
Investment in a joint venture	18	**421**	405
Available-for-sale investments	19	**—**	8,650
Equity investments at fair value through profit or loss	20	**11,724**	—
Deferred tax assets	28	**11,199**	7,681
Other non-current assets		**10,772**	4,787
Total non-current assets		**314,854**	253,394
CURRENT ASSETS			
Prepaid land lease payments	15	**470**	470
Inventories	21	**178,992**	137,924
Trade and notes receivables	22	**162,033**	118,318
Prepayments, deposits and other receivables	23	**22,439**	42,388
Cash and bank balances	24	**332,698**	359,458
Total current assets		**696,632**	658,558
CURRENT LIABILITIES			
Trade payables	25	**85,418**	71,623
Other payables and accruals	26	**161,052**	123,211
Amounts due to related parties	35(a)	**8,786**	8,786
Deferred income	27	**7,531**	11,314
Amount due to a joint venture		**70**	376
Tax payable		**20,642**	15,272
Total current liabilities		**283,499**	230,582
NET CURRENT ASSETS		**413,133**	427,976
TOTAL ASSETS LESS CURRENT LIABILITIES		**727,987**	681,370

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	27	**20,004**	11,628
Deferred tax liabilities	28	**1,391**	1,467
Total non-current liabilities		**21,395**	13,095
Net assets		**706,592**	668,275
Equity			
Equity attributable to owners of the parent			
Issued capital	29	**6,650**	6,650
Reserves	32	**699,942**	661,625
Total equity		**706,592**	668,275

Lai Zhitian
Director

Cao Xiaojun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent									
	Issued capital RMB'000 Note 29	Shares held for share award plan RMB'000 Note 31	Share premium RMB'000	Merger reserve RMB'000 Note 32(a)	Statutory surplus reserve RMB'000 Note 32(b)	Share-based payment reserve RMB'000 Note 32(c)	Share award reserve RMB'000 Note 31	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	6,309	(15,359)	330,776	31,200	32,015	5,680	11	21,336	156,413	568,381
Profit for the year	—	—	—	—	—	—	—	—	70,056	70,056
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(4,359)	—	(4,359)
Total comprehensive income for the year	—	—	—	—	—	—	—	(4,359)	70,056	65,697
Issue of shares	341	—	51,795	—	—	—	—	—	—	52,136
Equity-settled Share Award Plan	—	2,178	—	—	—	—	(560)	—	—	1,618
Transfer from retained profits	—	—	—	—	2,822	—	—	—	(2,822)	—
Final 2016 dividend	—	—	(6,902)(i)	—	—	—	—	—	—	(6,902)
Interim 2017 dividend	—	—	(12,655)(i)	—	—	—	—	—	—	(12,655)
At 31 December 2017	6,650	(13,181)*	363,014*	31,200*	34,837*	5,680*	(549)*	16,977*	223,647*	668,275
At 31 December 2017	6,650	(13,181)	363,014	31,200	34,837	5,680	(549)	16,977	223,647	668,275
Effect of adoption of IFRS 9 (note 2.2)	—	—	—	—	—	—	—	—	9,212	9,212
At 1 January 2018 (restated)	6,650	(13,181)	363,014	31,200	34,837	5,680	(549)	16,977	232,859	677,487
Profit for the year	—	—	—	—	—	—	—	—	85,069	85,069
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	2,787	—	2,787
Total comprehensive income for the year	—	—	—	—	—	—	—	2,787	85,069	87,856
Transfer from retained profits	—	—	—	—	5,779	—	—	—	(5,779)	—
Final 2017 dividend	—	—	(26,647)(ii)	—	—	—	—	—	—	(26,647)
Interim 2018 dividend	—	—	(32,104)(ii)	—	—	—	—	—	—	(32,104)
At 31 December 2018	6,650	(13,181)*	304,263*	31,200*	40,616*	5,680*	(549)*	19,764*	312,149*	706,592

* These reserve accounts comprise the consolidated reserves of RMB699,942,000 (2017: RMB661,625,000) in the consolidated statement of financial position.

(i) Dividend income arising from the shares held for the share award plan of RMB69,000 is deducted from the aggregate of final 2016 dividends and of RMB108,000 is deducted from the aggregate of interim 2017 dividends.

(ii) Dividend income arising from the shares held for the share award plan of RMB217,000 is deducted from the aggregate of final 2017 dividends and of RMB261,000 is deducted from the aggregate of interim 2018 dividends.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**101,823**	89,875
Adjustments for:			
Finance costs		**239**	—
Bank interest income	5	**(1,626)**	(2,635)
Interest income from financial assets at fair value through profit or loss/available-for-sale investments	5	**(7,376)**	(2,566)
Dividend income from an equity investment at fair value through profit or loss/an available-for-sale investment	5,20	**(932)**	(432)
Fair value losses, net:			
Equity investments at fair value through profit or loss	5	**2,120**	—
Gain on disposal of an equity investment at fair value through profit or loss	5	**(6,040)**	—
Loss on disposal of items of property, plant and equipment, net	5, 6	**342**	523
Depreciation	8,14	**24,240**	22,368
Recognition of prepaid land lease payments	8,15	**470**	470
Amortisation of other intangible assets	8,17	**1,244**	777
Equity-settled share award expense	8	**—**	1,618
Government grants released	27	**(8,094)**	(8,661)
Impairment loss of trade receivables	6,8	**1,467**	—
Write-down of inventories to net realisable value	6,8	**4,851**	2,872
		112,728	104,209
Increase in inventories		**(45,919)**	(19,715)
Increase in trade and notes receivables		**(41,581)**	(54,455)
Decrease/(Increase) in prepayments, deposits and other receivables		**19,949**	(21,694)
(Increase)/Decrease in non-current assets		**(5,985)**	3,729
Increase in trade payables		**13,795**	14,092
Increase in other payables and accruals		**32,439**	37,473
Increase in deferred income	27	**12,687**	9,979
Cash generated from operations		**98,113**	73,618
Income tax paid		**(18,050)**	(22,435)
Net cash flows from operating activities		**80,063**	51,183

