Zhongzhi Pharmaceutical Holdings Limited
中智藥業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 3737

ANNUAL REPORT
2015

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CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. Lai Zhi Tian *(Chairman)*
Mr. Cao Xiao Jun
Ms. Jiang Li Xia
Ms. Mou Li

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

Committees of the Board

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Authorized Representatives

Ms. Chow Fung Ling
Ms. Mou Li

Company Secretary

Ms. Chow Fung Ling

Registered Address

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

Headquarter in the PRC

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

Principal Place of Business in Hong Kong

Room 2102-2103
China Insurance Group Building
No. 141 Des Voeux Road Central
Central
Hong Kong

Auditors

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

Compliance Adviser

Guosen Securities (HK) Capital Co., Ltd.
42/F, Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

Principal Bankers

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

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Name

Zhongzhi Pharmaceutical Holdings Limited

Stock Code

3737

Company Website

www.zeus.cn

CHAIRMAN'S STATEMENT

This is the first annual report of Zhongzhi Pharmaceutical Holdings Limited (the "Company", together with its subsidiaries, the "Group") since it was listed on the Main Board of the Stock Exchange of Hong Kong on 13 July 2015. On behalf of the board (the "Board") of directors of the Company (the "Directors"), I would like to sincerely thank all of our shareholders and the community for your support to the Company and to present to the shareholders the first annual report and audited consolidated financial statements of the Group for the year ended 31 December 2015 (the "Reporting Period").

Business Review

The year 2015 was full of challenges as well as opportunities for China's economy. Affected by the slowdown of China's macro economy, the competition of the pharmaceutical industry intensified. Despite the intense market competition, we still believe there are more opportunities for growth in the pharmaceutical industry. Catalysts such as the people demand for pharmaceutical products, government support to the industry as well as medical reforms have boosted the growth of the overall pharmaceutical market.

During the Reporting Period, the total revenue of the Group amounted to approximately RMB688.0 million, representing an increase of approximately 15.5% compared to the previous year (2014: RMB595.6 million) while the Group's profit for the year amounted to approximately RMB80.5 million, decreased by approximately 7.1% compared to the previous year (2014: RMB86.7 million). Basic earnings per share was RMB11.61 cents (2014: RMB14.45 cents), a decrease of approximately 19.7% compared to the previous year.

Dividend

The Board is recommending a final dividend of HK3.5 cents per share for the Reporting Period.

Outlook & Strategy

Looking ahead, the Company will continue to invest in products development and brand promotion throughout the People's Republic of China (the "PRC"). The PRC pharmaceutical industry will be driven by favourable demographic trends, continuing urbanization, and income growth which encourage greater public health awareness and consumption of pharmaceutical products. The demand on pharmaceutical products will remain high and the related consumer expenditure is expected to increase year by year, which is beneficial to the growth and development of the Group. As such, it is anticipated that stable sales growth of our own-branded products in the PRC will continue in the near future.

The Company plans to develop its business in Hong Kong during 2016 and the Group had begun registration of its products with the Department of Health as at the date of this report. The Board believes this will help increase the Company's brand awareness and will be the first of many steps for the Company to enter the international markets.

Gratitude

On behalf of the Company, I would like to express my sincere gratitude to our valued shareholders, customers, suppliers, banks and to our management and employees for their continuous trust and support to our Group.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 21 March 2016

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 15.5% to a record high of approximately RMB688.0 million.

However, profit decreased by approximately 7.1% to RMB80.5 million due to (i) the recognition of listing expenses in the second half of 2015; and (ii) the increase in selling and distribution expenses incurred in the latter half of 2015 due to the increase in advertising expenses for promoting the Company's products and brand name. To maintain the strong growth momentum of modern decoction pieces, the Company had engaged a professional marketing consultancy firm to devise a sales and marketing plan for its modern decoction pieces. As part of the plan, the Company placed more advertisements through television, newspapers, medical journals and sign boards.

Financial Analysis

Revenue

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

	Revenue for the year ended 31 December			% of total revenue for the year ended 31 December		
	2015 RMB'000	2014 RMB'000	Change (%)	**2015 (%)**	2014 (%)	Change (%)
Pharmaceutical manufacturing	**329,205**	294,840	+11.7	**47.8**	49.5	–1.7
Operation of chain pharmacies	**358,831**	300,725	+19.3	**52.2**	50.5	+1.7
	688,036	595,565	+15.5	**100.0**	100.0	

Pharmaceutical Manufacturing

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

Revenue derived from pharmaceutical manufacturing increased by approximately 11.7% to RMB329.2 million for the year ended 31 December 2015 (2014: RMB294.8 million) and accounted for 47.8% of the total revenue during the year (2014: 49.5%), attributable to the growth in sales as a result of the Group's effort to expand the distribution and marketing network, with a view to further increase the Group's market share and deepen market penetration.

Operation of chain pharmacies

The Group has been operating chain pharmacies in Zhongshan under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 31 December 2015, the Group has 220 self-operated chain pharmacies in Zhongshan (31 December 2014: 198).

Segment revenue of the operation of chain pharmacies increased by approximately 19.3% to approximately RMB358.8 million for the year ended 31 December 2015 (2014: RMB300.7 million) and accounted for 52.2% of the total revenue during the year (2014: 50.5%). The increase in segment revenue was a result of the organic growth of the Group's chain pharmacies, driven by the increase in the overall market demand on pharmaceutical and healthcare products.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB375.1 million, representing an increase of RMB54.8 million or 17.1% as compared with RMB320.3 million for the year ended 31 December 2014. 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		
	2015 RMB'000	2014 RMB'000	Change (%)	**2015 (%)**	2014 (%)	Change (%)
Pharmaceutical manufacturing	**209,751**	172,912	+21.3	**63.7**	58.6	+5.1
Operation of chain pharmacies	**165,327**	147,363	+12.2	**46.1**	49.0	–2.9
	375,078	320,275	+17.1	**54.5**	53.8	+0.7

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 21.3% to RMB209.8 million for the year ended 31 December 2015 (2014: RMB172.9 million). The gross profit margin increased to 63.7% for the year ended 31 December 2015 (2014: 58.6%), primarily resulted from the increase in the wholesale of the Group's own-branded products with higher gross profit margin such as modern decoction pieces and Dangshen and Milkvetch Root Oral Solution (參芪口服液).

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 12.2% to RMB165.3 million for the year ended 31 December 2015 (2014: RMB147.4 million). The gross profit margin of the chain pharmacies segment decreased to 46.1% for the year ended 31 December 2015 (2014: 49.0%). The decrease was mainly due to the increase in the sales of non-own branded products, which had lower gross profit margin than the own-branded products.

Other Income and Gains

Other income and gains mainly comprise of bank interest income and government grants. For the year ended 31 December 2015, other income and gains of the Group were approximately RMB11.4 million (2014: RMB6.5 million), representing an increase of approximately RMB4.9 million as compared to last year which was mainly attributable to the increase in the recognition of government grants.

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 2015, selling and distribution expenses amounted to approximately RMB202.9 million (2014: RMB148.7 million), representing an increase of approximately 36.4% as compared to last year. Selling and distribution expense ratio increased to approximately 29.5% (2014: 25.0%) against revenue for the year ended 31 December 2015, which was mainly due to the increase in advertising expenses for promoting the Company's products and brand name.

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 2015, administrative expenses amounted to approximately RMB61.4 million (2014: RMB50.2 million), representing an increase of approximately 22.3% as compared to last year. The increase was mainly due to the increase of the listing expenses of approximately RMB10.0 million as a result of the listing of the Group in July 2015 and increase in salaries by RMB3.0 million in order to retain high quality talents to ensure smooth operation and cater for the Group's expansion plan.

Finance Costs

The finance costs of the Group for the year ended 31 December 2015 amounted to approximately RMB0.7 million (2014: RMB1.0 million) as the Group has repaid all outstanding bank borrowings during the Reporting Period.

