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 2017

Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lai Zhi Tian *(Chairman)*
Ms. Mou Li
Mr. Cao Xiao Jun
Mr. Cheng Jin Le

Non-executive Director

Ms. Jiang Li Xia

Independent Non-executive Directors

Mr. Ng Kwun Wan
Mr. Wong Kam Wah
Mr. Zhou Dai Han

COMMITTEES OF THE BOARD

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

AUTHORIZED REPRESENTATIVES

Ms. Mou Li
Ms. Ho Wing Yan

COMPANY SECRETARY

Ms. Ho Wing Yan

REGISTERED ADDRESS

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

HEADQUARTER IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

OFFICE IN SHENZHEN

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

AUDITOR

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

Corporate Information

PRINCIPAL BANKERS

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK NAME

ZHONGZHIPHARM

STOCK CODE

3737

COMPANY WEBSITE

www.zeus.cn

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Zhongzhi Pharmaceutical Holdings Limited (the "Company" and together with its subsidiaries, the "Group"), I am pleased to present to the shareholders of the Company the annual report and audited consolidated financial statements of the Group for the year ended 31 December 2017 (the "Reporting Period").

BUSINESS REVIEW

By virtue of the clear strategic positioning, in 2017, we grasped the best strategic pulse of development, successfully established a unique brand and marketing model, established systems for organizational reform and efficient synergy, and also achieved rapid growth in sales results, enabling us to stay at the top of the industry.

During the Reporting Period, the total revenue of the Group amounted to approximately RMB944.6 million, representing an increase of approximately 29.3% compared to the previous year (2016: RMB730.5 million) while the Group's profit for the year amounted to approximately RMB70.1 million, increased by approximately 30.0% compared to the previous year (2016: RMB53.9 million). Basic earnings per share was RMB8.77 cents (2016: RMB6.79 cents), an increase of approximately 29.2% compared to the previous year.

DIVIDEND

The Board is recommending a final dividend of HK2.21 cents per share for 2017 for approval by the shareholders. Together with the interim dividend of HK1.875 cents per share, the total dividend for 2017 would be approximately HK4.085 cents per share, compared with HK2.6 cents per share in 2016. Meanwhile, in order to reward the investors of the Company, the Board also proposed to distribute a special dividend of HK1.709 cents per share for shareholders' approval.

OUTLOOK & STRATEGY

In the macro context of the promulgation and implementation of the Law on Traditional Chinese Medicine, the inclusion of Chinese medicine development in reports of the 19th National Congress and the incorporation of massive health industry into national strategy, the development of Chinese medicine has embraced a promising historical opportunity. In 2018, we will firmly seize the opportunity, adhere to the strategic positioning, promote the strategic layout and continue to lead the development of cell wall broken herbs in the Chinese medicine field with technological innovation.

In view of the above, for the year 2018 and the future, we have clear strategic positioning and precise tactics, coupled with efficient synergy and effective supervision mechanism. We are very confident for the future development.

GRATITUDE

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

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 26 March 2018

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 29.3% to approximately RMB944.6 million.

Profit increased by approximately 30.0% to RMB70.1 million due to the strong growth momentum of the modern decoction pieces (Caojinghua Cell-broken Herb).

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**		
	2017 RMB'000	2016 RMB'000	Change (%)	**2017 (%)**	2016 (%)	Change (%)
Pharmaceutical manufacturing	**507,482**	341,156	+48.8	**53.7**	46.7	+7.0
Operation of chain pharmacies	**437,152**	389,316	+12.3	**46.3**	53.3	-7.0
	944,634	730,472	+29.3	**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 48.8% to RMB507.5 million for the year ended 31 December 2017 (2016: RMB341.2 million) and accounted for 53.7% of the total revenue during the year (2016: 46.7%), attributable to the growth in sales as a result of the Group's effort to expand the distribution and marketing network. The modern decoction pieces (草晶華破壁草本) thereby further increase the Group's market share and deepen market penetration, resulting in an increase in sales.

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 2017, the Group has 260 self-operated chain pharmacies in Zhongshan (31 December 2016: 245), of which 241 are medical insurance designated pharmacies (醫保定點藥店).

Management Discussion and Analysis

Segment revenue of the operation of chain pharmacies increased by approximately 12.3% to approximately RMB437.2 million for the year ended 31 December 2017 (2016: RMB389.3 million) and accounted for 46.3% of the total revenue during the year (2016: 53.3%), which were a result of (i) the better marketing member management of the Group's chain pharmacies, increased member loyalty and higher sales volume; and (ii) the increase in e-commerce sales performance.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB564.3 million, representing an increase of RMB164.9 million or 41.3% as compared with RMB399.4 million for the year ended 31 December 2016. 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**		
	2017	2016	Change	**2017**	2016	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**353,733**	218,490	+61.9	**69.7**	64.0	+5.7
Operation of chain pharmacies	**210,520**	180,948	+16.3	**48.2**	46.5	+1.7
	564,253	399,438	+41.3	**59.7**	54.7	+5.0

Pharmaceutical Manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 61.9% to RMB353.7 million for the year ended 31 December 2017 (2016: RMB218.5 million). The gross profit margin increased to 69.7% for the year ended 31 December 2017 (2016: 64.0%), primarily resulted from the significant increase in the revenue of modern decoction pieces (Caojinghua Cell-broken Herb) with higher gross profit margin. The income of modern decoction pieces (Caojinghua Cell-broken Herb) increased by RMB156.5 million in the pharmaceutical manufacturing segment.

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 16.3% to RMB210.5 million for the year ended 31 December 2017 (2016: RMB180.9 million). The gross profit margin of the chain pharmacies segment increased to 48.2% for the year ended 31 December 2017 (2016: 46.5%). The increase was mainly due to the growth in the sales of Chinese medicine products as a result of precision marketing.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, interest income from bank financial products and government grants. For the year ended 31 December 2017, other income and gains of the Group were approximately RMB16.0 million (2016: RMB22.5 million), representing a decrease of approximately RMB6.5 million as compared to last year which was mainly attributable to the government grants of approximately RMB6.0 million for listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Management Discussion and Analysis

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 2017, selling and distribution expenses amounted to approximately RMB387.0 million (2016: RMB277.4 million), representing an increase of approximately 39.5% as compared to last year. Selling and distribution expense ratio increased to approximately 41.0 % (2016: 38.0%) against revenue for the year ended 31 December 2017, which was mainly due to (i) the increase in advertising expenses for promoting the Company's (新型飲片) Caojinghua Cell-broken Herb through various media channels and platforms; (ii) the increase in salaries for retaining and attracting outstanding business talents; and (iii) expanding distribution networks such as e-commerce and hospitals to meet the Group's business expansion plan.

Administrative Expenses

Administrative expenses mainly represent salaries and benefits of the administrative and management staff as well as legal and professional fees. For the year ended 31 December 2017, administrative expenses amounted to approximately RMB64.9 million (2016: RMB56.5 million), representing an increase of approximately 14.9% as compared to last year. The increase was mainly due to (i) the increase in office and meeting expenses of the Group; and (ii) the increase in employees' salary and welfare expenses and the introduction of quality talents, which ensured smooth operations and catered for the Group's talent development and business expansion plans.

Income Tax Expense

Income tax expense amounted to RMB19.8 million for the year ended 31 December 2017 (2016 : RMB15.3 million). The increase in income tax was due to the increase in profits.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 30.0% to RMB70.1 million for the year ended 31 December 2017 (2016: RMB53.9 million). The Group's net profit margin amounted to 7.4% for the year ended 31 December 2017 (2016: 7.4%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB428.0 million as at 31 December 2017 (2016: RMB361.9 million). The Group's cash and bank balances increased from RMB326.1 million as at 31 December 2016 to RMB359.5 million (of which RMB293.2 million and RMB66.3 million are denominated in RMB and HK$ respectively) as at 31 December 2017. The current ratio of the Group decreased from approximately 3.1 as at 31 December 2016 to 2.9 as at 31 December 2017.

Management Discussion and Analysis

Borrowing and the Pledge of Assets

The Group had no outstanding borrowings as at 31 December 2017.

As at 31 December 2017, the Group has available unutilized banking facilities of RMB30.0 million (2016: RMB30.0 million).

Gearing Ratio

The Group had no outstanding borrowings as at 31 December 2017 (2016: Nil).

Capital Structure

The shares of the Company (the "Shares") were listed on the Stock Exchange on 13 July 2015 (the "Listing Date"). The capital of the Company comprises ordinary shares and other reserves. As at 31 December 2017, the number of issued shares of the Company was 840,000,000 ordinary Shares of HK$0.01 each.