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(75,193)**	(45,824)
Decrease/(Increase) in prepayments for purchase of property, plant and equipment		**2,393**	(861)
Proceeds from disposal of items of property, plant and equipment		**172**	1,410
Purchase of other intangible assets		**(849)**	(6,876)
Proceeds from disposal of intangible assets		**113**	—
Receipt of government grants for property, plant and equipment	27	**—**	438
Purchases of financial assets at fair value through profit or loss/ available-for-sale investments, current		**(254,000)**	(180,000)
Proceeds upon maturity of financial assets at fair value through profit or loss/available-for-sale investments, current		**254,000**	180,000
Proceeds from disposal of an equity investment at fair value through profit or loss		**13,128**	—
Bank interest received	5	**1,626**	2,635
Interest received from financial assets at fair value through profit or loss/available-for-sale investments, current	5	**7,376**	2,566
Dividend received from an equity investment	5	**932**	432
Decrease in an amount due to a joint venture		**(328)**	—
Decrease/(Increase) in non-pledged time deposits with original maturity of more than three months when acquired		**59,330**	(59,330)
Net cash flows from/(used in) investing activities		**8,700**	(105,410)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	**—**	52,136
New bank borrowings		**12,230**	—
Repayments of bank borrowings		**(12,230)**	—
Dividends paid		**(58,751)**	(19,557)
Interest paid		**(239)**	—
Net cash flows (used in)/from financing activities		**(58,990)**	32,579
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**29,773**	(21,648)
Cash and cash equivalents at beginning of year		**300,128**	326,135
Effect of foreign exchange rate changes, net		**2,797**	(4,359)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**332,698**	300,128

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**316,534**	180,120
Non-pledged time deposits	24	**16,164**	179,338
Cash and bank balances as stated in the statement of financial position		**332,698**	359,458
Non-pledged time deposits with original maturity of more than three months when acquired		**—**	(59,330)
Cash and cash equivalents at end of year		**332,698**	300,128

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

1. CORPORATE AND GROUP INFORMATION

Zhongzhi Pharmaceutical Holdings Limited 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 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").

Information about subsidiaries:

Particulars of the Company's subsidiaries as at 31 December 2018 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		Principal activities
			Direct	Indirect	
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
Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("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

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries: *(Continued)*

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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")	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%	Sale of Chinese herb
Shenzhen Caojinghua Electronic Business Co., Ltd.("Shenzhen Caojinghua")	PRC 10 January 2017, Mainland China	RMB1,000,000	—	100%	Sale of pharmaceutical food
Guangzhou Yunzhi Health Technology Co., Ltd. ("Guangzhou Yunzhi")	PRC 1 December 2017, Mainland China	RMB1,000,000	—	100%	Sale of pharmaceutical food

(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 the holders of its equity interests ("Registered Shareholders").

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

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"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under a historical cost convention, except for certain financial assets which have been measured at fair value. These financial statements are presented in Renminbi ("RMB"), 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 2018. 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.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.1 BASIS OF PREPARATION *(Continued)*

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 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 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 an 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 amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement					IFRS 9 measurement	
	Notes	Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Re-measurement RMB'000	Amount RMB'000	Category
Financial assets								
Available-for-sale investments	(i)	AFS[1]	8,650	(8,650)	—	—	—	N/A
Equity investments at fair value through profit or loss	(i)	FVPL[4]	—	8,650	—	12,284	20,934	FVPL
Trade receivables	(ii)	L&R[2]	88,074	—	—	—	88,074	AC[3]
Financial assets included in prepayments, deposits and other receivables		L&R	13,954	—	—	—	13,954	AC
Notes receivables	(iii)	L&R	30,244	—	—	—	30,244	FVOCI[5]
Cash and cash equivalents		L&R	359,458	—	—	—	359,458	AC
			500,380	—	—	12,284	512,664	
Financial liabilities								
Amount due to a joint venture		AC	376	—	—	—	376	AC
Trade payables		AC	71,623	—	—	—	71,623	AC
Financial liabilities included in other payables and accruals		AC	78,055	—	—	—	78,055	AC
Amounts due to related parties		AC	8,786	—	—	—	8,786	AC
				—	—	—		
			158,840	—	—	—	158,840	

1 AFS: Available-for-sale investments
2 L&R: Loans and receivables
3 AC: Financial assets or financial liabilities at amortised cost
4 FVPL: Financial assets at fair value through profit or loss
5 FVOCI: Financial assets at fair value through other comprehensive income

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) *(Continued)*

Classification and measurement *(Continued)*

Notes:

(i) The Group has classified its equity investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these equity investments were held for trading or as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

(ii) The gross carrying amounts of the trade receivables under the column "IAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(c) to the financial statements.

(iii) As at 1 January 2018, the Group has assessed its bank acceptance notes under trade and notes receivables. The Group concluded that the bank acceptance notes of RMB30,244,000 were managed within a business model to collect contractual cash flows and to sell before its contractual maturity for working capital management, upon transition, were categorised as fair value through other comprehensive income ("FVOCI"), and presented as trade and notes receivables. However, the directors of the Company assessed that the fair value of notes receivables approximated their carrying amounts given all notes receivables have a short maturity, and therefore no adjustment was made to the carrying amounts as at 1 January 2018.