Income Tax Expense

Income tax expense amounted to RMB20.7 million for the year ended 31 December 2015 (2014: RMB28.1 million). Zhongshan Honeson Pharmaceutical Co., Ltd. (中山市恒生藥業有限公司) ("Honeson Pharmaceutical") enjoyed a preferential tax treatment because of its accreditation as a High and New Technology Enterprise and its applicable tax rate was 15%.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent decreased by 7.1% to RMB80.5 million for the year ended 31 December 2015 (2014: RMB86.7 million). The Group's net profit margin decreased to 11.7% for the year ended 31 December 2015 (2014: 14.6%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB450.9 million as at 31 December 2015 (2014: RMB26.7 million). As a result of the successful listing of the Company's shares, the Group's cash and bank balances increased from RMB58.0 million as at 31 December 2014 to RMB426.6 million (of which RMB279.5 million and RMB147.1 million are denominated in RMB and HK$ respectively) as at 31 December 2015. The current ratio of the Group increased from approximately 1.2 as at 31 December 2014 to 4.1 as at 31 December 2015.

Borrowing and the Pledge of Assets

The bank borrowings of the Group, which were secured by the Group's properties, plant and equipment and land use rights amounted to RMB15.0 million as at 31 December 2014 and were due within one year. The bank borrowings were fully repaid during the Reporting Period and the Group had no outstanding borrowings as at 31 December 2015. All of the Group's bank borrowings were denominated in RMB with fixed interest rates.

As at 31 December 2015, the Group has available unutilized banking facilities of RMB30.0 million (2014: RMB20.0 million). Further details of the Group's bank borrowings are set out in note 24 of the notes to the consolidated financial statements.

Gearing Ratio

The Group's gearing ratio, which is calculated by dividing total interest-bearing bank borrowings by total equity, as at 31 December 2014 was maintained at a low level of 12.4%. The Group had no outstanding borrowings as at 31 December 2015.

Capital Structure

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

Foreign Exchange Exposure and Exchange Rate Risk

The Group’s transactions are mainly denominated in RMB. Certain of the Group’s cash and bank deposits are denominated in Hong Kong dollars. In addition, the Company will pay dividend in Hong Kong dollars in the future. Any significant exchange rate fluctuations of Hong Kong dollars against RMB may have financial impacts on the Group. The Group did not use any forward contracts, currency borrowings or other means to hedge its foreign currency exposure for the year of 2015. 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 2015, the Group had 2,237 employees (2014: 2,097) with a total remuneration of RMB150.6 million during the Reporting Period (2014: RMB121.2 million) (including pension scheme contributions and staff welfare expenses). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

Material Acquisitions, Disposals and Significant Investments

During the Reporting Period, the Group did not have any material acquisitions, disposals and significant investments.

Use of Proceeds

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

Business objectives as stated in the Prospectus	Actual net proceeds	Amount utilized up to 31 December 2015	Balance as at 31 December 2015
	HK$'000	HK$'000	HK$'000
Expansion of pharmaceutical chain in the Guangdong province	135,870	(15,428)	120,442
Expansion of distribution network	90,580	(51,348)	39,232
Providing funding for research and development activities	90,580	(5,921)	84,659
Expansion of production capacity	90,580	(2,790)	87,790
General working capital purposes	45,290	(45,290)	—
	452,900	(120,777)	332,123

The unused net proceeds have been placed as interest bearing deposits with licensed banks in Hong Kong and PRC in accordance with the intention of the Board as disclosed in the Prospectus.

Commitment

As at 31 December 2015, the Group's operating lease and capital commitment amounted to RMB94.7 million (2014: RMB56.0 million) and RMB7.9 million (2014: RMB2.3 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.

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.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2015 (2014: nil).

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

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

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

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

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all the Directors and they have confirmed that they have complied with the Model Code throughout the period from the Listing Date to 31 December 2015.

Chairman and Chief Executive Officer

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

Independent Non-Executive Directors

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

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

The Board

The Board currently comprises four Executive Directors, namely Mr. Lai Zhi Tian (Chairman), Mr. Cao Xiao Jun, Ms. Jiang Li Xia and Ms. Mou Li; 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 20 to 23 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 2015. 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 auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 36 to 37.

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

Appointment, Re-election and Removal of Directors

All Directors are appointed for a specific term. Each of the Executive Directors and Independent Non-Executive Directors of the Company is under a service contract with the Company for a period of three years commencing from the Listing Date.

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

Board Diversity Policy

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

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

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

Proceedings of Board Meetings and Board Committee Meetings

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

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

Set out below are details of the attendance record of each Director at the Board, committee and general meetings of the Company held during the year ended 31 December 2015:

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

* representing chairman of the board or the committees

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

During the year ended 31 December 2015, the Audit Committee has held one meeting for discussion on issues arising from the audit and financial reporting matters.

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

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

The external auditors were invited to attend the Audit Committee meetings held during the year to discuss with the Audit Committee members on issues arising from the audit and financial reporting 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 auditors.

Remuneration Committee

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

During the year ended 31 December 2015, 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.

Nomination Committee

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

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

During the year ended 31 December 2015, 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.

Corporate Governance Function

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

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

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

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

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

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

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

Continuous Professional Development

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

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

External Auditor's Remuneration

The Company engaged Ernst & Young as its external auditor for the year ended 31 December 2015. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

During the year ended 31 December 2015, the fee payable to Ernst & Young in respect of its audit services provided to the Company was RMB2.7 million. The major non-audit services provided by our external auditor during the year ended 31 December 2015 mainly include internal control review which amounts to RMB0.5 million.

Internal Control

The board acknowledges that it is responsible for the Group's overall internal control, financial control and risk management systems and shall monitor their effectiveness from time to time.

The Group is committed to set up and maintain a sound and effective internal control system which is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational system and achievement of the Group's objectives. Qualified management throughout the Group maintains and monitors the internal control system on an ongoing basis and in addition, procedures are set up for protecting the Group's assets, and to safeguard these assets against unauthorised or disposition by ensuring that all such transactions shall be executed in accordance with management's authorisation. Other controls include controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications.

During the year ended 31 December 2015, the Group had appointed Ernst & Young to conduct a review on the effectiveness of the major cycles of the Group's internal control system. Such review covered material controls, including financial, operational and compliance controls and risk management functions and it did not reveal any significant defects.

The aforesaid is an ongoing process for identifying, evaluating and managing of significant business, financial, compliance and operational risks specific to the Group. Relevant recommendations made by Ernst & Young who performed the review, where appropriate and practicable, would be implemented by the Group to further enhance its internal control policies, procedures and practices.

In respect of the year ended 31 December 2015, the Board, through Audit Committee, reviewed the effectiveness of the system of internal control of the Group and was satisfied that the Group had fully complied with the code provision on internal control as set forth in the CG Code. The Board also reviewed the resources, qualification and experience of staffing and financial reporting function and their training programmes and budget during the year ended 31 December 2015 and consider them to be adequate and comprehensive.

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. Chow Fung Ling ("Ms. Chow") has been appointed as the company secretary of the Company since 9 March 2015 and is responsible for overseeing all the company secretarial matters of the Group. In the opinion of the Board, Ms. Chow possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. During the year ended 31 December 2015, Ms. Chow confirmed that she has taken no less than 15 hours of relevant professional training. The Company will provide fund for Ms. Chow to take not less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

Shareholders' Rights

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

Shareholders to Convene an Extraordinary General Meeting

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

Putting Enquiries by Shareholders to the Board

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

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

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

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

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

Voting by Poll

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

Investors Relations

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

- Delivery of annual and interim results and reports to all shareholders;

- Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

- The general meeting of the Company is also an effective communication channel between the Board and shareholders

Constitutional Documents

On 8 June 2015, the Company has adopted an amended and restated memorandum and articles of association which had been uploaded to the websites of the Company and the Stock Exchange. Save as disclosed above, there had been no significant changes in the constitutional documents of the Company during the year ended 31 December 2015.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental, Social and Governance Practices

The Board is pleased to release this environmental, social and governance report pursuant to the Environmental, Social and Governance Reporting Guide provided in Appendix 27 to the Listing Rules, which sets out the Company's policies and practices in four aspects, namely the workplace quality, environmental protection, working environment and community involvement for the year ended 31 December 2015. This report is designed to allow shareholders, investors (including potential investors) and the public to have a more comprehensive and profound understanding of the corporate governance and culture of the Company.