Subscription of New Shares

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

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

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

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

The equity fund raising activities conducted by the Company as at the date of this report are set out below:

Date of announcement	Event	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
27 October 2017	Subscription of 40,000,000 new ordinary Shares under the General Mandate	HK$60,800,000	For expanding the distribution network of the Company and applying on the research and development activities	HK$27,785,000 was utilized for distribution network of the Company

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 2017. 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 2017, the Group had 3,231 employees (2016: 2,396) with a total remuneration of RMB230.6 million during the Reporting Period (2016: RMB178.0 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.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES AND SIGNIFICANT INVESTMENTS

Wealth Management Products

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

Zhongzhi Pharmaceutical, an indirectly wholly-owned subsidiary of the Company, made subscriptions for wealth management products offered by Agricultural Bank of China ("ABC") under wealth management product master agreement with ABC on 16 January 2017 ("C1010314006708").

(i)	Name of the wealth management product:	Agricultural Bank of China "Benlifeng" 181-day RMB Wealth Management Product
(ii)	Type of return:	Wealth management product with principal-preservation and guaranteed return
(iii)	Valid period of product:	181 days
(iv)	Expected rate of return:	2.85%
(v)	Redemption of principal and return:	The principal and return of the wealth management product will be paid in a lump sum within 1 bank business day after the maturity date.
(vi)	Full redemption:	No early redemption of the product shall be opened for investors within the agreed holding period.
(vii)	Right of early termination:	No rights of early termination is offered to investors, except that Agricultural Bank of China can exercise its rights of early termination before the maturity date to terminate this product. Agricultural Bank of China will publish the early termination announcement to the investors 2 working days before the date of termination, and will transfer the principal and revenue (if any) of the wealth management product to the original account of the investors within 1 working day after the date of early termination.

Management Discussion and Analysis

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by Industrial and Commercial Bank of China ("ICBC") under wealth management product master agreement with ICBC on 16 January 2017 ("WL63BBX").

(i)	Name of the wealth management product:	ICBC Principal Guaranteed Corporate 63-day Fixed Rate RMB Wealth Management Product
(ii)	Type of return:	Principal-guaranteed and floating income
(iii)	Valid period of product:	every 63-day an investment cycle (4 cycles)
(iv)	Expected rate of return:	approximately 2.65%
(v)	Redemption of principal and return:	The next day of the last day of investment cycle is the fund payment date. If the fund payment date is statutory holiday, the investment cycle would be extended accordingly and the fund payment date will be the establishment day of the latest product (working day).
(vi)	Full redemption:	No early redemption of the product shall be opened for investors within the agreed holding period.
(vii)	Right of early termination:	ICBC has the rights to terminate the wealth management product according to its operating situation and disclose the information at least 3 working days before date of termination. The customer funds will be transferred to the designated account of the customers within 3 working days after the date of termination. No interests will be incurred on the customer funds for the period between the date of termination and exact fund payment date.

Management Discussion and Analysis

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by Bank of China ("BOC") under wealth management product master agreement with BOC on 16 January 2017 ("CNYAQKFTP1").

(i)	Name of the wealth management product:	Principal-guaranteed Wealth Management product of BOC — RMB Open-ended Wealth Management Product with due dates
(ii)	Type of return:	guaranteed return
(iii)	Valid period of product:	344 days
(iv)	Expected rate of return:	3.1%
(v)	Redemption of principal and return:	The fund will be received within 2 working days after the date of revenue payment or the date of returning principal of wealth management, no interest will be incurred during this period.
(vi)	Full redemption:	Investors have the right to redeem the wealth management product on opening days, which is subject to full redemption only.
(vii)	Right of early termination:	Investors have no unilateral rights to make automatic decision of early termination during the effective period of this wealth management product and can only redeem on respective opening days. BOC has the unilateral rights to early terminate on its own initiative according to the actual situation of capital functioning of this wealth management product. Announcement will be made by BOC at least 2 working days (inclusive) in advance if it needs to early terminate this wealth management product.

Management Discussion and Analysis

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by ABC under wealth management product master agreement with ABC on 20 July 2017 ("C1010314006707").

(i)	Name of the wealth management product:	Agricultural Bank of China "Benlifeng" 90-day RMB Wealth Management Product
(ii)	Type of return:	Wealth management product with principal-preservation and guaranteed return
(iii)	Valid period of product:	90 days
(iv)	Expected rate of return:	approximately 3.0%
(v)	Redemption of principal and return:	The principal and return of the wealth management product will be paid in a lump sum within 2 bank business days after the maturity date.
(vi)	Full redemption:	No early redemption of the product shall be opened for investors within the agreed holding period.
(vii)	Right of early termination:	No right of early termination is offered to investors, except that ABC can exercise its rights of early termination before the maturity date to terminate this product. ABC will publish the early termination announcement to the investors 2 working days before the date of termination, and will transfer the principal and revenue (if any) of the wealth management product to the original account of the investors within 2 working days after the date of early termination.

Management Discussion and Analysis

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by ICBC under wealth management product master agreement with ICBC on 29 September 2017 ("WL91BBX").

(i)	Name of the wealth management product:	ICBC Principal Guaranteed Corporate 91-day Fixed Rate RMB Wealth Management Product
(ii)	Type of return:	Principal-guaranteed and floating income
(iii)	Valid period of product:	Open-ended non-fixed term products with a 91-day investment cycle
(iv)	Expected rate of return:	3.3%
(v)	Redemption of principal and return:	The next day of the last day of investment cycle is the fund payment date. If the fund payment date is statutory holiday, the investment cycle would be extended accordingly and the fund payment date will be the establishment day of the latest product (working day).
(vi)	Full redemption:	No early redemption of the product shall be opened for investors within the agreed holding period.
(vii)	Right of early termination:	ICBC has the rights to terminate the wealth management product according to its operating situation and disclose the information at least 3 working days before date of termination. The customer funds will be transferred to the designated account of the customers within 3 working days after the date of termination. No interests will be incurred on the customer funds for the period between the date of termination and exact fund payment date.

Management Discussion and Analysis

Zhongzhi Pharmaceutical made subscriptions for wealth management products offered by ABC under wealth management product master agreement with ABC on 20 October 2017 ("C1010314006707").

(i)	Name of the wealth management product:	Agricultural Bank of China "Benlifeng" 62-day RMB Wealth Management Product
(ii)	Type of return:	Wealth management product with principal-preservation and guaranteed return
(iii)	Valid period of product:	62 days
(iv)	Expected rate of return:	3.3%
(v)	Redemption of principal and return:	The principal and return of the wealth management product will be paid in a lump sum within 2 bank business days after the maturity date.
(vi)	Full redemption:	No early redemption of the product shall be opened for investors within the agreed holding period.
(vii)	Right of early termination:	No right of early termination is offered to investors, except that ABC can exercise its rights of early termination before the maturity date to terminate this product. ABC will publish the early termination announcement to the investors 2 working days before the date of termination, and will transfer the principal and revenue (if any) of the wealth management product to the original account of the investors within 2 working days after the date of early termination.

Saved as disclosed herein, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures or significant investments during the Reporting Period.

Management Discussion and Analysis

USE OF PROCEEDS

The Group's business objectives and planned use of proceeds as stated in the prospectus dated 30 June 2015 (the "Prospectus") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The actual use of proceeds was based on the actual market development. The net proceeds from the public offer and placing of the Shares (the "Global Offering") were approximately HK$452.9 million. 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 2017**	**Balance as at 31 December 2017**
	HK$'000	HK$'000	HK$'000
Expansion of pharmaceutical chain in the Guangdong province	135,870	(40,755)	95,115
Expansion of distribution network	90,580	(90,580)	–
Providing funding for research and development activities	90,580	(41,808)	48,772
Expansion of production capacity	90,580	(34,137)	56,443
General working capital purposes	45,290	(45,290)	–
	452,900	(252,570)	200,330

The unused net proceeds have been placed as (i) interest bearing deposits with licensed banks in Hong Kong and the PRC; and (ii) principal-guaranteed wealth management products issued by ABC, ICBC and BOC pursuant to the Board intention as disclosed in the Prospectus.

COMMITMENT

As at 31 December 2017, the Group's operating lease and capital commitment amounted to RMB122.5 million (2016: RMB100.9 million) and RMB29.3 million (2016: RMB31.8 million), respectively. The capital commitment was mainly related to the purchasing of fixed assets for research and development activities and production plant of the Group's own-branded products.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 31 December 2017 (2016: Nil).

Biographical Details of Directors and Senior Management

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

EXECUTIVE DIRECTORS

Mr. Lai Zhi Tian (賴智填), aged 50, 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. Mou Li (牟莉), aged 55, was appointed as the executive Director 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 50, was appointed as the executive Director 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).