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9

	Impairment allowances under IAS 39 at 31 December 2017 RMB'000	Re-measurement RMB'000	ECL allowance under IFRS 9 at 1 January 2018 RMB'000
Trade and notes receivables	—	—	—
Financial assets included in prepayments, deposits and other receivables	—	—	—
	—	—	—

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) *(Continued)*

Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits RMB'000
Retained profits	
Balance as at 31 December 2017 under IAS 39	223,647
Reclassification of available-for-sale investments to equity investments at fair value through profit or loss	12,284
Deferred tax in relation to the above	(3,072)
Balance as at 1 January 2018 under IFRS 9	232,859

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. 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 disclosures are included in notes 4 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The Group's contracts with customers for the sale of goods include only single performance obligation. The Group has concluded that revenue should be recognised at the point of time when a customer obtains control of goods. The Group has concluded that the initial application of IFRS 15 does not have a significant impact on the Group's revenue recognition.

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as advances from customers which are included in other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) *(Continued)*

Therefore, upon adoption of IFRS 15, the Group reclassified RMB8,037,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB9,559,000 was reclassified from advances from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of pharmaceutical products.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
IFRS 16	*Leases*[1]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020

Except for the application of new requirement under IFRS 16 *Lease* which will result in significant increase in both total assets and liabilities of the Group, the Group does not anticipate that the application of other new and revised IFRSs and Interpretations will have material impact on the consolidated financial statements of the Group.

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

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 elective 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. As disclosed in note 33(b), at 31 December 2018, the Group’s future minimum lease payments under non-cancellable operating leases amounted to RMB139,670,000. Some of these amounts may need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. During 2018, the Group has performed a preliminary assessment on the impact of adoption of IFRS 16. The expected changes in accounting policies as described above on initial adoption of IFRS 16 could have a material impact on the Group's financial statements from 2019 onwards.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs *(Continued)*

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

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

Year ended 31 December 2018

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.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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; (If the Group is itself such a plan) 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

Year ended 31 December 2018

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	2-5 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 a building under construction, 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.

Prepaid land lease payments

Prepaid land lease payments are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost represents the consideration paid for the rights to use the land for years ranging from 40 to 43 years. Amortisation of prepaid land lease payments is calculated on a straight-line basis over the year of the rights.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

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

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

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

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

Subsequent measurement *(Continued)*

Financial assets at amortised cost (debt instruments) (Continued)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

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 (applicable before 1 January 2018)" below.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) *(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 (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

General approach *(Continued)*

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade and notes receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade and notes receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade and notes receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) *(Continued)*

Available-for-sale financial investments

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

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

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

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

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

The Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, an amount due to a joint venture, amounts due to related parties and interest-bearing bank borrowings.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) *(Continued)*

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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.

Shares held under the share award scheme

The Group's own equity instruments which are reacquired (shares held under the share award scheme) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Other income

Interest income is recognised on an accrual basis using the effective interest 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable before 1 January 2018)

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:

- 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;

- 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

- dividend income, when the shareholders' right to receive payment has been established.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Share-based payments

The Company operates a share option plan and a share award scheme 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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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.

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollars which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the Mainland China, the Company adopts RMB as the presentation currency of the Group. 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

In determining the exchange rate on initial historical recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the subsidiaries established outside the 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 the 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 the 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:

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

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 historical 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 a 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 for as a subsidiary during the reporting period.

Withholding taxes arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends. The estimation process is highly based on assumptions, which are influenced by projected future market and economic conditions and future financing requirements of the group, and it is not probable that such subsidiary will distribute dividends in the foreseeable future.

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 2018 was RMB1,628,000.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

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.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing analysis of groupings of various customer segments that have similar loss patterns (i.e., by geography, product type and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 22 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2018 was RMB1,168,000 (2017: Nil). Further details are included in note 20 to the financial statements.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty (Continued)

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for inventory items identified to be 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 the estimate has been changed. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether a 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 a 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 a sufficient provision for obsolete and slow-moving inventories has been made in the consolidated financial statements.

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 three reportable operating segments as follows:

(a) Pharmaceutical manufacturing
(b) Operation of chain pharmacies
(c) Operation of on-line pharmacies

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

4. OPERATING SEGMENT INFORMATION *(Continued)*

Information about major customers

During each of the years ended 31 December 2018 and 2017, no revenue from transactions with a single customer amounted to 10% or more of the Group's sales.

Operating segment information for the year ended 31 December 2018:

	Year ended 31 December 2018			
	Pharmaceutical manufacturing	Operation of chain pharmacies	Operation of on-line pharmacies	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Revenue from external customers (note 5)	**633,761**	**462,231**	**46,158**	**1,142,150**
Intersegment sales	**44,034**	**—**	**—**	**44,034**
Elimination of intersegment sales	**(44,034)**	**—**	**—**	**(44,034)**
Revenue	**633,761**	**462,231**	**46,158**	**1,142,150**
Cost of sales	**(175,287)**	**(251,367)**	**(7,224)**	**(433,878)**
Segment results	**458,474**	**210,864**	**38,934**	**708,272**
Reconciliation:				
Other income and gains				**24,208**
Selling and distribution expenses				**(492,781)**
Administrative expenses				**(77,808)**
Other expenses				**(59,829)**
Finance costs				**(239)**
Profit before tax				**101,823**

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

4. OPERATING SEGMENT INFORMATION *(Continued)*

Information about major customers

	Year ended 31 December 2017			
	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000	Operation of on-line pharmacies RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers	507,482	425,003	12,149	944,634
Intersegment sales	45,372	—	—	45,372
Elimination of intersegment sales	(45,372)	—	—	(45,372)
Revenue	507,482	425,003	12,149	944,634
Cost of sales	(153,749)	(225,581)	(1,051)	(380,381)
Segment results	353,733	199,422	11,098	564,253
Reconciliation:				
Other income and gains				16,019
Selling and distribution expenses				(386,990)
Administrative expenses				(64,881)
Other expenses				(38,526)
Profit before tax				89,875

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

5. REVENUE, OTHER INCOME AND GAINS

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

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Sale of pharmaceutical products	**1,142,150**	944,634

(i) Disaggregated revenue information

The Group's revenue is mainly derived from the sale of pharmaceutical products to customers in Mainland China and recognised at a point in time.