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

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

Workplace Quality

Staff

The Group values staff and the contribution that they make. It has a set of human resources management policies and procedures in place with the aim to provide good working conditions, a safe and healthy workplace where employees are engaged and can do well in whatever they do. Those policies and procedures not only ensures the Group's compliance of the relevant labor laws and regulations in places where it operates, it also sets out the Group's standard of staff recruitment, promotion guidelines, remuneration scale, work hours, rest breaks, holidays as well as termination of employment and compensation matters and for prevention of child labor or forced labor. Labor contracts or employment agreements are entered into between the Group and the employees, which clearly states relevant details in order to safeguard mutual interest and benefits. There are staff induction course and continuing educational seminars, regular staff and departmental meetings, internal publications and bulletin board, intranet communication. Specific form of communication can also be made subject to the communication content and characteristics of participants. The Group formulates human resources plan in accordance with its development plan and strategic goals and review regularly. Apart from making external recruitment plan for continuous injection of fresh blood to the Company, the Group forms internal staff training and talent reserve plan, establishes all-level position selection and evaluation system to optimize human resources allocation and internal promotion and nurtures prospective employees to be future leaders in their respective areas.

Working environment

The Group is committed to providing a safe working environment for all of the staff. The Group are subject to the relevant PRC laws and regulations regarding production safety, including the principle law governing the administration of production safety in the PRC, namely the PRC Production Safety Law (中華人民共和國安全生產法) which took effect on 1 November 2002. In order to ensure occupational safety and health of our employees in the process of production, the Group has adopted various measures such as the provision of periodic self-rescue training courses and hazard drills to employees, installation of first-aid equipment in the production sites and provision of protective equipment. The Group has also undertaken accidental insurance policies for the employees.

Employee training and development

In order to enable staff to keep abreast of the pharmaceutical industry and maintain high-quality organization structure, the Company offers various training programs, and earmarks funds for staff training each year. In addition, the Group has established a comprehensive training system and mechanism to provide on-job teaching and training for its employees with a view to enhancing skills and management capabilities of the staff to offer smooth promotion channels. Based on analysis of the development needs of the Company, the management through various methods such as internal aptitude tests, on-job training and examinations and seniors' recommendations, always keeps ongoing selection of outstanding candidates for priority training. During the year of 2015, the Group provided over 61,000 hours of internal and external training to its employees.

Labour standards

All of the employees of the Group were treated equally. Their employment, remuneration and promotion consideration will be not affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.

The majority of the employees of the Group were located in the PRC. The Company strictly complies with the requirements of The Labour Law and The Labour Contract Law of the PRC without violating the relevant rules and regulations including the workers' wages, overtime payments and related benefits are made with reference to the local minimum wage, and holidays and statutory paid leaves are in compliant with the requirements in the PRC.

Environmental Policy

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

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

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

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

Anti-corruption

The Company is committed to prevent and monitor any malpractice or unethical actions. The Group has established stringent policies for anti-corruption and anti-fraud, which were communicated to the employees and providing them a whistle blowing channel for reporting any suspected misappropriate actions to the Board.

Community Involvement

The Company is committed to contribute to the society through involving in the development of the communities. The management and the employees of the Group participated in assisting and supporting the local communities. For the year ended 31 December 2015, the Group made a donation of RMB0.9 million to the society.

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 48, is the spouse of Mrs. Lai. He is the founder, controlling shareholder, an executive Director, Chairman of the Board and general manager of our Group. He joined our Group on 27 September 1999 and is responsible for formulating the corporate strategies and planning the business development of our Group.

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

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

Ms. Jiang Li Xia (江麗霞), aged 51, was appointed as the executive Director of the Company on 12 September 2014. Prior to joining our Group, Mrs. Lai has been a volunteer in the local community centre in a suburb of Vancouver, Canada from 2005 to 2008. She assisted in the operation of the centre where she gained her relevant experience in administration. Mrs. Lai joined our Group on 24 February 2009 and is responsible for supervising business administration of our Group. Her duties include overseeing human resources matters and co-ordinating among different departments to ensure sufficiency of office support for the operation of our Group.

Ms. Mou Li (牟莉), aged 53, was appointed as the executive Director of the Company on 30 January 2015 and is the chief financial officer of our Group. Ms. Mou joined our Group on 1 March 2002 and is responsible for supervising the financial management and control of our Group. She has extensive experience in financial management, with particular expertise in financial control and management, internal control and internal audit. Ms. Mou graduated from the Central Party School of the Communist Party of the PRC* (中央黨校經濟管理專業本科) in December 1996. She was licensed as a senior accountant by the Heilongjiang Department of Human Resource* (黑龍江省人事廳) in September 1997.

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

Mr. Cao Xiao Jun (曹曉俊), aged 48, was appointed as the executive Director of the Company on 30 January 2015 and is the deputy general manager of our Group. He joined our Group on 8 March 2010 and is responsible for supervising business development and overseeing sales and marketing activities of our Group. He obtained a Bachelor degree of Chemistry and Pharmacy Training from China Pharmaceutical University* (中國藥科大學) in July 1989. Mr. Cao was qualified as a pharmaceutical manufacturing engineer* (製藥工程師) and obtained a professional qualification in pharmacy* (藥學) in July 1999 and October 2002 respectively.

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Ng Kwun Wan (吳冠雲), aged 52, was appointed as an independent non-executive Director of the Company on 8 June 2015. He obtained the Bachelor of Arts degree in Accounting and Finance from the Manchester Polytechnic in July 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in May 1990. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993.

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

Mr. Wong Kam Wah (黃錦華), aged 47, was appointed as an independent non-executive Director of the Company on 8 June 2015. He obtained his Bachelor's degree in Laws from the City Polytechnic of Hong Kong, the predecessor institution of the City University of Hong Kong, in December 1994. He obtained a postgraduate certificate in laws from the City University of Hong Kong in November 1995 and a Master degree in Laws from the King's College London, the University of London in November 1996. He further completed the Diploma in Insolvency held by the Hong Kong Institute of Certified Public Accountants in June 2010. Mr. Wong was admitted as a solicitor of Hong Kong in August 1999.

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

Mr. Zhou Dai Han (周岱翰), aged 75, was appointed as an independent non-executive Director of the Company on 8 June 2015. He obtained a Bachelor degree of Medical Treatment awarded by the Guangzhou College of Chinese Medicine* (廣州中醫學院) (the predecessor institution of the Guangzhou University of Chinese Medicine* (廣州中醫藥大學)) in August 1966. Mr. Zhou was accredited as an instructor of the Teaching and Inheritance of Experience of Famous and Veteran Doctors of Traditional Chinese Medicine* (全國老中醫藥專家學術經驗繼承指導老師) in November 2002. He was accredited as a Renowned Chinese Medical Practitioner of Guangdong Province* (廣東省名中醫) in October 2012.

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

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

SENIOR MANAGEMENT

Ms. Jiang Mei Fang (姜梅芳), aged 54, 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 44, 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 42, joined our Group on 31 August 2007 as the production manager of Honeson Pharmaceutical. In July 1997, Mr. Chen obtained a Bachelor degree of Science in pharmacy awarded by the Guangdong Pharmaceutical University* (廣東藥學院). In February 2001, Mr. Chen became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

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

From January 2004 to December 2007, he worked as the manager of the production department of Honeson Pharmaceutical. From January 2008 to June 2008, he was the production supervisor of the same department. From July 2008 to December 2009, he worked as the assistant to the general manager of Honeson Pharmaceutical and was promoted to general manager in January 2010. Mr. Chen is now the general manager of Zhongshan Zhongzhi Food Technology Company Limited* (中山市中智食品科技有限公司) ("Zhongzhi Food"), an indirect wholly owned subsidiary of the Company, and is responsible for the overall management of Zhongzhi Food.

Mr. Tang Lin (唐琳), aged 52, 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.

REPORT OF DIRECTORS

The Directors are pleased to present to the Shareholders the first annual report and the audited consolidated financial statements for the year ended 31 December 2015.

Principal Activities

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

Results and Dividends

The results of the Group for the year ended 31 December 2015 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 38 to 103.

The Board recommend the payment of a final dividend of HK3.5 cents per ordinary share for the year ended 31 December 2015 (2014: Nil) to shareholders on the registrar of members on 23 May 2016, which will be subject to the approval of the Company's Shareholders at the forthcoming AGM. Details are set out in note 11 to the consolidated financial statements. The final dividend will be payable on or around 13 June 2016.