* *The English name is for identification purpose only*

Biographical Details of Directors and Senior Management

Mr. Cheng Jin Le (成金樂), aged 55, was appointed as the executive Director on 19 September 2016 and is the deputy general manager and chief engineer of the Group. He joined our Group in June 2003 and is responsible for overseeing the research and development of decoction pieces. Mr. Cheng is a licensed pharmacist* (執業中藥師) in the People's Republic of China and has over 35 years of experience in the pharmaceutical industry. Prior to joining our Group, he served as the chief pharmacist of Chinese medicine in the Hubei Macheng People's Hospital* (湖北麻城市人民醫院). Mr. Cheng is also an adjunct professor in the Guangzhou University of Chinese Medicine* (廣州中醫藥大學) since December 2007 and the Chairman of the Zhongshan Pharmaceutical Association* (中山市藥學會) since November 2013.

NON-EXECUTIVE DIRECTOR

Ms. Jiang Li Xia (江麗霞), aged 53, was appointed as the executive Director of the Company on 12 September 2014 and was re-designated as the non-executive Director on 19 September 2016. Prior to joining our Group, Mrs. Lai has been a volunteer in the local community centre in a suburb of Vancouver, Canada from 2005 to 2008. She assisted in the operation of the centre where she gained her relevant experience in administration. Mrs. Lai joined our Group on 24 February 2009 and was responsible for supervising business administration of our Group. Her duties included overseeing human resources matters and co-ordinating among different departments to ensure sufficiency of office support for the operation of our Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwun Wan (吳冠雲), aged 54, was appointed as an independent non-executive Director 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 49, was appointed as an independent non-executive Director on 8 June 2015. He obtained his Bachelor's degree in Laws from the City Polytechnic of Hong Kong, the predecessor institution of the City University of Hong Kong, in December 1994. He obtained a postgraduate certificate in laws from the City University of Hong Kong in November 1995 and a Master degree in Laws from the King's College London, the University of London in November 1996. He further completed the Diploma in Insolvency held by the Hong Kong Institute of Certified Public Accountants in June 2010. Mr. Wong was admitted as a solicitor of Hong Kong in August 1999.

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

Biographical Details of Directors and Senior Management

Mr. Zhou Dai Han (周岱翰), aged 77, was appointed as an independent non-executive Director 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 56, 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 46, joined our Group on 12 July 2010 as the general manager of Zhongshan Zeus Pharmaceutical Manufacturing Limited. In January 2003, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部). In January 2010, Mr. Li obtained a Bachelor degree of Science in pharmacy awarded by the China Pharmaceutical University* (中國藥科大學).

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

Biographical Details of Directors and Senior Management

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

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

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

Mr. Tang Lin (唐琳), aged 54, joined our Group on 31 August 2007 as the head of the technical development department of Honeson Pharmaceutical. In June 1985, Mr. Tang obtained a Bachelor degree of Science in Chinese Medicine awarded by the Hunan College of Chinese Medicine* (湖南中醫學院), the predecessor institution of the Hunan University of Chinese Medicine* (湖南中醫藥大學). In September 1996, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

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

Mr. He Gui Quan (何貴全), aged 38, joined Honeson Pharmaceutical in July 2003. He worked as a production supervisor from July 2003 to December 2007. From January 2008 to December 2009, he was the production manager of Honeson Pharmaceutical. From January 2010 to December 2015, he worked as the assistant to the general manager of Honeson Pharmaceutical and was promoted to general manager in January 2016, responsible for the overall management of Honeson Pharmaceutical.

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

CORPORATE GOVERNANCE PRACTICES

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

Code Provision A.2.1.

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

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

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2017.

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.

Corporate Governance Report

THE BOARD

The Board currently comprises four executive Directors, namely Mr. Lai Zhi Tian (Chairman), Ms. Mou Li, Mr. Cao Xiao Jun and Mr. Cheng Jin Le; one non-executive Director, namely Ms. Jiang Li Xia; and three independent non-executive Directors, namely Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han. The number of independent non-executive Directors represents more than one third of the Board. The biographical details of and relationships among the members of the Board are disclosed under the section headed "Biographical Details of Directors and Senior Management" on pages 17 to 20 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 2017. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 79 to 83.

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

All Directors are appointed for a specific term. Each of the non-executive Directors of the Company is under a service contract with the Company for a period of three years commencing from the Listing Date (except for Ms. Jiang Li Xia whose contract commenced from the Listing day and shall continue thereafter until terminated by either party by giving to the other party not less than three months' prior notice in writing).

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

BOARD DIVERSITY POLICY

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

Corporate Governance Report

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 2017:

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

* representing chairman of the board or the committees

Corporate Governance Report

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

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

Audit Committee

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

During the year ended 31 December 2017, the Audit Committee has held two meetings for discussion on the audit and financial reporting related matters.

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

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

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

Remuneration Committee

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

During the year ended 31 December 2017, 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 (Chairman) and Mr. Zhou Dai Han. Accordingly, a majority of the members are independent non-executive Directors.

During the year ended 31 December 2017, 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.

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 provision A.6.5, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2017, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2017, the Directors participated in the following continuous professional development:

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

Notes:

1. Professional training namely "Listed Companies' requirements on corporate governance" was arranged by the Company to update the Directors' knowledge.

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

EXTERNAL AUDITOR'S REMUNERATION

The Company engaged Ernst & Young as its external auditor for the year ended 31 December 2017. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

During the year ended 31 December 2017, the fee payable to Ernst & Young in respect of its audit services provided to the Company was RMB2.5 million.

INTERNAL CONTROL

Risk Management and Internal Control

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

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

Risk Management Organization System

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

Risk Supervision Function

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

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

Corporate Governance Report

Risk Management Function

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

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

Daily Risk Management Function

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

- Responsible for the establishment and improvement of the risk management system and mechanism of the Company;
- Proposing annual risk management work plan and submitting the plan to Audit Committee for consideration;
- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to identify and assess risks on regular basis, and identify significant risks the Company is exposed to;
- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to discuss and formulate risk response strategies and solutions for the risks the Company is exposed to and to prepare comprehensive risk management report;
- Organizing or jointly organizing various functions and departments of the Group and the respective subsidiaries to improve the internal control system based on the risk response plan;
- Following up the implementation of the risk response plan performed by various functions and departments of the Group and the respective subsidiaries, and reviewing the operational effectiveness of the internal control system.

Risk Management Implementation Function

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

- Executing basic procedures for risk management and internal control;
- Identifying and assessing risks, and recognizing significant risks that the Company is exposed to under the guidance of risk management project team;
- Discussing and implementing risk control measures and solutions against risks the Company is exposed to under the guidance of the risk management project team;
- Enhancing the internal control system of the functions and departments in accordance with the risk response plan.

Internal Audit Function

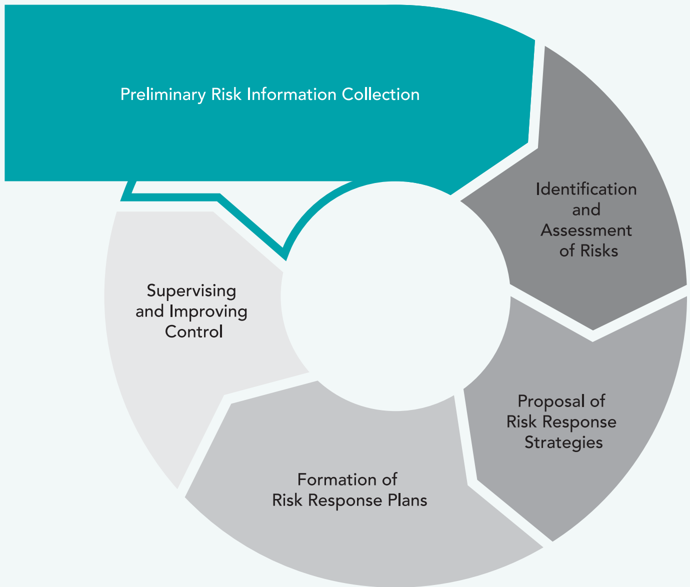
Internal Audit Department analyzes and makes independent assessment on the adequacy and effectiveness of the risk management and internal control system of the Group

- Responsible for establishing and amending the internal reviewing system and work mechanism of the Company;
- Formulating internal audit plan and determining internal audit focuses, audit methods and procedures, time of audit and staff arrangement/engagement arrangement of third party professional institutions based on the substantial risks and business fields the Company is exposed to, and submitting the Board and Audit Committee for consideration;
- Reviewing the effectiveness of risk management and the internal control system, including the annual comprehensive risk management report, risk management plan and daily risk management solutions; assessing the design and operational effectiveness of the internal control system;
- Auditing the assessment results of risk management and internal control system issued by the third party;
- Reporting the risk management and internal control works to Audit Committee and the Board.