Disaggregation of revenue from contracts with customers is disclosed in Note 4.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of pharmaceutical products	**8,037**

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of pharmaceutical products

The performance obligation is satisfied upon delivery of the pharmaceutical products and payment is generally due within 15 to 90 days from delivery, except for the new customers and one-off purchase order customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

	Note	2018 RMB'000	2017 RMB'000
Other income			
Bank interest income		**1,626**	2,635
Dividend income		**932**	432
Interest income from financial assets at fair value through profit or loss/available-for-sale investments		**7,376**	2,566
		9,934	5,633
Gains, net			
Government grants:			
— Related to assets		**978**	336
— Related to income		**7,116**	8,325
Gain on disposal of items of property, plant and equipment		**5**	67
Gain on disposal of an equity investment at fair value through profit or loss	8	**6,040**	—
Fair value losses, net:			
Equity investments at fair value through profit or loss	8	**(2,120)**	—
Others		**2,255**	1,658
		14,274	10,386
		24,208	16,019

6. OTHER EXPENSES

	Note	2018 RMB'000	2017 RMB'000
Loss on disposal of items of property, plant and equipment		**347**	590
Research and development costs		**52,464**	34,501
Write-down of inventories to net realisable value		**4,851**	2,872
Impairment loss on trade receivables	22	**1,467**	—
Others		**700**	563
		59,829	38,526

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on a bank borrowing	**239**	—

8. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold	4	**433,878**	380,381
Depreciation	14	**24,240**	22,368
Recognition of prepaid land lease payments*	15	**470**	470
Research and development costs	6	**52,464**	34,501
Advertising, marketing and promotion expenses		**130,032**	119,865
Amortisation of other intangible assets*	17	**1,244**	777
Write-down of inventories to net realisable value		**4,851**	2,872
Minimum lease payments under operating leases		**40,481**	31,986
Auditor's remuneration		**2,790**	2,644
Impairment loss on trade receivables	22	**1,467**	—
Gain on disposal of an equity investment at fair value through profit or loss	5	**(6,040)**	—
Fair value losses, net:			
Equity investments at fair value through profit or loss	5	**2,120**	—
Employee benefit expenses (including directors' remuneration (note 9)):			
Wages and salaries		**246,652**	199,912
Pension scheme contributions (defined contribution scheme)		**15,702**	12,027
Staff welfare expenses		**20,351**	17,052
Equity-settled share award expense		**—**	1,618
Others		**267**	—
		282,972	230,609

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

9. 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:

	2018	2017
	RMB'000	RMB'000
Fees	**1,942**	2,395
Other emoluments:		
Salaries, allowances and benefits in kind	**2,062**	1,467
Pension scheme contributions	**131**	181
Others	**267**	—
	4,402	4,043

(a) Independent non-executive directors

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

	2018	2017
	RMB'000	RMB'000
Ng Kwun Wan	**154**	156
Wong Kam Wah	**154**	156
Zhou Daihan	**154**	156
	462	468

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

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

2018	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Others RMB'000	Total remuneration RMB'000
Executive directors:					
Lai Zhitian	443	921	36	267	1,667
Lai Yingfeng*	149	274	16	—	439
Cheng Jinle	256	365	42	—	663
Mou Li#	107	92	—	—	199
Cao Xiaojun	256	410	37	—	703
	1,211	2,062	131	267	3,671
Non-executive directors:					
Jiang Lixia	269	—	—	—	269
Yang Aixing*	—	—	—	—	—
	1,480	2,062	131	267	3,940

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

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

2017	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Lai Zhitian	749	572	48	1,369
Cheng Jinle	302	323	49	674
Mou Li	302	249	42	593
Cao Xiaojun	302	323	42	667
	1,655	1,467	181	3,303
Non-executive director:				
Jiang Lixia	272	—	—	272
	1,927	1,467	181	3,575

* Mr. Lai Yingfeng and Mr. Yang Aixing were appointed as executive directors of the Company on 14 May 2018.

Ms. Mou Li retired as an executive director of the Company on 14 May 2018.

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2017: four directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining one (2017: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**313**	309
Pension scheme contributions	**16**	11
	329	320

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

10. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

	2018	2017
Nil to HK$1,000,000	**1**	1

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.

11. 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.

The Hong Kong profits tax rate is 16.5% (2017: 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 Group's subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income.

Honeson Pharmaceutical and Zhongzhi Pharmaceutical are qualified high and new technology enterprises and were subject to income tax at a preferential tax rate of 15% for the reporting period.

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

	2018 **RMB'000**	2017 RMB'000
Mainland China		
Current income tax	**23,420**	22,187
Deferred income tax credit (note 28)	**(6,666)**	(2,368)
Total income tax expense	**16,754**	19,819

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

11. INCOME TAX EXPENSE *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate 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:

	2018 RMB'000	**2018** %	2017 RMB'000	2017 %
Profit before tax	**101,823**		89,875	
Tax at the PRC statutory tax rate	**25,456**	**25.0**	22,469	25.0
Effect of different applicable tax rates for certain subsidiaries	**(7,309)**	**(7.2)**	(5,794)	(6.4)
Effect on opening deferred tax of decrease in rates	**—**	**—**	852	0.9
Additional deduction for research and development expenses	**(3,716)**	**(3.6)**	(576)	(0.6)
Income not subject to tax	**(386)**	**(0.4)**	(34)	(0.0)
Tax losses utilised from previous periods	**(182)**	**(0.2)**	—	—
Tax losses not recognised	**388**	**0.4**	484	0.5
Expenses not deductible for tax	**2,503**	**2.5**	2,418	2.7
Tax charge at the Group's effective tax rate	**16,754**	**16.5**	19,819	22.1

The effective tax rate of the Group was 16.5% in 2018 (2017: 22.1%).

12. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Interim – HK2.65 cents (2017: HK1.875 cents) per ordinary share	**19,716**	12,763
Special interim – HK1.7 cents (2017: Nil) per ordinary share	**12,649**	—
Proposed final – HK2.0 cents (2017: HK2.21 cents) per ordinary share	**14,720**	15,451
Proposed special – HK1.6 cents (2017: HK1.709 cents) per ordinary share	**11,776**	11,948
	58,861	40,162

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

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

The calculation of the 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 833,221,500 (2017: 799,076,404) 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 calculations of basic and diluted earnings per share are based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**85,069**	70,056

	2018	2017
Shares		
Weighted average number of ordinary shares in issue	**840,000,000**	806,136,986
Weighted average number of shares held for the share award plan	**(6,778,500)**	(7,060,582)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**833,221,500**	799,076,404
Effect of dilution–weighted average number of ordinary shares:		
Share award plan	**—**	7,060,582
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**833,221,500**	806,136,986

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

14. 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 2018							
At 1 January 2018:							
Cost	90,278	120,588	57,033	3,621	20,668	42,757	334,945
Accumulated depreciation	(59,235)	(36,655)	(20,968)	(2,532)	(12,357)	–	(131,747)
Net carrying amount	31,043	83,933	36,065	1,089	8,311	42,757	203,198
At 1 January 2018, net of accumulated depreciation	31,043	83,933	36,065	1,089	8,311	42,757	203,198
Additions	16,389	–	5,298	1,415	4,043	50,875	78,020
Disposals	–	–	(225)	(238)	(51)	–	(514)
Depreciation provided during the year (note 8)	(11,008)	(4,184)	(4,577)	(427)	(4,044)	–	(24,240)
Transfers	–	–	4,060	–	1,093	(5,153)	–
At 31 December 2018, net of accumulated depreciation	36,424	79,749	40,621	1,839	9,352	88,479	256,464
At 31 December 2018:							
Cost	102,715	120,588	65,168	4,732	25,360	88,479	407,042
Accumulated depreciation	(66,291)	(40,839)	(24,547)	(2,893)	(16,008)	–	(150,578)
Net carrying amount	36,424	79,749	40,621	1,839	9,352	88,479	256,464

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

14. 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 2017							
At 1 January 2017:							
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
At 1 January 2017, net of accumulated depreciation	28,308	88,116	35,531	1,016	6,374	20,708	180,053
Additions	7,074	—	6,046	507	5,565	28,254	47,446
Disposals	(293)	—	(1,330)	(73)	(237)	—	(1,933)
Depreciation provided during the year (note 8)	(10,251)	(4,183)	(4,182)	(361)	(3,391)	—	(22,368)
Transfers	6,205	—	—	—	—	(6,205)	—
At 31 December 2017, net of accumulated depreciation	31,043	83,933	36,065	1,089	8,311	42,757	203,198
At 31 December 2017:							
Cost	90,278	120,588	57,033	3,621	20,668	42,757	334,945
Accumulated depreciation	(59,235)	(36,655)	(20,968)	(2,532)	(12,357)	—	(131,747)
Net carrying amount	31,043	83,933	36,065	1,089	8,311	42,757	203,198

As at 31 December 2018, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB424,000 (2017: RMB496,000). The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

15. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**13,896**	14,366
Recognised during the year	**(470)**	(470)
Carrying amount at 31 December	**13,426**	13,896
Current portion	**(470)**	(470)
Non-current portion	**12,956**	13,426

16. GOODWILL

	2018 RMB'000	2017 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 the business combination 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 2018 and 2017.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

17. OTHER INTANGIBLE ASSETS

	2018 Software RMB'000	2017 Software RMB'000
At 1 January:		
Cost	**12,577**	3,096
Accumulated amortisation	**(2,164)**	(1,387)
Net carrying amount	**10,413**	1,709
At 1 January, net of accumulated amortisation	**10,413**	1,709
Additions	**849**	9,481
Disposals	**(1,141)**	—
Amortisation provided during the year (note 8)	**(1,244)**	(777)
At 31 December, net of accumulated amortisation	**8,877**	10,413
At 31 December:		
Cost	**12,166**	12,577
Accumulated amortisation	**(3,289)**	(2,164)
Net carrying amount	**8,877**	10,413

18. INVESTMENT IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Share of net assets	**421**	405

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

19. AVAILABLE-FOR-SALE INVESTMENTS

	2018 RMB'000	2017 RMB'000
Non-current		
Unlisted equity investments, at cost	—	8,650

As at 31 December 2017, certain unlisted equity investments with a carrying amount of RMB8,650,000 were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

As at 31 December 2018, the above equity investments were classified as equity investments at fair value through profit or loss. Further details are included in note 2.2(b) and note 20 to the financial statements.

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Equity investments at fair value through profit or loss		
Listed equity investment, at fair value	**10,556**	—
Unlisted equity investment, at fair value	**1,168**	—
	11,724	—

In 2018, an unlisted entity invested by the Group was acquired by a listed independent third party (here referred to as the "Acquirer"); the Group disposed of the shares as part of the transaction. The total consideration for the share transfer was valued at RMB26,076,000, consisting of both cash and shares of the Acquirer. During the year ended 31 December 2018, the Group received dividends in the amounts of RMB932,000 from the unlisted investment prior to the disposal (2017: RMB432,000). The total gain on disposal from this investment amounting to RMB6,040,000 was recognised in profit or loss.