Closure of Register of Members

The register of members of the Company will be closed from 10 May 2016 to 13 May 2016, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 9 May 2016.

To determine the entitlement of the proposed final dividend, the register of members of the Company will be closed from 19 May 2016 to 23 May 2016, both days inclusive, during which period no transfers of shares shall be effected. In order to eligible for receiving the final dividend, all completed transfers forms accomplished by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 18 May 2016.

Property, Plant and Equipment

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

Share Capital

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

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 purchased, sold or redeemed any of the Company's listed securities during the year.

Reserves

Details of the movements in the reserves of the Company and the Group during the year are set out in the note 36 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2015, 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 RMB345.9 million, of which HK$28.0 million has been proposed as final dividend for the year after the reporting period. The amount of RMB345.9 million includes the Company's share premium and retained profits at 31 December 2015, 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 RMB0.9 million during the Reporting Period (2014: Nil).

Major Suppliers and Customers

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

Directors

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

Executive Directors
Mr. Lai Zhi Tian *(Chairman)*
Mr. Cao Xiao Jun
Ms. Jiang Li Xia
Ms. Mou Li

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

Mr. Cao Xiao Jun, Ms. Jiang Li Xia and Ms. Mou Li will retire in accordance with article 108(a) of the Articles at the Company's forthcoming AGM and being eligible, offer themselves for re-election.

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

Directors' and Senior Management's Biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 20 to 23 of this annual report.

Directors' Service Contracts

Each of the Executive Directors and Independent Non-Executive Directors has respectively entered into a service contract commencing from the Listing Date with the Company for a term of three years unless terminated by not less than three months' notice in writing served by either party on the other.

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

Directors' Interests in Contracts

Save as disclosed in this report, there was no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at 31 December 2015 or at any time during the Reporting Period.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2015, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

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

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

Notes:

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

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

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

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

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

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

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

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2015, the following persons (other than the interests of the Directors of the Company as disclosed above) had interests or short positions in the ordinary shares of the Company or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the ordinary shares of the Company

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

Notes:

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

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

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

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

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

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2015 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors’ Rights to Acquire Shares or Debentures

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

Directors’ Interest in a Competing Business

Save as disclosed in the section headed “Connected Transactions” of this report, none of the Directors or any of their respective associates has engaged in or has any interest in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the Report 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.

Share Option Scheme

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

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

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

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

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

Share Award Plan

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 announcement on 8 January 2016) and to attract suitable individuals with experience and ability for further development and expansion of the Group.

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

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

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

As at the date of this report, the trustee holds 3,016,000 Shares and no Share has been granted under the Share Award Plan.

Connected Transactions

Non-exempt Continuing Connected Transactions

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

Contractual Arrangements

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

The Contractual Arrangements that were in place as at 31 December 2015 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 2015 is approximately RMB6.0 million.

   The amount of fees payable by Zhongzhi Herb Pieces shall be calculated in accordance with the PRC accounting principles, which shall be the revenue of Zhongzhi Herb Pieces (which included sales of RMB58.2 million to Zhongzhi Pharmaceutical) after deducting, inter alia, all the expenses (which included rental fee of RMB1.3 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.

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 2015.

For the year ended 31 December 2015, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

Risk relating to the Contractual Arrangements

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

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

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

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

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

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

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

Conflicts of Interests

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

Reasons for the Contractual Arrangements

The principal business of Zhongzhi Herb Pieces is the production of decoction pieces, of which the processing techniques such as steaming, stir-frying, moxibustion and calcinations, are prohibited from foreign investment under the relevant PRC laws and regulations. We cannot own any equity interest in Zhongzhi Herb Pieces. As a result, the Contractual Arrangements were necessary for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces flow to our Group. Other than the information that were disclosed in the Prospectus, there were no changes to the relevant PRC laws and regulations for the year ended 31 December 2015.

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

Waiver from the Stock Exchange and Annual Review

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

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

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during the year ended 31 December 2015 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 2015, and (iii) any new contracts entered into, renewed or reproduced between the Group and Zhongzhi Herb Pieces during the year ended 31 December 2015 are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the shareholders of the Company as a whole.

Confirmations from our Company's Independent Auditors

The auditors 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 2015:

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

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

Zhongzhi Herb Pieces

Revenue attributable to Zhongzhi Herb Pieces was approximately RMB58.5 million during the year ended 31 December 2015. As at 31 December 2015, the total asset and net asset attributable to Zhongzhi Herb Pieces was approximately RMB28.9 million and RMB8.9 million respectively.

Future Prospect and Development

The Group will continue to focus on developing the PRC market in 2016 by further expanding its distribution network, increasing the number of chain pharmacies in the Guangdong province and increasing production capacities. The Group plans to begin its sales operation in Hong Kong by the third quarter of 2016. The Board will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

Public Float

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

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have compiled with the required standard set out in the Model Code during the year ended 31 December 2015.

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 2015.

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 2015, save for the deviation as disclosed in Corporate Governance Report from pages 10 to 17, 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.

Auditors

Ernst & Young, the auditors 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 13 May 2016 to seek Shareholders' approval on the appointment of Ernst & Young as the Company's auditors until the conclusion of the next AGM and to authorize the Board to fix their remuneration.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 21 March 2016

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

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

We have audited the consolidated financial statements of Zhongzhi Pharmaceutical Holdings Limited (the "Company") and its subsidiaries set out on pages 38 to 103, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
21 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	5	**688,036**	595,565
Cost of sales		**(312,958)**	(275,290)
Gross profit		**375,078**	320,275
Other income and gains	5	**11,359**	6,528
Selling and distribution expenses		**(202,869)**	(148,747)
Administrative expenses		**(61,383)**	(50,196)
Other expenses		**(20,266)**	(12,048)
Finance costs	7	**(728)**	(1,002)
PROFIT BEFORE TAX	6	**101,191**	114,810
Income tax expense	10	**(20,652)**	(28,122)
PROFIT FOR THE YEAR		**80,539**	86,688
Attributable to owners of the parent		**80,539**	86,688
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted			
— For profit for the period		**RMB11.61 cents**	RMB14.45 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
PROFIT FOR THE YEAR	**80,539**	86,688
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**19,946**	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**100,485**	86,687
Attributable to owners of the parent	**100,485**	86,687

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**89,133**	79,366
Prepayment for property, plant and equipment		**3,385**	2,100
Prepaid land lease payments	14	**14,366**	14,836
Goodwill	15	**1,628**	1,628
Other intangible assets	16	**1,808**	1,366
Available-for-sale investments	17	**7,650**	—
Deferred tax assets	26	**5,756**	4,976
Rental deposits		**3,782**	3,275
Total non-current assets		**127,508**	107,547
CURRENT ASSETS			
Prepaid land lease payment	14	**470**	470
Inventories	18	**99,894**	88,471
Trade and notes receivables	19	**56,446**	35,489
Prepayments, deposits and other receivables	20	**12,573**	7,943
Cash and bank balances	21	**426,637**	58,004
Total current assets		**596,020**	190,377
CURRENT LIABILITIES			
Trade payables	22	**53,576**	52,802
Other payables and accruals	23	**66,847**	60,805
Amounts due to related parties	31(a)	**8,786**	8,786
Interest-bearing bank borrowings	24	**—**	15,000
Deferred income	25	**5,734**	6,019
Tax payable		**10,167**	20,219
Total current liabilities		**145,110**	163,631
NET CURRENT ASSETS		**450,910**	26,746
TOTAL ASSETS LESS CURRENT LIABILITIES		**578,418**	134,293

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	25	**13,720**	9,047
Deferred tax liabilities	26	**2,010**	4,349
Total non-current liabilities		**15,730**	13,396
Net assets		**562,688**	120,897
Equity			
Equity attributable to owners of the parent			
Issued capital	27	**6,309**	—
Reserves	29	**556,379**	120,897
Total equity		**562,688**	120,897