Corporate Governance Report

Risk Management Procedures

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



(a) Preliminary Risk Information Collection:

The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to extensively and continuously collect internal and external preliminary information related to risk management for the list of risk information.

(b) Identification and Assessment of Risks:

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

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

(c) Proposal of Risk Response Strategies:

The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to select management strategies for each of the risks.

(d) **Formation of Risk Response Plans:**

The risk management project team organizes various functions and departments of the Group and the respective subsidiaries to discuss and propose risk response plans and designs, amends or optimizes internal control files based on the risk response plans.

(e) **Supervising and Improving the Implementation of Risk Management of Each Business Unit:**

The risk management project team supervises and assesses the implementation of risk management and the effectiveness of internal control of each business unit; Keeping track of the development of material risk issues.

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

Identification, Assessment and Management of Risks

In 2017, the risk management project team, in accordance with the risk management procedures aforementioned, commenced risk identification and assessment from five dimensions, namely strategies, marketing, operation, compliance and finance. Senior management as well as middle-and-basic level staff of the Group were extensively organized to identify and assess the risks exposed to in the course of their work. In the light of the top ten significant risks assessed and identified, the risk management project team organized senior management of the Group to discuss and determine risk response strategies and specific risk response plans based on the level of risk tolerance. For other identified risks, the risk management project team assessed the risk response plans of business units and formed a comprehensive risk management report by proposing adjustments or recommendations for improvement.

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

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

In 2017, the Board continuously supervised and performed annual review on the effectiveness of the risk management and the internal control system of the Group and its subsidiaries through the Audit Committee. The review covered aspects of significant control, such as financial control, operational control, supervision on compliance and risk management. The directors are of the view that, the operation of the internal control system is effective and sufficient, and effectively controls various risks that might disturb the Company from achieving its objectives. The Board was not aware of any significant issues that might affect the shareholders and needed to be brought to their attention, and believed that the internal control of the Group has complied with every code provision in connection with internal control within the Corporate Governance Code, including the compliance of the requirements of laws and regulations.

Corporate Governance Report

The Board has, with reference to the assessment made by Audit Committee, reviewed in the board meeting on whether the resources in accounting, internal audit and financial reporting functions, staff's qualification and experience, and training courses provided to staff and the relevant budget were sufficient. In 2017, the Internal Audit Department, based on the aforementioned risk management procedures, entrusted third party professional institutions to conduct review and assessment on the effectiveness of design and operational compliance of the relevant internal control system in relation to risk management, control and governance practices, regarding the risk management system and the internal control system of significant business fields. Audit Committee under the Board reviewed the assessment results of risk management and internal control system of the Group for the year ended 31 December 2017 issued by third party professional institution and no significant concern that constituted impacts to the Company's shareholders was found.

Management of Inside Information

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

DELEGATION BY THE BOARD

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

COMPANY SECRETARY

Ms. Ho Wing Yan ("Ms. Ho") has been appointed as the company secretary of the Company since 5 May 2017 and is responsible for overseeing all the company secretarial matters of the Group. In the opinion of the Board, Ms. Ho possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. During the year ended 31 December 2017, Ms. Ho confirmed that she has taken no less than 15 hours of relevant professional training. The Company will provide fund for Ms. Ho to take no less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

Shareholders to Convene an Extraordinary General Meeting

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

Putting Enquiries by Shareholders to the Board

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

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

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

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

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

Voting by Poll

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

Corporate Governance Report

INVESTORS RELATIONS

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

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

Constitutional Documents

The was no significant changes in the constitutional documents of the Company during the year ended 31 December 2017.

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

Overview

This report is the second environmental, social and governance (ESG) report published by Zhongzhi Pharmaceutical Holdings Limited. We focus on the disclosure of relevant information on the economic, social and environmental performance of the Company for the period from 1 January 2017 to 31 December 2017 under the principle of objectiveness and transparency. This report is a report on annual basis.

Basis of preparation

This report is prepared mainly based on the revised Environmental, Social and Governance Reporting Guide issued by the Hong Kong Stock Exchange in December 2015. The contents of this report are determined in accordance with a set of systematic procedures, which include identifying and prioritizing key stakeholders, identifying and prioritizing key issues relating to ESG, determining reporting scope and boundary, collecting relevant materials and receipts, compiling data based on information, and reviewing information in the report.

Reporting scope and boundary

The disclosure scope and boundary in this report are consistent with the 2017 annual report of Zhongzhi Pharmaceutical Holdings Limited.

Explanation for abbreviations

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

Source of data and reliability assurance

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

Environmental, Social and Governance Report

2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRUCTURE

2.1 Management Mechanism of Environmental, Social and Governance

Table 1 ESG Management Level and Delineation of Function

Working Level	Function Setup	Specific Duties and Responsibilities
Decision-making level	Senior management	1. Discuss major environmental, social and governance (ESG) matters and future development 2. Identify ESG-related risks 3. Formulate strategies and goals 4. Review the working efficiency 5. Appraise the efficiency of the overall working mechanism 6. Assign relevant duties and responsibilities of all function departments and branches
Communication level	All function departments and heads of all branches	1. Execute the decisions and report the work to the decision-making level 2. Research the specific work according to the overall environmental, social and governance strategies 3. Designate relevant working groups to execute the relevant work 4. Propose relevant improvement recommendations for the next year to the decision-making level
Execution level	Working groups of all departments and branches	1. Complete the relevant work within the scope of their own functions according to the directions of the communication level 2. Regularly collect and sort out relevant information and report it to higher levels 3. Timely response to the actual work 4. Communicate with internal parties as to relevant matters

2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRUCTURE (Continued)

2.2 Communication with Stakeholders

Table 2 Stakeholders of Zhongzhi Pharmaceutical and Communication Issues

Stakeholders	Appeals and Expectations for the Company	Communication and Response
Customers and consumers	• Products and service quality • Protection of consumers' interest	• Implement customer satisfaction survey • Establish a complete customer service process • Establish a complete customer compliant handling process • Establish a complete information exchange mechanism
Staff	• Reasonable remuneration and benefits • Staff training, development and promotion • Staff care	• Set up a competitive remuneration and benefits system • Regular career trainings and set up a platform for staff career development • Care for the physical and mental well-being of staff by providing regular body check • Implement a democratic management by seeking staff's advice regularly
Partners and industry partners	• Maintain sound industrial development • Win-win partnership with mutual benefits	• Conduct regular supervision on suppliers • Maintain long-term partnership with qualified suppliers
Media	• Positive interactive with media • Information disclosure	• Improve an open media system, provide publicity materials and products on a timely manner and disclose information through multiple channels
Community	• Support for community charity • Raising health awareness	• Launch volunteer service and public charity campaigns • Promote knowledge of safety of food and pharmaceuticals to citizens
Environment	• Support for environment protect, energy conservation and emission reduction • Establish a mechanism for saving resources and environmental protection throughout the workflow	• Take a full consideration of the effect on environment in the production and operation and adopt corresponding countermeasures • Apply environmentally friendly equipment Effectively manage emissions

Environmental, Social and Governance Report

2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRUCTURE (Continued)

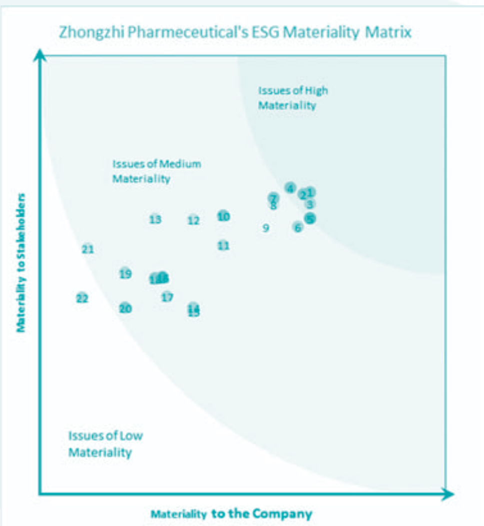
2.3 Analysis of Material ESG Issues

As there are no significant changes in our principal businesses and organizational structure in 2017, we have decided to continuously follow the results of stakeholder engagement and analysis of Material ESG issues for the last year. In the preparation of the report for the last year, we engaged a third-party professional agency to communicate with all stakeholders in all respects by ways of, among other things, face-to-face communication, telephone interview, questionnaire survey and on-site visit and finally selected the following 22 issues which are concerned most by our stakeholders.

