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 RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016

	For the year ended 31 December		
	2016	2015	Year-on-Year
	RMB'000	*RMB'000*	Change*
Revenue	**730,472**	688,036	+6.2%
Gross Profit	**399,438**	375,078	+6.5%
Gross margin of the Group (%)	**54.7%**	54.5%	
Profit attributable to equity holders of the Company	**53,872**	80,539	–33.1%
Earnings per share (expressed in RMB per share)			
Basic	**RMB6.79 cents**	RMB11.61 cents	–41.5%
Diluted	**RMB6.73 cents**	RMB11.61 cents	–42.0%
Interim dividend per share	**HK1.6 cents**	—	N/A
Final dividend per share	**HK1.0 cent**	HK3.5 cents	–71.4%
Total dividend per share	**HK2.6 cents**	HK3.5 cents	–25.7%

* *Year-on-Year change represents a comparison between the current reporting period and the corresponding period last year.*

ANNUAL RESULTS

The board (the "Board") of directors ("Directors") of Zhongzhi Pharmaceutical Holdings Limited (the "Company") is pleased to announce the consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 (the "Reporting Period"), together with the comparative figures for the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**730,472**	688,036
Cost of sales		**(331,034)**	(312,958)
Gross profit		**399,438**	375,078
Other income and gains	5	**22,497**	11,359
Selling and distribution expenses		**(277,350)**	(202,869)
Administrative expenses		**(56,534)**	(61,383)
Other expenses	6	**(18,892)**	(20,266)
Finance costs	7	**—**	(728)
PROFIT BEFORE TAX	6	**69,159**	101,191
Income tax expense	8	**(15,287)**	(20,652)
PROFIT FOR THE YEAR		**53,872**	80,539
Attributable to owners of the parent		**53,872**	80,539
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic			
— For profit for the year		**RMB6.79 cents**	RMB11.61 cents
Diluted			
— For profit for the year		**RMB6.73 cents**	RMB11.61 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**180,053**	89,133
Prepayments for property, plant and equipment		**2,345**	3,385
Prepaid land lease payments	12	**13,896**	14,366
Goodwill		**1,628**	1,628
Other intangible assets	13	**1,709**	1,808
Investment in a joint venture	14	**430**	—
Available-for-sale investments	15	**8,650**	7,650
Deferred tax assets		**5,758**	5,756
Other non-current assets		**8,516**	3,782
Total non-current assets		**222,985**	127,508
CURRENT ASSETS			
Prepaid land lease payments	12	**470**	470
Inventories	16	**121,081**	99,894
Trade and notes receivables	17	**63,863**	56,446
Prepayments, deposits and other receivables		**20,694**	12,573
Cash and bank balances		**326,135**	426,637
Total current assets		**532,243**	596,020
CURRENT LIABILITIES			
Trade payables	18	**57,531**	53,576
Other payables and accruals		**81,482**	66,847
Amounts due to related parties		**8,786**	8,786
Deferred income		**6,493**	5,734
Amount due to a joint venture	14	**430**	—
Tax payable		**15,589**	10,167
Total current liabilities		**170,311**	145,110
NET CURRENT ASSETS		**361,932**	450,910
TOTAL ASSETS LESS CURRENT LIABILITIES		**584,917**	578,418

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

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Zhongzhi Pharmaceutical Holdings Limited was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015 (the "Listing Date").

The Company is an investment holding company. The Group are principally engaged in the manufacture and sale of pharmaceutical products in the People's Republic of China (the "PRC"). There has been no significant change in the Group's principal activities during the year.

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

Information about subsidiaries:

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

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Windom Talent Company Limited ("Windom Talent")	BVI 16 September 2014, BVI	US$1	100%	—	Investment holding
Grant Talent Development Limited ("Grant Talent")	Hong Kong 1 August 2014, Hong Kong	HK$1	—	100%	Investment holding
Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical")[(a)]	PRC 27 September 1999, Mainland China	RMB220,000,000	—	100%	Sale of pharmaceutical drugs
Zeus Medicine Hong Kong Limited	Hong Kong 14 April 2011, Hong Kong	HK$10,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chain Pharmacies Company Limited ("Zhongzhi Chain Pharmacies")	PRC 27 July 2001, Mainland China	RMB4,600,000	—	100%	Sale of pharmaceutical drugs

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
Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Zhongzhi Herb Pieces")[(b)]	PRC 10 July 2001, Mainland China	RMB6,600,000	—	100 %	Manufacture and sale of Chinese decoction pieces
Zhongshan Honeson Pharmaceutical Co., Ltd. ("Honeson Pharmaceutical")	PRC 2 March 1986, Mainland China	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Guangdong Caojinghua Cell-broken Herb Co., Ltd. ("Guangdong Caojinghua")[(c)]	PRC 10 December 2014, Mainland China	RMB500,000	—	100%	Manufacture and sale of food
Yulin Yixian Chinese Medicinal Materials Co., Ltd. ("Yulin Yixian")	PRC 8 August 2016, Mainland China	RMB2,000,000	—	100%	Manufacture and sale of Chinese herb