Lai Zhitian
Director

Mou Li
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Attributable to owners of the parent							
	Issued capital	Share premium*	Merger reserve*	Statutory surplus reserve*	Share-based payment*	Exchange fluctuation reserve*	Retained profits*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 27	*Note 27*	*Note 29(a)*	*Note 29(b)*	*Note 29(c)*			
At 1 January 2014	—	—	31,200	9,778	5,680	1	83,551	130,210
Profit for the year	—	—	—	—	—	—	86,688	86,688
Other comprehensive income for the year								
Exchange differences on translation of foreign operations	—	—	—	—	—	(1)	—	(1)
Total comprehensive income for the year	—	—	—	—	—	(1)	86,688	86,687
Transfer from retained profits	—	—	—	(3,775)	—	—	3,775	—
Dividends declared of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. *(note 11)*	—	—	—	—	—	—	(96,000)	(96,000)
At 1 January 2015	—	—	31,200	6,003	5,680	—	78,014	120,897
Profit for the year	—	—	—	—	—	—	80,539	80,539
Other comprehensive income for the year								
Exchange differences on translation of foreign operations	—	—	—	—	—	19,946	—	19,946
Total comprehensive income for the year	—	—	—	—	—	19,946	80,539	100,485
Issuance of shares	1,577	386,454	—	—	—	—	—	388,031
Capitalisation issue	4,732	(4,732)	—	—	—	—	—	—
Share issuance expense	—	(16,725)	—	—	—	—	—	(16,725)
Transfer from retained profits	—	—	—	24,236	—	—	(24,236)	—
Dividends declared of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. *(note 11)*	—	—	—	—	—	—	(30,000)	(30,000)
At 31 December 2015	6,309	364,997	31,200	30,239	5,680	19,946	104,317	562,688

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**101,191**	114,810
Adjustments for:			
Finance costs	7	**728**	1,002
Interest income	5	**(1,955)**	(898)
Loss on disposal of items of property, plant and equipment	5, 6	**185**	70
Loss on disposal of intangible assets	6	**—**	216
Depreciation	6, 13	**16,049**	12,028
Recognition of prepaid land lease payments	6, 14	**470**	470
Amortisation of other intangible assets	6, 16	**242**	224
Government grants released	25	**(8,313)**	(4,095)
		108,597	123,827
(Increase)/decrease in inventories		**(11,423)**	20,469
Increase in trade and notes receivables		**(17,643)**	(7,387)
Increase in prepayments, deposits and other receivables		**(5,897)**	(195)
Increase in rental deposits		**(507)**	(770)
Increase/(decrease) in trade payables		**774**	(1,416)
Increase/(decrease) in other payables and accruals		**5,664**	(14,106)
Increase in amounts due to related parties	31(a)	**—**	8,786
Increase in deferred income		**10,301**	6,531
Cash generated from operations		**89,866**	135,739
Income tax paid		**(33,826)**	(14,102)
Net cash flows from operating activities		**56,040**	121,637
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(29,864)**	(20,631)
Prepayment for purchase of property, plant and equipment		**(1,284)**	(1,219)
Proceeds from disposal of items of property, plant and equipment		**928**	278
Purchase of other intangible assets	16	**(685)**	(233)
Receipt of government grants		**2,400**	1,200
Purchases of available-for-sale investments, non-current		**(7,650)**	—
Proceeds upon maturity of available-for-sale investments		**—**	25,000
Interest received		**1,955**	898
Increase in non-pledged time deposits with original maturity of more than three months when acquired		**(94,438)**	—
Net cash flows (used in)/from investing activities		**(128,638)**	5,293

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		388,031	—
New bank borrowings		10,000	15,000
Repayments of bank borrowings		(25,000)	(16,000)
Dividends paid	11	(30,000)	(96,000)
Interest paid		(728)	(1,002)
Payment of listing expenses		(15,461)	—
Net cash flows from/(used in) financing activities		326,842	(98,002)
NET INCREASE IN CASH AND CASH EQUIVALENTS		254,244	28,928
Cash and cash equivalents at beginning of year		58,004	29,077
Effect of foreign exchange rate changes, net		19,951	(1)
CASH AND CASH EQUIVALENTS AT END OF YEAR		332,199	58,004
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	245,028	58,004
Non-pledged time deposits	21	181,609	—
Cash and bank balances as stated in the statement of financial position		426,637	58,004
Non-pledged time deposits with original maturity of more than three months when acquired		(94,438)	—
Cash and cash equivalents at end of year		332,199	58,004

1 Corporate and Group Information

Zhongzhi Pharmaceutical Holdings Limited (the "Company") was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company became the holding company of the Group as a result of the reorganisation as described in the paragraph headed "History and Corporate Structure — Reorganisation" to the Prospectus dated 30 June 2015 (the "Reorganisation").

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

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").

Prior to the incorporation of the Company and the completion of the Reorganisation, the main operating activities of the Listing Business were carried out by Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical") and its subsidiaries, which were established in the PRC. The Company and its subsidiaries comprising the Group are under the control of Mr. Lai Zhitian (Mr. Lai, the "Controlling Shareholder").

1 Corporate and Group Information *(continued)*

Information about subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2015 are as follows:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Windom Talent Company Limited ("Windom Talent")	BVI 16 September 2014, BVI	US$1	100%	—	Investment holding
Grant Talent Development Limited ("Grant Talent")	Hong Kong 1 August 2014, Hong Kong	HK$1	—	100%	Investment holding
Zhongzhi Pharmaceutical [(a) (c)]	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") [(d)]	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) (d)]	PRC 10 July 2001, Mainland China	RMB6,600,000	—	100 %	Manufacture and sale of Chinese decoction pieces
Zhongshan Honeson Pharmaceutical Co., Ltd. ("Honeson Pharmaceutical") [(d)]	PRC 2 March 1986, Mainland China	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Zhongshan Zhongzhi Food Technology Company Limited [(d)]	PRC 10 December 2014, Mainland China	RMB500,000	—	100%	Manufacture and sale of food

(a) The increase of capital injection into Zhongzhi Pharmaceutical by the Company amounted to RMB190,000,000 in 2015, and the related capital verification report was issued by Zhongshan Promise Certified Public Accountants ("中山市成諾會計師事務所有限公司").

(b) Prior to the Reorganisation, Zhongzhi Herb Pieces was a wholly-owned subsidiary of Zhongzhi Pharmaceutical. After the Reorganisation, Zhongzhi Herb Pieces was legally owned by certain registered shareholders. Zhongzhi Pharmaceutical entered into a series of contractual arrangements with Zhongzhi Herb Pieces and its registered shareholders. As a result of the contractual arrangements, Zhongzhi Herb Pieces was ultimately controlled by Zhongzhi Pharmaceutical, which is a wholly-owned subsidiary of the Company.

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

(d) These companies were limited liability companies incorporated in PRC.

2.1 Basis of Preparation

Pursuant to the Reorganisation, the subsidiaries now comprising the Group were under the common control of the controlling shareholders before and after the Reorganisation. Accordingly, these financial statements have been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the financial periods presented.

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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost convention. These financial statements are presented in Renminbi ("RMB") which is the Company's functional currency, and all values are rounded to the nearest thousand except otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2015. 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 in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Annual Improvements to IFRSs 2010–2012 Cycle
Annual Improvements to IFRSs 2011–2013 Cycle

The nature and the impact of each amendment is described below:

(a) The Annual Improvements to *IFRSs 2010–2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- IAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

2.2 Changes in Accounting Policies and Disclosures *(continued)*

(b) The Annual Improvements to *IFRSs 2011–2013 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendment that is effective for the current year are as follows:

- IFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- IFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

- IAS 40 *Investment Property*: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as there was no acquisition of investment properties by the Group.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 Issued but not yet Effective IFRSs

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

IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[1]
Amendments to IAS 7	*Disclosure Initiative*[3]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[3]
Amendments to IFRS 16	*Leases*[4]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2019

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2015, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

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

2.3 Issued but not yet Effective IFRSs *(continued)*

(b) Impairment

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

Amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments to IFRS 10 also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Consequential amendments were made to IFRS 12 to require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 9 to present the disclosures in respect of investment entities in accordance with IFRS 12. IAS 28 was also amended to allow an investor that is not itself an investment entity, and has an interest in an investment entity associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to the interest in its subsidiaries. The amendments are not expected to have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In July 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018. During the year ended 31 December 2015, the Group performed a preliminary assessment on the impact of the adoption of IFRS 15.