Table 3 Zhongzhi Pharmaceutical's Material ESG Issues

Issues of high Materiality	1	Protection of intellectual property rights
	2	Inspection of product quality and recall
	3	Occupational health and safety measures
	4	Product soundness and safety
	5	Corruption and anti-corruption measures
Issues of medium Materiality	6	Personal safety of staff
	7	Security and confidentiality of consumers' information
	8	Avoidance of child labor and forced labor
	9	Type of social issues involved and contribution
	10	Product and service complaints
	11	Staff training and their participation
	12	Waste management
	13	Emission management
	14	Employment
	15	Management of packaging materials
	16	Environment and natural resources
	17	Management of energy use
	18	Principles for engagement of suppliers
	19	Management of use of water resource
	20	Information on suppliers
	21	Management of greenhouse gases
Issue of low Materiality	22	Staff turnover rate

Chart 1 Zhongzhi Pharmaceutical's ESG Materiality Matrix



3. GREEN OPERATION

3.1 Green Production

3.1.1 Emission management

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

Table 4 List of Emissions

Type of Emissions	Name	Unit	Quantity
Emission or treatment quantity of waste water and gas emissions produced in the process of operation	NO_x	Tonne	2.19
	SO_2	Tonne	0.59
	PM	Tonne	0.47
	Chemical Oxygen Demand (COD)	Tonne	7.65
	Ammonia nitrogen	Kilogram	19.19
	Waste water from production	Tonne	156,592
	Office and domestic waste water	Tonne	21,111
Emission quantity of greenhouse gases	Emission quantity of greenhouse gases generated from combustion of fossil fuels	tCO^2e	256.99
	Emission quantity of greenhouse gases generated from consumption of power and steam	tCO^2e	8,196.50
	Total emission quantity of greenhouse gases	tCO^2e	8,453.49
	Total density of greenhouse gases	tCO^2e/output value (RMB in ten thousand)	0.36
Hazardous wastes	Waste liquids from laboratory	Tonne	3.55
	Waste medicines	Tonne	0.30
	Other hazardous wastes	Tonne	0.80
	Total quantity of hazardous wastes	Tonne	4.64
	Total density of hazardous wastes	K.g./output value (RMB in ten thousand)	0.20
Non-hazardous wastes	Office and domestic wastes	Tonne	213.05
	Discarded packaging materials	Tonne	34.66
	Wastes containing Herb residues	Tonne	902.15
	Other general industrial wastes	Tonne	2.00
	Total quantity of non-hazardous wastes	Tonne	1,151.86
	Total density of non-hazardous wastes	Tonne/output value (RMB in ten thousand)	0.049

Environmental, Social and Governance Report

3. GREEN OPERATION (Continued)

3.1 Green Production (Continued)

3.1.1 Emission management (Continued)

We have implemented the following measures for waste emissions in accordance with the "Environmental Protection Management System of Zhongzhi Pharmaceutical Group Company Limited":

- We will arrange random sampling and monitoring occasionally and inspect the implementation thereof, which should, if conditions permit, be inspected by qualified agencies and for which we should establish relevant accounts accordingly.

- The concentration of hazardous substances in the air of our workplace should comply with national documents. The monitoring of dust, toxin and noise will be conducted by the occupational health supervisory authority of the place where we operate our business at least once a year with the results documented.

- Each department should use water reasonably and for multiple purposes to gradually decrease the consumption of fresh water and reduce the COD emissions. The emission of waste water directly or indirectly through seepage well pits is strictly prohibited in order to prevent the contamination to underground water source.

- Waste residues emitted by us will be utilized as comprehensively as possible. If there lacks of useful methods for treatment, we will engage qualified agencies for non-hazardous treatment.

- We will reinforce the management of the network of our drainage systems to divert rainfall and sewage separately so as to ensure that there is no water seepage, leakage and gushing, as well as an unimpeded drainage.

- Low-noise facilities and equipment in production workplace will be used to ensure that the level of noise within the reach of our factories is in compliance with the relevant required limits.

The pharmaceutical research, development and testing platform of Zhongzhi Pharmaceutical will produce limited hazardous waste fluids, including acid and alkaline waste fluids and some reagents. These waste fluids are centrally collected by professional third-party agencies and reported to the competent environmental protection bureau for transfer and treatment so that the contamination of the laboratory waster fluids to the sewage systems is completely eradicated.

Furthermore, in order to treat the limited acid gases produced from our research, development and testing platform and in the process of testing, we have established a gas purification and filtering system where gases are centrally collected through channels for acid-alkali neutralization by way of water spray and filtered in activated carbon boxes before being emitted into the air, thus avoiding the contamination to the atmosphere.

In addition, our waste water is transferred to professional companies with relevant qualifications for treatment; our packaging materials used in steel cans are recycled by suppliers; and non-hazardous wastes are collected by our group members and then transferred to renewable energy companies for treatment.

3. GREEN OPERATION (Continued)

3.1 Green Production (Continued)

3.1.1 Emission management (Continued)

The "Standard Operating Process of Three Kinds of Waste in Laboratory" formulated by Honeson Pharmaceutical, a subsidiary of Zhongzhi Pharmaceutical, expressly provides that the limited toxic waste fluids produced in the process of testing by the quality check department, namely acids, alkali and some reagents, must be collected and treated separately according to the properties of waste fluids using the physical separation method, and non-hazardous or easy-to-treat solutions should be applied as much as possible to prevent secondary pollution; some of the extracted herbs are outsourced to herb residue treatment companies for crushing and fermentation before being used as landscaping and greening fertilizers; exhaust gases produced from our quality control laboratory can be emitted directly through fuming cupboards whose outlets should be placed in a vacant, ventilated and open space; waste boxes and packaging materials produced in the process of our production are recycled and disposed of.

Meanwhile, Honeson Pharmaceutical has also formulated the policies such as the "Management Standard of Sewage Treatment Facilities", the "Operating Procedures of Treatment of Waste Water from Production", and the "Operating Procedures of Repair and Maintenance Standards for Sewage Treatment Facilities", to ensure that the treatment of waste water is in strict compliance with the relevant operating procedures and the treated waste water meets the requirements for discharge, and always cooperates with environmental protection departments to regularly test the quality of the discharged waste water.

Case: Application of New-type Herb Residue Incinerators

In order to reduce the emission of pollutants into the atmosphere, Honeson Pharmaceutical renovated its herb residue incinerators in 2017 from biomass-fired incinerators using poppy capsule residues, a controlled herb, to natural gas-fired ones. The waste gases generated from new incinerators are treated using multiple methods. Specifically, the primary fuel waste gases generated from such incinerators are treated at a high temperature of over 800℃ and then the high-temperature fuel gases after treatment cool down through heat exchangers and pass into the fuel gas washing tower via smoke tubes for watering so as to meet the standards for emission of waste gases from incinerators.

Guangdong Caojinghua has formulated and strictly abides by the "Management System for Dust-exposed Operation Sites". It applies dust arresters to collect dust produced in the process of smashing operation so as to reduce the density of dust at production premises.

Environmental, Social and Governance Report

3. GREEN OPERATION (Continued)

3.1 Green Production (Continued)

3.1.2 Resource utilization

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

Table 5 List of Resource Consumption

Type	Name	Unit	Energy Consumption
Fossil fuel	Gasoline	Liter	57,521
	Diesel	Tonne	25,606
	Natural gas	m^3	499,779
Biomass fuel	Biomass fuel	Tonne	1,520
Purchased power	Outlet power consumption	KWh	3,001,996
	Office power consumption	KWh	1,211,585
	Power consumption in production	KWh	8,627,537
	Total power consumption	KWh	12,841,118
Purchased steam	Steam	Tonne	1,268
Total energy consumption		GWh	20.33
Density of total energy consumption		MWh/output value (RMB in ten thousand)	0.86
Water resource	Office and domestic water consumption	Tonne	29,276
	Water consumption for production	Tonne	174,862
	Total water consumption	Tonne	204,138
	Density of water consumption	Tonne/output value (RMB in ten thousand)	8.6
Packaging materials	Metal	Tonne	845.31
	Plastics	Tonne	745.58
	Paper materials	Tonne	1,112.3
	Composite membrane	Tonne	352.47
	Total consumption of packaging materials	Tonne	3,055.66
	Density of packaging material consumption	Tonne/output value (RMB in ten thousand)	0.13
Herbs	Raw herbal medicinal materials	Tonne	2,306

3. GREEN OPERATION (Continued)

3.1 Green Production (Continued)

3.1.2 Resource utilization (Continued)

Energy-saving Measures and Effectiveness

The staff of the Group has a strong awareness of resource conservation. Informal documents in offices are printed on recycled paper; all of our central air conditioners and air compressors are automatic variable-frequency equipment. Zhongzhi Pharmaceutical has formulated the "Environmental Protection Management System" and launched water-saving and pollution reduction campaigns. Water is used in multiple ways and recycled so as to raise the overall water utilization rate. To further encourage energy conservation and environmental protection, Zhongzhi Pharmaceutical has started to proactively solicit articles about revenue growth and cost reduction, while helping raise our staff's awareness in this regard and advocating to save every drop of water, every watt of electricity and every piece of paper in the daily work and activities.