The above listed equity investment at 31 December 2018 was classified as equity investment at fair value through profit or loss as it was held for trading.

The above unlisted equity investment at 31 December 2018 was classified as equity investment at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**30,483**	27,698
Work in progress	**7,684**	10,739
Finished goods	**140,825**	99,487
	178,992	137,924

Inventories with a value of RMB5,926,000 (2017: RMB10,777,000) are carried at net realisable value, which is lower than cost.

22. TRADE AND NOTES RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**117,850**	88,074
Less: Impairment of trade receivables	**(1,467)**	—
Trade receivables, net	**116,383**	88,074
Notes receivables	**45,650**	30,244
	162,033	118,318

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not more than three months for major customers. As to new customers and one-off purchase order customers, payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to enforce 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 and notes receivables relate to customers with good track records, there is no significant concentration of credit risk. Trade and notes receivables are non-interest-bearing. The fair value of trade and notes receivables approximates to their carrying amount.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

22. TRADE AND NOTES RECEIVABLES *(Continued)*

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 **RMB'000**	2017 RMB'000
Within 1 month	**45,923**	50,520
1 to 3 months	**36,699**	18,433
3 to 6 months	**14,281**	11,634
6 to 12 months	**16,155**	6,745
Over 12 months	**3,325**	742
	116,383	88,074

The movement in the loss allowance for impairment of trade receivables are as follows:

	2018 **RMB'000**	2017 RMB'000
At beginning of year	**—**	—
Impairment losses, net	**1,467**	—
At end of year	**1,467**	—

The Group manages its notes receivables using the business model whose objective is achieved by both collecting contractual cash flows and selling such financial assets and hence, they are categorised as financial assets measured at FVOCI after adoption of IFRS 9.

The notes receivable are settled within 180 days. No notes receivable were discounted as at 31 December 2018 and 2017. As at 31 December 2018, the Group continued to recognise endorsed notes receivable and associated liabilities amounting to RMB23,405,000 (2017: RMB19,804,000) respectively. The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining endorsed notes (note 39).

22. TRADE AND NOTES RECEIVABLES *(Continued)*

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing analysis for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	As at 31 December 2018			
	Less than 1 year	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	0.48%	15.83%	100.00%	1.24%
Gross carrying amount (RMB'000)	113,602	3,950	298	117,850
Expected credit losses (RMB'000)	544	625	298	1,467

Impairment under IAS 39 for the year ended 31 December 2017

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	55,127
Less than 3 months past due	20,471
Over 3 months past due	12,476
	88,074

Trade receivables that were neither past due nor impaired related 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 related to a number of independent customers that had a good track record with the Group. Based on past experience, the Directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments	**10,094**	33,219
Value added tax recoverable	**4,675**	2
Deposits and other receivables	**7,670**	9,167
	22,439	42,388

24. CASH AND BANK BALANCES

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**316,534**	180,120
Time deposits	**16,164**	179,338
	332,698	359,458
Denominated in:		
— RMB	**329,258**	293,203
— Hong Kong Dollars ("HK$")	**3,440**	66,255
	332,698	359,458

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 twelve 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

Year ended 31 December 2018

25. TRADE PAYABLES

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

	2018 RMB'000	2017 RMB'000
Within 3 months	**74,778**	61,813
3 to 6 months	**5,105**	6,070
6 to 12 months	**3,282**	1,884
Over 12 months	**2,253**	1,856
	85,418	71,623

The trade payables are non-interest-bearing and are normally settled on terms not exceeding 120 days.

26. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Accruals and other payables		**42,226**	25,834
Accrued salaries and welfare		**33,119**	30,353
Contract liabilities	(a)	**9,559**	—
Advances from customers		**—**	8,037
Endorsed notes	39	**23,405**	19,804
Deposits received		**37,620**	23,523
Payables for purchases of property, equipment and other intangible assets		**10,695**	8,894
Other tax payables		**4,428**	6,766
		161,052	123,211

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

26. OTHER PAYABLES AND ACCRUALS *(Continued)*

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers		
Sales of goods	**9,559**	8,037
Total contract liabilities	**9,559**	8,037

Contract liabilities include short-term advances received to deliver pharmaceutical products. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the number of new customers increased.

27. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
At 1 January	**22,942**	21,186
Received amounts	**12,687**	10,417
Released amounts	**(8,094)**	(8,661)
At 31 December	**27,535**	22,942
Current	**7,531**	11,314
Non-current	**20,004**	11,628
	27,535	22,942

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and liabilities during the reporting period are as follows:

	2018							
	Deferred Tax Assets							
	Accruals RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Advertising and promotion expenses RMB'000	Unrealised profit from intercompany transactions RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2018	237	431	–	3,642	1,589	1,782	–	7,681
Deferred tax credited/(charged) to the statement of profit or loss during the year	706	728	220	689	(210)	829	556	3,518
At 31 December 2018	943	1,159	220	4,331	1,379	2,611	556	11,199

	2017						
	Deferred Tax Assets						
	Accruals RMB'000	Impairment of inventories RMB'000	Government grants RMB'000	Advertising and promotion expenses RMB'000	Unrealised profit from intercompany transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	—	—	4,444	—	1,299	15	5,758
Deferred tax credited/(charged) to the statement of profit or loss during the year	237	431	(802)	1,589	483	(15)	1,923
At 31 December 2017	237	431	3,642	1,589	1,782	—	7,681