2.3 Issued but not yet Effective IFRSs *(continued)*

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to IFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2016. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- IFRS 7 *Financial Instruments: Disclosures:* Clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the IFRS 7 disclosures are required.

- IFRS 7 *Financial Instruments: Disclosures:* Clarifies that the disclosures in respect of the offsetting of financial assets and financial liabilities in IFRS 7 are not required in the condensed interim financial statements, except where the disclosures provide a significant update to the information reported in the most recent annual report, in which case the disclosures should be included in the condensed interim financial statements.

- IAS 34 *Interim Financial Reporting:* Clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The amendments also specifies that the information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

2.4 Summary of Significant Accounting Policies

Business combination and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability 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.

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.

2.4 Summary of Significant Accounting Policies *(continued)*

Fair value measurement

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial 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.

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of non-financial assets *(continued)*

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.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

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

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

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

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

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

Intangible assets (other than goodwill)

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

2.4 Summary of Significant Accounting Policies *(continued)*

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

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

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

Drug formulation	10 years
Software	10 years

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

Research and development costs

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

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

Leases

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

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

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

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

2.4 Summary of Significant Accounting Policies *(continued)*

Derecognition of financial assets *(continued)*

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

Impairment of financial assets

The Group assesses at the end of 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 *(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

Initial recognition and measurement

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

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

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

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

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

2.4 Summary of Significant Accounting Policies *(continued)*

Financial liabilities *(continued)*

Subsequent measurement *(continued)*

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

For the purpose of the 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 either in other comprehensive income or directly in equity.

2.4 Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

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.

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.

2.4 Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

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

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

Government grants

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

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

Revenue recognition

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

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

(b) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

The Company operates a share option 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").

2.4 Summary of Significant Accounting Policies *(continued)*

Share-based payments *(continued)*

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.

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.

2.4 Summary of Significant Accounting Policies *(continued)*

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.

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. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), 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.

2.4 Summary of Significant Accounting Policies *(continued)*

Foreign currency translation

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

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

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

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

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

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

3. Significant Accounting Judgements and Estimates

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

Judgements

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

Contractual arrangements

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

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

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill at 31 December 2015 was RMB1,628,000. Further details are given in note 15.

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

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

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade and other receivables amounted to nil as at 31 December 2015 (2014: RMB17,000).

4. Operating Segment Information

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

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

(a) Operation of chain pharmacies

(b) Pharmaceutical manufacturing

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

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

4. Operating Segment Information *(continued)*

Geographical information

During the reporting period, the Group operates within one geographical segment because 100% of its revenue was generated in the PRC and all of its non-current assets were located in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

During each of the years ended 31 December 2015 and 2014, no revenue from transactions with a single customer amounted to 10% or more of the Group's sales.

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

4. Operating Segment Information *(continued)*

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

5. Revenue, Other Income and Gains

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

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

	Note	2015 RMB'000	2014 RMB'000
Revenue			
Sale of pharmaceutical products		**688,036**	595,565
Other income			
Interest income		**570**	366
Interest income from available-for-sale investments		**1,385**	532
		1,955	898
Gains			
Government grants:	25		
— Related to assets		**153**	193
— Related to income		**8,160**	3,902
Gain on disposal of items of property, plant and equipment		**9**	67
Others		**1,082**	1,468
		9,404	5,630
		11,359	6,528

6. Profit Before Tax

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

	Notes	2015 RMB'000	2014 RMB'000
Cost of inventories sold		**312,958**	275,290
Depreciation of items of property, plant, and equipment	13	**16,049**	12,028
Recognition of prepaid land lease payments*	14	**470**	470
Recognition of other intangible assets**	16	**242**	224
Reversal of provision for impairment of trade receivables	19	**(17)**	(7)
Operating lease expenses for land and buildings		**23,175**	18,649
Auditors' remuneration		**2,791**	1,023
Listing expenses		**14,337**	4,299
Employee benefit expenses (including directors' remuneration *(note 8)*):			
Salaries and wages		**130,896**	106,622
Pension scheme contributions		**7,851**	7,860
Staff welfare expenses		**11,835**	6,678
		150,582	121,160
Other expenses:			
Research and development costs		**18,784**	11,184
Loss on disposal of items of property, plant and equipment		**194**	137
Loss on disposal of intangible assets		**—**	216
Others		**1,288**	511
		20,266	12,048

* The recognition of prepaid land lease payments for the reporting period is included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

** The amortisation of drug formulation for the reporting period is included in "Cost of sales" on the face of the consolidated statement of profit or loss.

The amortisation of software for the reporting period is included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

7. Finance Costs

	2015 RMB'000	2014 RMB'000
Interest on bank borrowings	728	1,002

8. Directors' and Chief Executive's Remuneration

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

	2015 RMB'000	2014 RMB'000
Fees	1,000	—
Other emoluments:		
Salaries, allowances and benefits in kind	853	862
Pension scheme contributions	110	113
	1,963	975

(a) Independent non-executive directors

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

	2015 RMB'000	2014 RMB'000
Ng Kwun Wan	69	—
Wong Kam Wah	69	—
Zhou Daihan	69	—
	207	—

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

8. Directors' and Chief Executive's Remuneration *(continued)*

(b) Executive directors and the chief executive

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

2014	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Lai Zhitian	—	319	39	358
Jiang Lixia	—	—	—	—
Mou Li	—	272	39	311
Cao Xiaojun	—	271	35	306
	—	862	113	975

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

9. Five Highest Paid Employees

The five highest paid employees of the Group during the year ended 31 December 2015 include 3 directors (2014: 3 directors), details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining 2 highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	544	561
Pension scheme contributions	72	75
	616	636

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

	2015	2014
Nil to HK$1,000,000	2	2

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

10. Income Tax Expense

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

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

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

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

Honeson Pharmaceutical is qualified as high and new technology enterprise and is subject to a preferential income tax rate of 15% for the reporting period. Zhongzhi Herb Pieces was qualified as high and new technology enterprises and was subject to a preferential income tax rate of 15% in 2014.

10. Income Tax Expense *(continued)*

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

	2015 RMB'000	2014 RMB'000
Mainland China		
Current income tax	23,771	24,604
Deferred income tax (credit)/charge (note 26)	(3,119)	3,518
Total income tax expense	20,652	28,122

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

	2015 RMB'000	2014 RMB'000
Profit before tax	101,191	114,810
Tax calculated at the PRC statutory tax rate of 25%	25,298	28,703
Effect of different applicable tax rates for certain subsidiaries	(2,919)	(4,224)
(Reversal)/effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in the PRC	(3,000)	3,000
Effect on opening deferred tax of increase in rates	(316)	—
Expenses not deductible for tax	1,589	206
Effect of gain on intra-group transaction	—	437
Tax charge at the Group's effective tax rate	20,652	28,122

The effective tax rate of the Group was 20.4% in 2015 (2014: 24.5%).

11. Dividends

	2015 HK$'000	2014 HK$'000
Proposed final dividend – HK3.5 cent (2014: Nil) per ordinary share:	28,000	—

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

No dividend has been paid or declared by the Company since the date of its incorporation. The dividends declared by Zhongzhi Pharmaceutical to its then shareholders during the year ended 31 December 2015 was RMB30,000,000 (2014: RMB96,000,000).

12. Earnings Per Share Attributable to Equity Holders of the Parent

The calculation of basic earnings per share for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 693,698,630 (2014: 600,000,000) in issue during the year.

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

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2015 and 2014.