According to the "Revenue Growth and Cost Reduction" of the Group, Honeson Pharmaceutical has delegated its power to project groups to carry out relevant trainings and work in strict compliance with the "Plan of Revenue Growth and Cost Reduction" and the "Implementation Plan of Revenue Growth and Cost Reduction", the key points of which include:

- Energy-saving and technological transformation of our steam system: we conduct technical transformation of the steam condensing and drainage system, while inspecting the regulated operation of our boilers and the use of steam to ensure the continuity of our steam system.

- We analyze and manage the time of using the public system and the production time of our workshops, and analyze and summarize the energy consumption on quarterly basis.

- We check on the serviceability ratio of the public system and equipment and facilitate the coordinated supply of the public system.

- We conduct random inspection on the consumption of electricity, water and steam so as to reduce unreasonable usage.

Case: Employment of Natural Gas Boilers

In 2017, Honeson Pharmaceutical replaced its original biomass fuel boilers with 10-tonne natural gas boilers according to the requirements of the "Guangdong Province Boiler Pollution Remediation Program (2016-2018)". Following such renovation, the energy efficiency of natural gas boilers was improved from 79% to 91% with coal equivalent of approximately 1,778 tonnes saved for the full year.

Case: Renovation of Lamps in Workplace

In 2017, Zhongzhi Herb Pieces replaced all of fluorescent lamps in production workplace with LED energy-saving lamps with 65% energy saved.

Case: Application of Variable-frequency Air Compressors

In 2017, Zhongzhi Herb Pieces retired two fixed-frequency 45KW air compressors and acquired and applied three new variable-frequency air compressors with an expected 20% energy saved.

Environmental, Social and Governance Report

3. GREEN OPERATION (Continued)

3.1 Green Production (Continued)

3.1.2 Resource utilization (Continued)

Water-saving Measures and Effects

All subsidiaries of Zhongzhi Pharmaceutical consume water in the process of production and office work. While helping our staff to cultivate the water-saving awareness, we also encourage the recycling of water resource and the conservation of natural resources in the process of production. For example, Caojinghua consumes water to mainly clean equipment. It saves water from equipment cleaning by reusing it to clean ground.

3.2 Protection of Ecological Environment

As a responsible green enterprise, Zhongzhi Pharmaceutical always strives to balance the corporate development and the sustainable social development. To reduce the destruction of the environment and better protect the ecological environment, we strictly abide by national and regional laws and regulations concerning environmental protection. We have formulated and implemented the policies such as the "Management Policy for Environmental Protection" and the "Environmental Protection Emergency Plan", and proactively launched and consistently implemented such policies in Zhongzhi Pharmaceutical and its subsidiaries.

3.2.1 Construction of plantation bases and protection of biodiversity

As of 31 December 2017, Zhongzhi Pharmaceutical had established 31 traditional Chinese herb plantation bases across China. Through the establishment of plantation bases for salvia and other traditional Chinese herbs for supply of raw herbs for cell wall broken decoction pieces, it can avoid the exploitation of uncultivated and natural herb resources, thus protecting the resources of uncultivated herbs and the biodiversity.

While constructing our traditional Chinese herb plantation bases, we had also established a total of 289 standard systems for the construction of herb bases, including the appraisal standards for base selection, the regulated plantation procedures, the technical principles for reasonably using pesticides and other technical procedures. We test the soil, irrigation water and the ecological environment of our bases and take agricultural measures such as crop rotation to lower the occurrence rate of diseases and insect pests, thus helping reduce the use of pesticides. In addition, we had also reduced the harm of pesticides on the ecological environment by prohibiting the use of high toxic and highly residual pesticides.

Apart from constructing our traditional Chinese herb plantation bases, Zhongzhi Pharmaceutical had also cooperated with Chinese Materia Medica Resource Center China Academy of Chinese Medical Sciences (中國中醫科學院中藥資源中心) to establish "Committee of Traditional Chinese Medicine Resource Diversity and Ecological Economy" (中藥資源多樣性與生態經濟專業委員會) of China Association of Traditional Chinese Medicine. The purpose of this Committee is to proactively purse the economic prospective of ecosystem and biodiversity, promote traditional Chinese medicine enterprises to proactively participate in protecting the biodiversity, and help explore and protect the natural value of traditional Chinese medicine and the sustainable utilization of traditional Chinese medicine resources. Zhongzhi Pharmaceutical has been elected as the vice managing director unit of this Committee and organized and hosted a special symposium themed "Implementation of Traditional Chinese Medicine Law and Promotion of Traditional Chinese Medicine Biological Agriculture" as sponsor and organizer.

3. GREEN OPERATION (Continued)

3.2 Protection of Ecological Environment

3.2.2 Influence to the Environment from management, production and operation

Zhongzhi Pharmaceutical has formulated detailed guidelines for operation in an effort to minimize the effects of our production and operation on the surrounding ecosystem. These measures include:

- The emission is prohibited of oil, acid liquids, lye or highly toxic waste liquids and industrial waste residues to rain drainage system.

- The washing is prohibited of tanks and containers containing oil, acid liquids, lye or highly toxic waste liquids within the factory area.

- The valves of the tank sewage drainage system should be always kept closed. When sewages are discharged, the valves leading to the rain drainage system should not be wrongly opened; during the heavy rain seasons, the valves leading to the sewage pool should be opened first for rain water to drain into it. Only when there is no oil on the ground, the valves leading to the sewage pool should be closed and the valves leading to the rain drainage system should be opened.

- All workshops should clean trenches and wells within their own areas so as to prevent debris from clogging trenches and wells which will cause the spillover of sewage.

- Our factory areas should go through landscaping to improve the production area and surroundings.

In addition, the Group requires that industrial construction projects adopt a clean production process with less energy consumption and less pollutant emissions, use natural resources reasonably and prevent environmental pollution and ecological destruction; For management of environmentally-friendly facilities, it requires these facilities to be operated simultaneously with production facilities in order to achieve the goal of stabilizing waste emissions and meeting the relevant standards, while timely inspection is needed to eliminate the malfunction of these facilities and potential hazards; emergency plans have to be started immediately once environmental incidents occurred so as to prevent the expansion of incidents and to mitigate environmental pollution and loss of properties, and the causes of incidents should be investigated carefully and the relevant prevention measures should be adopted.

Environmental, Social and Governance Report

4. EMPLOYMENT

4.1 Protection of Staffs' Interests

4.1.1 Equal employment

The Group adheres to upholding the people-oriented value concerning talents and the principles of justice, fairness and openness, and puts great emphasis on each staff's contributions. The Group strictly complies with labour laws and regulations promulgated by national and local government, and formulates and implements various internal policies, such as the "Human Resources Management System" and the "Human Resources Management Structure", which sets systematic standards and management in respect of employees recruitment, appointment, promotion, termination, staff training, code of conducts, working hours, performance appraisal, benefits packages, diversification and anti-discrimination, in order to help achieve the strategic objectives of the Company.

The Group has strictly implemented the "Human Resources Management System". The recruitment of the Company complies with the double examination principle, that is all of the recruitment shall be double-checked by the department where the staff works in and the human resources department so as to ensure that the recruited employees meet the qualification requirements of the position and has a good code of occupational conducts Besides, labour contracts or employment contracts are entered into between the Group and its employees, of which relevant particulars are clearly specified to protect the rights and interest of both parties. The Company also enhances communication with staff by regular staff and department meetings, internal publications and notice boards as well as intranet communication in order to achieve democratic management.

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

By 13 December 2017, the total number of employees is 3,231 and the annual turnover rate is 26.63%.

4. EMPLOYMENT (Continued)

4.1 Protection of Staffs' Interests (Continued)

4.1.2 Remuneration and Benefits

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

Environmental, Social and Governance Report

4. EMPLOYMENT (Continued)

4.1 Protection of Staffs' Interests (Continued)

4.1.3 Occupational health and safety

Safe production

The Group strictly complies with the "Production Safety Law of the People's Republic of China" in order to provide workers with work environment and conditions which meet the occupational health requirements; to ensure the safety and health of employees during the production operation process, in accordance with the statutes of the "Law on Prevention and Control of Occupational Diseases of the People's Republic of China" and the "Management Systems of Occupational Health", we have formulated the "Management System of Corporate Potential Occupation Hazards", requiring the Company to review causes of occupational hazards and provide professional body check for workers involved on a regular basis. The personnel of special positions shall conduct special body check at the Disease Control Center or the approved and recognized hospitals, and the annual result of the body check shall be included in the "Occupational Health Monitoring File".