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES *(Continued)*

	2018			
	Deferred tax liabilities			
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Total RMB'000
At 31 December 2017	**(233)**	**(1,234)**	**—**	**(1,467)**
Effect of adoption of IFRS 9	**—**	**—**	**(3,072)**	**(3,072)**
At 1 January 2018 (restated)	**(233)**	**(1,234)**	**(3,072)**	**(4,539)**
Deferred tax charged to the statement of profit or loss during the year	**38**	**38**	**3,072**	**3,148**
At 31 December 2018	**(195)**	**(1,196)**	**—**	**(1,391)**

	2017		
	Deferred tax liabilities		
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Total RMB'000
At 1 January 2017	(570)	(1,273)	(1,843)
Deferred tax charged to the statement of profit or loss during the year	337	39	376
At 31 December 2017	(233)	(1,234)	(1,467)

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES *(Continued)*

At 31 December 2018, the Group had tax losses arising in Mainland China of RMB5,778,000 (2017: RMB1,643,000) that will expire in two to 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 Mainland China. 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 Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2017 and 31 December 2018, 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, the fund of these subsidiaries will be retained in Mainland China for the expansion of the Group's operation, and 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 totalled approximately RMB352,924,000 at 31 December 2018 (2017: RMB250,294,000).

29. ISSUED CAPITAL

	2018	2017
Issued and fully paid: 840,000,000 (2017: 840,000,000) ordinary shares of HK$0.01 each (HK$'000)	**8,400**	8,400
Equivalent to RMB'000	**6,650**	6,650

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

29. ISSUED CAPITAL *(Continued)*

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

	Number of Issued and fully paid ordinary shares	Share capital RMB'000
At 1 January 2017	800,000,000	6,309
Issue of new shares (note (a))	40,000,000	341
At 31 December 2017 and 1 January 2018	840,000,000	6,650
Issue of new shares	—	—
At 31 December 2018	840,000,000	6,650

(a) 40,000,000 shares were issued for cash at a subscription price of HK$1.53 per share pursuant to a subscription agreement with Novich Positioning Investment Limited Partnership, a third party exempted limited partnership, on 27 October 2017.

30. 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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

30. SHARE OPTION SCHEME *(Continued)*

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 pages 73 to 74.

No share options were granted during the year ended 31 December 2018 and no share options were outstanding under the Scheme as at 31 December 2018 and 2017.

31. 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 develop and expand the business 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 utilising 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.

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 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.70) on the day of the grant, amounting to HK$1,823,000 (equivalent to approximately RMB1,618,000).

The Group recognised a share award expense of RMB1,618,000 and nil for 2017 and 2018, respectively.

As at 31 December 2018, 6,778,500 shares of the Company were held by the Trustee and have yet to be awarded.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

32. 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 90.

(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 were recognised as an employee benefit expense.

33. OPERATING LEASE ARRANGEMENTS

(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 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**350**	250
In the second to fifth years, inclusive	**195**	293
	545	543

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

33. OPERATING LEASE ARRANGEMENTS *(Continued)*

(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:

	2018 **RMB'000**	2017 RMB'000
Within one year	**40,009**	31,562
In the second to fifth years, inclusive	**91,143**	81,133
Beyond five years	**8,518**	9,790
	139,670	122,485

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 **RMB'000**	2017 RMB'000
Contracted, but not provided for:		
Property, plant and machinery	**10,004**	29,324
	10,004	29,324

At the end of 31 December 2018 and 31 December 2017, the Group had a significant authorised, but not contracted, capital commitment of nil and RMB6,100,000, respectively.

35. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2018 and 2017 represent consideration received from the Registered Shareholders as part of the historical 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 terms of repayment.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

35. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**5,652**	5,008
Pension scheme contributions	**260**	294
Others	**267**	—
	6,179	5,302

Further details of directors' and the chief executive's emoluments are included in note 9.

36. 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:

2018

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		
	Designated as such upon initial recognition RMB'000	Held for trading RMB'000	Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	—	—	—	116,383	116,383
Notes receivables	—	—	45,650	—	45,650
Equity investments at fair value through profit or loss	1,168	10,556	—	—	11,724
Financial assets included in prepayments, deposits and other receivables	—	—	—	7,670	7,670
Financial assets included in other non-current assets	—	—	—	6,031	6,031
Cash and bank balances	—	—	—	332,698	332,698
	1,168	10,556	45,650	462,782	520,156

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

36. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2018 *(Continued)*

Financial liabilities

	Total RMB'000
Amount due to a joint venture	**70**
Trade payables	**85,418**
Financial liabilities included in other payables and accruals	**113,946**
Amounts due to related parties	**8,786**
	208,220

2017

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Trade and notes receivables	118,318	—	118,318
Available-for-sale investments	—	8,650	8,650
Financial assets included in prepayments, deposits and other receivables	9,167	—	9,167
Financial assets included in other non-current assets	4,787	—	4,787
Cash and bank balances	359,458	—	359,458
	491,730	8,650	500,380

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

36. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2017 *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amount due to a joint venture	376
Trade payables	71,623
Financial liabilities included in other payables and accruals	78,055
Amounts due to related parties	8,786
	158,840

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade and notes receivables, financial assets included in prepayments, deposits and other receivables, financial assets included in other non-current assets, trades payables, financial liabilities included in other payables and accruals, and an amount due to a joint venture approximate to their carrying amounts largely due to the short term maturities of these instruments or immaterial impact on discounting for financial assets included in other non-current assets.