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

	2015 RMB'000	2014 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	80,539	86,688

	2015	2014
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	693,698,630	600,000,000

13. Property, Plant and Equipment

	Leasehold improvement RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 1 January 2015:							
Cost	46,715	57,290	29,319	4,253	8,764	10,755	157,096
Accumulated depreciation	(28,074)	(26,554)	(15,144)	(3,102)	(4,856)	—	(77,730)
Net carrying amount	18,641	30,736	14,175	1,151	3,908	10,755	79,366
At 1 January 2015, net of accumulated depreciation	18,641	30,736	14,175	1,151	3,908	10,755	79,366
Additions	10,691	—	4,524	81	5,974	5,130	26,400
Disposals	—	—	(519)	(3)	(62)	—	(584)
Depreciation provided during the year (note 6)	(8,572)	(2,788)	(2,160)	(299)	(2,230)	—	(16,049)
Transfers	5,255	—	5,500	—	—	(10,755)	—
At 31 December 2015, net of accumulated depreciation	26,015	27,948	21,520	930	7,590	5,130	89,133
At 31 December 2015:							
Cost	62,661	57,290	38,612	4,267	14,424	5,130	182,384
Accumulated depreciation	(36,646)	(29,342)	(17,092)	(3,337)	(6,834)	—	(93,251)
Net carrying amount	26,015	27,948	21,520	930	7,590	5,130	89,133

13. Property, Plant and Equipment *(continued)*

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

The Group's land and buildings, included above at cost, were valued at RMB94,800,000 as at 31 May 2015 in the prospectus issued on 30 June 2015 in connection with the listing of the Company's shares on 13 July 2015. Had the Group's buildings been included in these financial statements at such valuation amount throughout the year end 31 December 2015, an additional depreciation charge of RMB2,871,000 would have been recognised in the consolidated statement of profit or loss for the year ended 31 December 2015.

As at 31 December 2015, certain of the Group's buildings with a net carrying amount of RMB23,185,000 (2014: RMB25,467,000) were pledged to secure general banking facilities granted to the Group (note 24).

As at 31 December 2015, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB640,000 (2014: RMB712,000). The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

14. Prepaid Land Lease Payments

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	**15,306**	15,776
Recognised during the year	**(470)**	(470)
Carrying amount at 31 December	**14,836**	15,306
Current portion	**(470)**	(470)
Non-current portion	**14,366**	14,836

The above leasehold lands are pledged as security for general banking facilities granted to the Group as at 31 December 2015 and 2014 (note 24).

15. Goodwill

	2015 RMB'000	2014 RMB'000
At 1 January and 31 December	**1,628**	1,628

Goodwill is acquired through the business combination of Honeson Pharmaceutical in prior year. Goodwill acquired through business combinations is allocated to pharmaceutical drugs cash-generating unit for impairment testing. There was no impairment charge made against goodwill for the years ended 31 December 2015 and 2014.

Impairment testing of goodwill

The recoverable amounts of the cash-generating unit have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The pre-tax discount is 5.5% as at 31 December 2015 (2014: 5%) and the growth rate beyond the five-year period had been projected as 3% (2014: 3%).

15. Goodwill *(continued)*

Impairment testing of goodwill *(continued)*

Assumptions were used in the value in use calculation of cash-generating unit for 31 December 2015 and 31 December 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

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

16. Other Intangible Assets

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

16. Other Intangible Assets *(continued)*

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

17. Available-for-Sale Investments

	2015 RMB'000	2014 RMB'000
Non-current		
Unlisted investment, at cost	**7,650**	—

As at 31 December 2015, the fair value of unlisted investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The investment was stated at cost less any impairment losses. The Group does not intend to dispose of it in the near future.

18. Inventories

	2015 RMB'000	2014 RMB'000
Raw materials	**19,060**	22,146
Work in progress	**10,049**	7,983
Finished goods	**70,785**	58,342
	99,894	88,471

19. Trade and Notes Receivables

	2015 RMB'000	2014 RMB'000
Trade receivables	**38,920**	25,381
Notes receivable	**17,526**	10,125
	56,446	35,506
Less: Impairment of trade receivables	**–**	(17)
	56,446	35,489

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

19. Trade and Notes Receivables *(continued)*

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

	2015 RMB'000	2014 RMB'000
Within 1 month	29,652	20,889
1 to 3 months	4,726	3,974
3 to 6 months	1,046	274
6 to 12 months	3,112	60
Over 12 months	384	184
	38,920	25,381

The notes receivable are settled within 180 days. No notes receivable were discounted as at 31 December 2015 and 2014, respectively. As at 31 December 2015, the Group has endorsed notes receivable of RMB11,427,000 (2014: RMB8,112,000) to settle trade payables (note 35).

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

	2015 RMB'000	2014 RMB'000
At 1 January	(17)	(24)
Impairment losses reversed *(note 6)*	17	7
At 31 December	–	(17)

Included in the above provision for impairment of trade receivables as at 31 December 2015 was a provision for individually impaired trade receivables of nil (2014: RMB17,000), with a gross carrying amount before provision of nil (2014: RMB17,000).

19. Trade and Notes Receivables *(continued)*

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

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	33,276	21,822
Less than 3 month past due	3,423	3,259
Over 3 months past due	2,221	283
	38,920	25,364

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

20. Prepayments, Deposits and Other Receivables

	2015 RMB'000	2014 RMB'000
Prepayments	8,610	4,020
VAT recoverable	227	861
Deposits and other receivables	3,736	3,062
	12,573	7,943

21. Cash and Bank Balances

	2015 RMB'000	2014 RMB'000
Cash and bank balances	**245,028**	58,004
Time deposits	**181,609**	—
	426,637	58,004
Denominated in:		
— RMB	**279,526**	57,975
— Hong Kong Dollars ("HK$")	**147,111**	29
	426,637	58,004

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

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

22. Trade Payables

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

	2015 RMB'000	2014 RMB'000
Within 3 months	**39,148**	43,740
3 to 6 months	**10,578**	5,539
6 to 12 months	**1,403**	2,137
over 12 months	**2,447**	1,386
	53,576	52,802

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

23. Other Payables and Accruals

	Note	2015 RMB'000	2014 RMB'000
Accruals and other payables		**7,531**	8,726
Accrued salary and welfare		**23,041**	16,686
Advances from customers		**6,074**	9,572
Endorsed notes	35	**11,427**	8,112
Deposits received		**8,247**	9,810
Payables for purchases of property and equipment		**2,936**	1,030
Other tax payables		**7,591**	6,869
		66,847	60,805

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

24. Interest-Bearing Bank Borrowings

2015

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	—	—	—

2014

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

24. Interest-Bearing Bank Borrowings *(continued)*

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**–**	15,000

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

(i) Mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB23,185,000 as at 31 December 2015 (2014: RMB25,467,000), were pledged to secure general banking facilities granted to the Group.

(ii) Mortgages over the prepaid land lease payments, which had an aggregate carrying value of approximately RMB14,836,000 as at 31 December 2015 (2014: RMB15,306,000), were pledged to secure general banking facilities granted to the Group.

In addition, Zhongzhi Pharmaceutical has guaranteed Honeson Pharmaceutical's banking facilities of up to RMB30,000,000, which had not been used as at 31 December 2015.

25. Deferred Income

	2015	2014
	RMB'000	RMB'000
At 1 January	**15,066**	11,430
Received amounts	**12,701**	7,731
Released amounts	**(8,313)**	(4,095)
At 31 December	**19,454**	15,066
Current	**5,734**	6,019
Non-current	**13,720**	9,047
	19,454	15,066

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

26. Deferred Tax Assets and Deferred Tax Liabilities

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

	2015 RMB'000	2014 RMB'000
Deferred tax assets	**5,756**	4,976
Deferred tax liabilities	**(2,010)**	(4,349)

2015 Deferred tax assets

	Decelerated depreciation for tax purposes RMB'000	Impairment of inventories RMB'000	Impairment of trade receivables RMB'000	Government grants RMB'000	Accruals RMB'000	Unrealised profit from intercompany transactions RMB'000	Others RMB'000	Total RMB'000
At 31 December 2014 and 1 January 2015	214	—	4	2,958	552	1,242	6	4,976
Deferred tax credited/(charged) to the statement of profit or loss during the year	(214)	—	21	1,205	(552)	319	1	780
At 31 December 2015	—	—	25	4,163	—	1,561	7	5,756

2014 Deferred tax assets

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

26. Deferred Tax Assets and Deferred Tax Liabilities *(continued)*

	Deferred tax liabilities			
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Withholding taxes RMB'000	Total RMB'000
At 31 December 2013 and 1 January 2014	—	(1,389)	—	(1,389)
Deferred tax credited/(charged) to the statement of profit or loss during the year	—	40	(3,000)	(2,960)
At 31 December 2014 and 1 January 2015	—	(1,349)	(3,000)	(4,349)
Deferred tax credited/(charged) to the statement of profit or loss during the year	(699)	38	3,000	2,339
At 31 December 2015	(699)	(1,311)	—	(2,010)

Pursuant to the PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. At 31 December 2014, deferred tax of RMB3,000,000 has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China, which is related to the dividend amounting to RMB30,000,000 declared in April 2015.