In 2017, the Company formulated the "Annual Training Plan in 2017". The Company not only placed emergency facilities in the workplaces and offered protection equipment, but also provided that the employees shall participate in the study of safety rules regularly. Meanwhile, the Company shall conduct equipment and workplace safety checks, and take part in self-help training courses and crisis rehearsal as well. The Group also purchases accident insurance for staff.

In 2017, the total days of common work injury related leave taken by the employees of the Group were 372, there were 15 times of common work injury incidents, and there was neither serious nor fatal incident.

Occupational health

The Group is dedicated to the protection of the health and related rights and interests of employees, offering the employees with the working environment and conditions that meet the requirements of occupational health, and promoting the healthy and safe production and operation of the Company.

To reduce occupational hazards and prevent occupational health issues, the Group specifies relevant requirements for the Company's occupational health management and occupational hazards prevention and treatment in "Safety Standard Document" , pursuant to which, to provide work environment and conditions which meet the occupational health requirements, the Company is required to design production areas reasonably so as to separate hazardous operating area from non-hazardous ones; the department which generates dust is required to strictly manage all dust-generating equipment and opening and closing of dust source points; operators who are prone to occupational hazards perform body check every 1 to 2 years; at the workplaces where acute occupational hazards may occur, alarm systems are installed, emergency plans are formulated, on-site emergency appliances are set and necessary venting areas are in place. Meanwhile, the Group has also formulated, in accordance with national regulations, the "Integrity Management" and "High-voltage Grid Commitment Letter", which specified the punishments for the violators of safety production management and related rules, which were designed to protect the health and other related rights and interests of the employees.

4. EMPLOYMENT (Continued)

4.1 Protection of Staffs' Interests (Continued)

4.1.3 Occupational health and safety (Continued)

Occupational health (Continued)

We have prepared labor protection articles such as anti-static clothing, anti-dust respirators, sterilized gloves and others for every position in workshop in accordance with the "Management Rules of Occupational Health". Warning signs were posted in the obvious workplace for the operational positions that may generate occupational disease hazards.

4.2 Training and Development

4.2.1 Staff training

To keep staff abreast of the latest development of pharmaceuticals manufacturing industry and to maintain quality organizational structure, the Company offers various training courses and funds its staff for training on an annual basis. We have specifically formulated the "Management System on Training" and the "Training Structure and Plan", and established a comprehensive training system and mechanism for providing staff with on-the-job education and training.

The Group adopts diversified training system, including corporation-level training, department training, external training, orientation training, transfer training, promotion training, special work training, continuing education for staff and other specific training.

In 2017, the Group had provided a total of 122,826-hour trainings, and each of our staff received 31 training hours on average.

Case: Training programs of " Health care consultation" of Zhongzhi Chain Pharmacies

According to the 2017 work plan formulated by Zhongzhi Chain Pharmacies, a subsidiary of Zhongzhi Pharmaceutical, the training department of human resource center formulated the new employee orientation training system and potential pharmacy managers training system. The "Health care consultation" training which was based on traditional Chinese herb was conducted accordingly. In order to better enforce and implement the marketing strategy, Zhongzhi Chain Pharmacies organized the great sales promotion training every month. The current pharmacy managers received the management enhancement training so as to enhance their management ability. And the "Chronic Disease Keeper" training was conducted to strengthen the customer chronic disease management of the pharmacies. In order to enhance the sales of key varieties, the training in respect of new products and key varieties was organized. And the training of pharmacists and practicing pharmacists was organized as well in order to enhance the professional ability of pharmacists.

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4. EMPLOYMENT (Continued)

4.2 Training and Development (Continued)

4.2.2 Occupational development

The Company adopts the principle of the "Integration of uniform plan, personnel leveling and diversification of methods with supervision control" to enable employees to obtain incentive trainings and development opportunities through outstanding performances and work performances; the management also selects excellent talents through internal ability tendency test, senior employee recommendation and other related methods to provide trainings in priority. Based on the "Training Management Rule" and "Training System Scheme" formed by the group, we have established comprehensive training system and mechanism to realize on-the-job education and training of all the employees, to enhance the skills and management ability of employees, and to provide smooth promotion channels for employees. The group has formed internal employee training and talent reserve program, established the selection and evaluation system for all the classes of position, so as to optimize human resource distribution and internal promotion, and train employees to become leaders of respective fields.

4.3 Staff Care

In order to create an excellent workplace atmosphere and improve work-life balance, we create a harmonious and friendly workplace atmosphere and create an active workplace environment for employees by formulating the various personnel management policies of staff care, and by developing various forms of staff care activities.

Case: The 2017 Caojinghua Mid-Autumn Festival gala

On 28 September 2017, the head office of Zhongzhi Pharmaceutical Group had the annual Mid-Autumn Festival gala. Nearly 1,000 representatives of the Group and various subsidiaries gathered together to celebrate the Mid-Autumn Festival.

5. SUPPLIERS MANAGEMENT

5.1 Appraisal and Review of Suppliers

To ensure the procured materials satisfy the requirements of the Group and optimize the supply chain management, Zhongzhi Pharmaceutical has formulated the "Management Regulations on Suppliers" based on the "Pharmaceutical Operation Quality Management Standard" and the "GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province" , which regulates and makes specific requirements in respect of the supplier assessment methods, audit methods and types as well as the removal and replacement procedures for unqualified suppliers, and ensured the legality and safety of the operation of the Group.

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

5. SUPPLIERS MANAGEMENT (Continued)

5.1 Appraisal and Review of Suppliers (Continued)

In the course of developing and selecting new suppliers, we have the initial responsibility for confirming whether the suppliers are legal operation units or not, and carry out preliminarily review in respect of scale, price level, supplying capacity, and transportation capacity, and then the supplier will be eligible to enter the tender and procurement process upon a preliminary intention reached.

We are responsible for the quality assessment of suppliers of all materials for production, and makes objective assessment on suppliers in consideration of factors such as quality risks for pharmaceuticals produced by the enterprise, materials usage and the extent of materials' impacts on pharmaceutical quality. We will include those qualified suppliers into the list of qualified suppliers which specially established by the Company upon assessment, and specify the permitted scope of materials supply of each supplier, so as to ensure that raw materials procurement is in line with the internal standards of the Company and to secure the quality and safety of the products. The procurement personnel could only procure materials from those suppliers confirmed qualified and the materials purchased shall only be within the scope of materials supply permission.

5.2 Geographical Distribution of the Suppliers

Zhongzhi Pharmaceutical upholds the procurement principle of "quality comes first" for the selection of quality suppliers nationwide. During the year ended 31 December 2017, we had a total of 732 suppliers spreading over various regions, such as Northern China, Central China and Southern China.

Table 8 Number and Percentage of Suppliers by Region

Region	Number	Percentage
Southern China	507	70 %
Eastern China	104	14%
Northern China	39	5%
Central China	34	5%
Northeast China	5	1%
Northwest China	11	2%
Southwest China	32	3%

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6. PRODUCTS AND SERVICES

6.1 Products Quality Assurance

6.1.1 Quality management system

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

6.1.2 Quality examination and products recall

Zhongzhi Pharmaceutical adopts more comprehensive and stricter standards and tests on raw materials than that of the Chinese Pharmacopoeia, such as on the active ingredient concentration, residual quantity of heavy metal, etc., make efforts to provide products on the market in the best quality.

The Company has established special quality management department, which is responsible for monitoring the quality of products. For the unqualified products, we would adopt the handling measures such as destruction, recycling or rework depending on specific circumstances.

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

The Company recalled 5,733 boxes of products in total during the year of 2017, which have all been properly handled according to the "Management Standards on Recall, Re-work, Reprocessing and Re-packaging" and other related regulations.

6.1.3 After-sales services and privacy policy

To regulate after-sales services and establish excellent corporate and brand images, the Company has formulated policies such as the "Management of Consumers' Complaints" and "Management and Measures on Consumers' Privacy Protection" to offer consumers with considerate and detailed after-sales services. For complaints on services quality accepted, if they are related to suppliers and manufacturers, the person-in-charge of the procurement department shall make co-ordination and communication on a timely basis for duly handling, and report to the relevant management .

6. PRODUCTS AND SERVICES (Continued)

6.1 Products Quality Assurance (Continued)

6.1.3 After-sales services and privacy policy (Continued)

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

In 2017, we have received 52 complaints on products and services, which representing a decrease of 70% compared with the year of 2016. We make detailed record for each complaint, take it seriously and never treat consumers in a perfunctory manner. We will continue to enhance our products and services quality to strive to satisfy consumers' expectations so as to reduce the number of complaints.