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.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through profit or loss, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest and taxes ("EV/EBIT"), for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss are reasonable, and that they were the most appropriate values at the end of the reporting period.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	**10,556**	**—**	**1,168**	**11,724**

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise financial assets at fair value through profit or loss, interest-bearing bank borrowings and cash and bank balances. The Group has various other financial assets and liabilities such as trade and notes receivables and trade payables, 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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

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 tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2018			
If RMB weakens against HK$	**5**	**830**	**14,158**
If RMB strengthens against HK$	**(5)**	**(830)**	**(14,158)**
2017			
If RMB weakens against HK$	5	—	16,830
If RMB strengthens against HK$	(5)	—	(16,830)

* 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.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging as at 31 December 2018 *(Continued)*

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade and notes receivables*	—	—	—	162,033	162,033
Financial assets included in prepayments, deposits and other receivables					
— Normal**	7,670	—	—	—	7,670
Financial assets included in other non-current assets					
— Normal**	6,031	—	—	—	6,031
Cash and bank balances					
— Not yet past due	332,698	—	—	—	332,698
	346,399	—	—	162,033	508,432

* For trade and notes receivables to which the Group applies the simplified approach for impairment, ECL for notes receivables is considered to be minimal and the information based on the provision matrix of trade receivables is disclosed in note 22 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables and the financial assets included in other non-current assets are considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Maximum exposure as at 31 December 2017

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 22.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

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

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

	2018				
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Total RMB'000**
Amount due to a joint venture	**70**	**—**	**—**	**—**	**70**
Trade payables	**8,861**	**76,362**	**195**	**—**	**85,418**
Financial liabilities included in other payables and accruals	**81,086**	**14,442**	**18,156**	**262**	**113,946**
Amounts due to related parties	**8,786**	**—**	**—**	**—**	**8,786**
	98,803	**90,804**	**18,351**	**262**	**208,220**

	2017				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Amount due to a joint venture	376	—	—	—	376
Trade payables	14,186	57,330	107	—	71,623
Financial liabilities included in other payables and accruals	24,430	19,409	33,891	325	78,055
Amounts due to related parties	8,786	—	—	—	8,786
	47,778	76,739	33,998	325	158,840

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

38. 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:

	2018 **RMB'000**	2017 RMB'000
Interest-bearing bank borrowings	**—**	—
Equity attributable to owners of the parent	**706,592**	668,275
Gearing ratio	**—**	—

39. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2018 and 2017, 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 the 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 2018 was RMB77,450,000 (2017: RMB65,685,000), of which the Endorsed Notes and the associated trade payables with a carrying amount of RMB54,045,000 as at 31 December 2018 (2017: RMB45,881,000), 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 9 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.

During the years ended 31 December 2018 and 2017, 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 2018 and 2017 or cumulatively. The Endorsement has been made evenly throughout the years ended 31 December 2018 and 2017.

The Group continued to recognise the carrying amount of the remaining Endorsed Notes and associated trade payables settled of RMB23,405,000 as at 31 December 2018 (2017: RMB19,804,000) 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

Year ended 31 December 2018

40. 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:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	292,306	297,188
Total non-current assets	292,306	297,188
CURRENT ASSETS		
Prepayments, deposits and other receivables	263	180
Cash and bank balances	19,470	67,048
Total current assets	19,733	67,228
CURRENT LIABILITIES		
Due to subsidiaries	16,909	16,062
Other payables and accruals	183	5
Total current liabilities	17,092	16,067
NET CURRENT ASSETS	2,641	51,161
TOTAL ASSETS LESS CURRENT LIABILITIES	294,947	348,349
Net assets	294,947	348,349
Equity		
Issued capital	6,650	6,650
Reserves (note)	288,297	341,699
Total equity	294,947	348,349

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

40. 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 2017	330,776	(15,359)	11	45,624	(23,164)	337,888
Loss for the year	—	—	—	—	(5,084)	(5,084)
Exchange differences on translation of foreign operations	—	—	—	(24,961)	—	(24,961)
Total comprehensive loss for the year	—	—	—	(24,961)	(5,084)	(30,045)
Issue of shares	51,795	—	—	—	—	51,795
Equity-settled share award expense	—	2,178	(560)	—	—	1,618
Final 2016 dividend	(6,902)	—	—	—	—	(6,902)
Interim 2017 dividend	(12,655)	—	—	—	—	(12,655)
At 31 December 2017	363,014	(13,181)	(549)	20,663	(28,248)	341,699
Loss for the year	—	—	—	—	(11,125)	(11,125)
Exchange differences on translation of foreign operations	—	—	—	16,474	—	16,474
Total comprehensive income for the year	—	—	—	16,474	(11,125)	5,349
Final 2017 dividend	(26,647)	—	—	—	—	(26,647)
Interim 2018 dividend	(32,104)	—	—	—	—	(32,104)
At 31 December 2018	304,263	(13,181)	(549)	37,137	(39,373)	288,297

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

41. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation and disclosures.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2019.

Five Year 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				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
REVENUE	**1,142,150**	944,634	730,472	688,036	595,565
GROSS PROFIT	**708,272**	564,253	399,438	375,078	320,275
PROFIT BEFORE TAX	**101,823**	89,875	69,159	101,191	114,810
Income tax expense	**(16,754)**	(19,819)	(15,287)	(20,652)	(28,122)
PROFIT FOR THE YEAR AND ATTRIBUTABLE TO OWNERS OF THE COMPANY	**85,069**	70,056	53,872	80,539	86,688
Earnings per share — Basic	**RMB 0.10**	RMB 0.09	RMB 0.07	RMB 0.11	RMB 0.14
— Diluted	**RMB 0.10**	RMB 0.09	RMB 0.07	RMB 0.11	RMB 0.14

ASSETS AND LIABILITIES

	Year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
TOTAL ASSETS	**1,011,486**	911,952	755,228	723,528	297,924
TOTAL LIABILITIES	**304,894**	243,677	186,847	160,840	177,027