At 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB111,044,000 at 31 December 2015 (2014: RMB48,086,000).

27. Issued Capital

	2015	2014
Issued and fully paid:		
800,000,000 (2014: 10,000) ordinary shares of HK$0.01 each (HK$'000)	**8,000**	—
Equivalent to RMB'000	**6,309**	—

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

	Notes	Number of issued and fully paid ordinary shares	Equivalent Share Capital RMB'000	Equivalent Share premium RMB'000	Total RMB'000
At 1 January 2014					
On incorporation	(a)	10,000	—	—	—
At 31 December 2014 and 1 January 2015		10,000	—	—	—
Capitalisation Issue	(b)	599,990,000	4,732	(4,732)	—
Issuance of new shares under the global offering	(c)	200,000,000	1,577	386,454	388,031
Share issuance expenses		—	—	(16,725)	(16,725)
At 31 December 2015		800,000,000	6,309	364,997	371,306

Notes:

(a) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 September 2014 with an authorised share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each.

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

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

28. Share Option Scheme

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

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

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

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

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

Further details of the Company's share option scheme are set out in the Group's Report of the Directors on page 30.

No share options were granted during the year ended 31 December 2015 and no share options were outstanding under the Scheme as at 31 December 2015 and 2014.

29. 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 42 of this report.

(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 represent the difference between the fair value of the shares granted to employees of the Group and the costs paid by these employees through Zhongshan Yu Xin, which as an employee benefit expense with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at grant date based on the discounted cash flow method. As there were no future service conditions attached to the share-based payments, the share-based payments were vested immediately in 2012.

30. Commitments

Capital commitments

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

	2015 **RMB'000**	2014 RMB'000
Contracted, but not provided for:		
Leasehold improvement	**4,772**	545
Plant and machinery	**3,154**	1,745
	7,926	2,290

At the end of 31 December 2015 and 2014, the Group had no significant authorised but not contracted capital commitment.

30. Commitments *(continued)*

Operating lease commitments

As lessor

The Group sublet 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 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	46	197
In the second to fifth years, inclusive	–	46
	46	243

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:

	2015 RMB'000	2014 RMB'000
Within one year	24,854	16,894
In the second to fifth years, inclusive	58,398	34,561
Beyond five years	11,436	4,501
	94,688	55,956

31. Related Party Transactions

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2015 and 2014 represent consideration received from the Registered Shareholders as part of the Reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interest of Zhongzhi Herb Pieces by the Group. The amounts are unsecured, interest-free and have no fixed term of repayment.

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

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	**2,577**	1,816
Pension scheme contributions	**225**	237
	2,802	2,053

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

32. Financial Instruments by Category

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

	Notes	**2015 RMB'000**	2014 RMB'000
Financial assets — loans and receivables			
Rental deposits		**3,782**	3,275
Trade and notes receivables	19	**56,446**	35,489
Deposits and other receivables	20	**3,736**	3,062
Cash and bank balances	21	**426,637**	58,004
		490,601	99,830
Financial assets — available-for-sale			
Available-for-sale investments	17	**7,650**	—
Financial liabilities at amortised cost			
Trade payables	22	**53,576**	52,802
Financial liabilities included in other payables and accruals		**30,141**	27,678
Due to related parties	31(a)	**8,786**	8,786
Interest-bearing bank borrowings	24	**—**	15,000
		92,503	104,266

33. Fair Value and Fair Value Hierarchy of Financial Instruments

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

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

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

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

34. Financial Risk Management Objectives and Policies

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

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

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and time deposits at banks. Therefore the Group does not have any significant exposure to risk of changes in market interest rates. The Group currently does not have a specific policy to manage its interest rate risk and has not entered into interest rate swaps.

Foreign currency risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's case 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 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.

34. Financial Risk Management Objectives and Policies *(continued)*

Credit risk

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.

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.

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

34. 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:

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

	2014			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade payables	8,720	44,082	—	52,802
Financial liabilities included in other payables and accruals	10,873	10,528	6,277	27,678
Due to related parties	8,786	—	—	8,786
Interest-bearing bank borrowings	—	—	15,523	15,523
	28,379	54,610	21,800	104,789

34. 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:

	Notes	**2015** **RMB'000**	2014 RMB'000
Interest-bearing bank borrowings	24	**–**	15,000
Equity attributable to owners of the parent		**562,688**	120,897
Gearing ratio		**–**	12.4%

35. Transfers of Financial Assets

As at 31 December 2015 and 2014, the Group endorsed certain notes receivables accepted by certain banks in the Mainland China (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). Subsequent to the Endorsement, the Group does not retain any rights to the use of the Endorsed Notes, including sale, transfer or pledge of the Endorsed Notes to any other third parties. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The total carrying amount of the Endorsed Notes as at 31 December 2015 was RMB40,558,000 (2014: RMB35,912,000), of which the Endorsed Notes and the associated trade payables with a carrying amount of RMB29,131,000 as at 31 December 2015 (2014: RMB27,800,000), had been fully derecognised. The Group carefully assesses the default risk of the PRC banks based on the credit rating reports from an independent PRC credit agency. The Group only derecognises the notes receivable that have been accepted by banks with high credit ratings as the directors are of the view that the default risk of these banks is remote and the Group has transferred substantially all the risks and rewards relating to such notes (the "Derecognised Note"). The Derecognised Notes had a maturity from 1 to 5 months at the end of the reporting period. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase the Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant, given the insignificant default risk of the related PRC banks.

During the years ended 31 December 2015 and 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the years ended 31 December 2015 and 2014 or cumulatively. The Endorsement has been made evenly throughout the years ended 31 December 2015 and 2014.

The Group continued to recognise the carrying amount of the remaining Endorsed Notes and associated trade payables settled of RMB11,427,000 as at 31 December 2015 (2014: RMB8,112,000), 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.

36. 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:

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	247,437	—
Total non-current assets	247,437	—
CURRENT ASSETS		
Prepayments, deposits and other receivables	121	1,267
Cash and bank balances	143,552	—
Total current assets	143,673	1,267
CURRENT LIABILITIES		
Due to subsidiaries	16,170	5,721
Other payables and accruals	21	—
Total current liabilities	16,191	5,721
NET CURRENT ASSETS	127,482	(4,454)
TOTAL ASSETS LESS CURRENT LIABILITIES	374,919	(4,454)
Net assets	374,919	(4,454)
Equity		
Issued capital	6,309	—
Reserves *(note)*	368,610	(4,454)
Total equity	374,919	(4,454)

Lai Zhitian
Director

Mou Li
Director

36. Statement of Financial Position of the Company *(continued)*

Note:

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

	Share premium* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000
At 1 January 2014	—	—	—	—
Profit for the year	—	—	(4,432)	(4,432)
Other comprehensive income for the year				
Exchange differences on translation of foreign operations	—	(22)	—	(22)
Total comprehensive income for the year	—	(22)	(4,432)	(4,454)
At 31 December 2014	—	(22)	(4,432)	(4,454)
Profit for the year	**—**	**—**	**(14,616)**	**(14,616)**
Other comprehensive income for the year				
Exchange differences on translation of foreign operations	**—**	**22,683**	**—**	**22,683**
Total comprehensive income for the year	**—**	**22,683**	**(14,616)**	**8,067**
Issuance of shares for the IPO	**386,454**	**—**	**—**	**386,454**
Capitalization issue	**(4,732)**	**—**	**—**	**(4,732)**
Share issuance expense	**(16,725)**	**—**	**—**	**(16,725)**
At 31 December 2015	**364,997**	**22,661**	**(19,048)**	**368,610**

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

FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group for the last four 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			
	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**688,036**	595,565	482,805	410,052
PROFIT BEFOE TAX	**101,191**	114,810	46,803	23,449
Income tax expense	**(20,652)**	(28,122)	(9,165)	(6,195)
PROFIT FOR THE YEAR AND ATTRIBUTABLE TO OWNERS OF THE COMPANY	**80,539**	86,688	37,638	17,254

ASSETS AND LIABILITIES

	As at 31 December			
	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**723,528**	297,924	298,874	239,621
TOTAL LIABILITIES	**160,840**	284,528	168,664	147,050