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

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

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under a historical cost convention. These financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency, and all values are rounded to the nearest thousand except otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

4. OPERATING SEGMENT INFORMATION

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

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

(a) Operation of chain pharmacies

(b) Pharmaceutical manufacturing

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

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

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

Geographical information

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

Information about major customers

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

Operating segment information for the year ended 31 December 2016:

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

Operating segment information for the year ended 31 December 2015:

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

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:

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

6. PROFIT BEFORE TAX

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

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

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

7. FINANCE COSTS

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

8. INCOME TAX EXPENSE

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

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

Hong Kong profits tax rate is 16.5% (2015: 16.5%) of assessable profits derived from Hong Kong during the year. Since the Group had no such profits during the reporting period, no provision for Hong Kong profits tax has been made.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in Mainland China during the reporting period was 25% of their taxable profits.

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

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

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

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

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

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

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

9. DIVIDENDS

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

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

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

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

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

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

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

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

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

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

11. PROPERTY, PLANT AND EQUIPMENT

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

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

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

12. PREPAID LAND LEASE PAYMENTS

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

13. OTHER INTANGIBLE ASSETS

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

	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

14. INVESTMENT IN A JOINT VENTURE

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

Particulars of the joint venture are as follows:

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

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

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

15. AVAILABLE-FOR-SALE INVESTMENTS

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

As at 31 December 2016, the fair value of the unlisted equity investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The investment was stated at cost less any impairment losses. The Group does not intend to dispose of it in the near future.

16. INVENTORIES

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

17. TRADE AND NOTES RECEIVABLES

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

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

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

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

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

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

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

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

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

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

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

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

18. TRADE PAYABLES

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

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

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

BUSINESS REVIEW

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

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

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

OUTLOOK & STRATEGY

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

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

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

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

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

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

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

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

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

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

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

(II) Orderly business development:

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

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

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

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

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

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

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

(III) Building and upgrading Caojinghua brand

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

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

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

FINANCIAL ANALYSIS

Revenue

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

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

Pharmaceutical Manufacturing

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

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

Operation of chain pharmacies

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

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

Gross profit and gross profit margin

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

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

Other income and gains

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Liquidity and Capital Resources

Net Current Assets

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

Borrowing and the Pledge of Assets

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

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

Gearing Ratio

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

Contingent Liabilities

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

Foreign Exchange Exposure and Exchange Rate Risk

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

EMPLOYEES AND EMOLUMENTS POLICY

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

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

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

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

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

(i) Name of the wealth management product:	WMP 1: "乾元 — 日積利"（按日）開放式資產組合型人民幣理財產品 WMP 2: "乾元 — 日鑫月溢"（按日）開放式資產組合型人民幣理財產品
(ii) Type of return:	principal-guaranteed with floating return and open-ended
(iii) Valid period of product:	no nominal terms
(iv) Expected rate of return:	WMP 1: 1.80% to 4.51% annually, depending on the length of the deposit period; WMP 2: 2.00% to 4.20% annually, depending on the length of the deposit period.

(v) Redemption of principal and return:	redemption can be applied within the designated time in any statutory working days of the bank in the PRC. The entire redeemed amount will be deposited to Zhongzhi Pharmaceutical's designated bank account immediately upon redemption.
(vi) Right of early termination:	CCB has the right to early terminate the wealth management product at any time, including but not limited to the circumstances of material adjustments to the national financial policies or material changes to the bonds market or other areas within the portfolio of this product which affect the normal functioning of this product. CCB shall notify Zhongzhi Pharmaceutical within two working days before the termination date and shall make payment of the principal and return within five working days after the termination date to Zhongzhi Pharmaceutical's designated bank account.

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

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

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

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

JOINT VENTURE

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

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

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

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

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.

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.

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 2016, the Audit Committee has held three meetings for discussion on the audit and financial reporting related matters.

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

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

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

Nomination Committee

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

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

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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 2016.

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on the websites of The Stock Exchange (www.hkex.com.hk) and the Company (http://www.zeus.cn). The annual report of the Company for the year ended 31 December 2016 will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Zhongzhi Pharmaceutical Holdings Limited
Lai Zhi Tian
Chairman & Executive Director

Hong Kong, 24 March 2017

As at the date of this announcement, our executive Directors are Mr.Lai Zhi Tian, Mr. Cao Xiao Jun, Mr. Cheng Jin Le and Ms. Mou Li; our non-executive Director is Ms. Jiang Li Xia; and our independent non-executive Directors are Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han.