6.2 Protection of intellectual property rights

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

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

We uniformly place confidential information into a specific storage upon confidentiality labeling, registering and numbering, and establish entries for registration. The access to technology secret information shall be handled by information maintenance personnel with access approval letter to determine the access time. No delay of return after usage or passing to others is allowed. No copy shall be made without the approval opinions from the head of intellectual property rights of the Company.

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

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

Environmental, Social and Governance Report

6. PRODUCTS AND SERVICES (Continued)

6.2 Protection of intellectual property rights (Continued)

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

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

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

7 ANTI-CORRUPTION

Zhongzhi Pharmaceutical strengthens combating corruption and promoting integrity and continuously enhances various regulations and systems, eliminates any form of corrupt behavior, and nurtures and retains elites and talents by integrity and uprightness. The Company formulated the policies such as "Directors and Management's Code of Ethics", "Staff Code of Ethics", "Management Procedures of Staff whistleblowing and Complaints", "Zhongzhi Pharmaceutical High-voltage Grid Commitment Letter" and "Integrity Policies", and the corruption behavior will be rigorously handled by the legal department and legal counsel. The Company communicates stringent anti-corruption and anti-fraud requirements to our staff, while providing them with whistleblowing channels, so as to enhance corporate governance and internal control as well as safeguard the legal interests of the Company and shareholders.

Specific measures include:

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

7 ANTI-CORRUPTION (Continued)

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

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

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

Zhongzhi Pharmaceutical has achieved excellent results for its stringent anti-corruption system. No corruption litigation case was initiated against the Group or its employees in 2017.

8. COMMUNITY SUPPORT

8.1 Support the Economic Growth of the Community

Some of the traditional Chinese herb plantation bases of the Group have formed their professional cooperative communities to cooperate with farmers in rural provinces. The formation of the traditional Chinese herb cooperative communities aims to organically organize and integrate the fragmented large traditional Chinese herb growers, provides them with professional technologies and management, and acquires from them the finished products with good quality at a price higher than market prices, so as to achieve win-win results and help them to generate decent income. We will support farmers mainly through the following measures:

- The Company will organize key technology plantation trainings in respect of, among other things, traditional Chinese herb plantation technologies and pest control, and provide effective guidance on the standardized herb plantation so as to facilitate the management of the bases and improve the plantation efficiency and the quality of herbs.

- To guarantee the income of farmers, we adhere to the principles of good quality and competitive price while harming the interests of farmers; the Company has set a protective price based on the plantation cost plus reasonable profits and acquires traditional Chinese herbs at a price not lower than the protective price but higher than the prevailing market price. By doing so, the interests of farmers will be protected no matter how market prices change. Accordingly, the construction of the plantation bases of traditional Chinese herbs will also have significant social benefits on increasing farmers' income, adjusting the agricultural structure and lifting them out of poverty.

Environmental, Social and Governance Report

8. COMMUNITY SUPPORT (Continued)

8.2 Participating in the Public Welfare and Charity of the Community

Zhongzhi Pharmaceutical is a pharmaceutical enterprise with high sense of responsibility. We actively shoulder the duties and responsibilities of promoting community health and imparting love and happiness. Zhongzhi Chain Pharmacies, a subsidiary of the Group, has long been focusing on the passing of health concepts, which was designed to enable more citizens to pay attention to health through the passing of love, and enable the public to live in a city full of love. In 2017, the main charity activities with the involvement of Zhongzhi Chain Pharmacies included:

- Participated in the Public Charity Walk, and donated RMB9,914.
- Organized community activities, visited nursing home and cared for the elderly. 20 events were held and medicines and herbs of RMB60,000 were donated.
- Cared for migrant workers by holding the public benefit activities of bringing love home, dispatching free medicines during the Spring Festival, and providing them with a safe return journey and health.
- Cared for environmental sanitary workers by establishing about 30 "Love Stations" in various towns and districts for provision of rest places and drinking water for free.
- Three health maintenance lectures to pass on health maintenance concepts to the public.

8.2.1 Caring Activities of Caojinghua Charity Fund

In 2017, Zhongzhi Pharmaceutical initiated and established "Caojinghua Charity Fund" that targets over 3 million staff of its pharmacies across China. It has established a fund pool through cooperation with chain pharmacies and will draw down RMB0.37 from sales of every can of the "Caojinghua - Cell Wall Broken Herbs" product sold and deposit it into the fund pool, which is specifically used for the frontline employees of the chain pharmacies who are in financial difficulties. Apart from supporting the employees of pharmacies in form of cash, "Caojinghua Charity Fund" had also provided a series of trainings on pharmacy knowledge, famous teachers' lectures and other contents for the employees of pharmacies to grow in various respects.

The application of all cash donations to "Caojinghua Charity Fund" and the limit of the current chain capital pool are recorded in detail on a case-by-case basis, and the operation and management are highly standardized and regulated. In 2017, this Fund supported 30 individuals in provinces and cities, such as Guangdong, Yunnan, Sichuan, Liaoning and Xinjiang, the aggregate amount of donations was approximately RMB260,000, which was financed by RMB500,000 credited to the special account of Caojinghua Charity Fund of the Charity Federation of Zhongshan City in the previous year. Looking into 2018, we will continue to focus on caring for the work of the employees of our pharmacies, promote the implementation of "Talents Training Program + Dream Practice Examination Program + Warm Sunshine Support Fund", and further facilitate the social dissemination of Caojinghua Charity Fund. Currently, this Fund has become well-known in the industry. It has been a regular participant at the National Retail Terminal Meeting (Xipu) for three consecutive years to appeal to its peers to participate together, and serves as an influential force of public benefits in the pharmaceutical industry.

8. COMMUNITY SUPPORT (Continued)

8.2 Participating in the Public Welfare and Charity of the Community (Continued)

8.2.1 Caring Activities of Caojinghua Charity Fund (Continued)

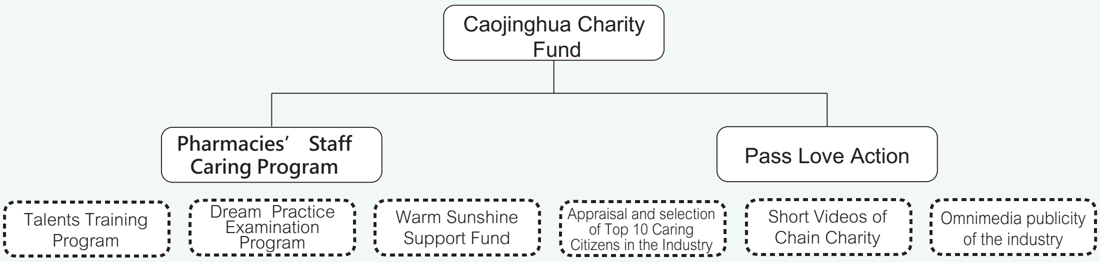

Chart 7 The Management Structure of Caojinghua Charity Fund

Case: Pharmacies' Staff Caring Program

The Pharmacies' Staff Caring Program of "Caojinghua Charity Fund" established by Zhongzhi Pharmaceutical with its partners is designed to achieve the occupational growth of the employees of our pharmacies while helping them solve their difficulties in life. From June to December in 2017, Zhongzhi Pharmaceutical had actively implemented and developed the Pharmacies' Staff Caring Program. For the employees who have suffered from serious physical diseases or domestic economic difficulties, we provided support and care through our Warm Sunshine Support Fund.

Case: Appraisal and Selection of Top 10 Caring Citizens Moving the Industry

In order to promote the wide spreading of love actions and actively advocate the positive force of social public benefits, "Caojinghua Charity Fund" had conducted the appraisal and selection of top 10 caring citizens moving the industry from June to August in 2017. Such appraisal and selection activity was mainly divided into four major parts, namely collection of charity stories, release of voting results, video shooting of top 10 caring citizens as well as the publicity of the "Caojinghua Night" in Xipu.

Case: Top Ten Documentary Films of Chain Pharmacy Charities

The "Top Ten Documentary Films of Chain Pharmacy Charities" activity is to tell the events or activities of different chain stores in respect of the caring for employees and the public benefits of employees using the filming techniques of documentary films, which will be used for publicity of the top ten chain caring activities via our own public account and industrial platforms. We adhere to and extend the original intention of "Caojinghua Charity Fund", and our biggest wish is to create better work and life for the frontline employees of our pharmacies.

Environmental, Social and Governance Report

8. COMMUNITY SUPPORT (Continued)

8.2 Participating in the Public Welfare and Charity of the Community (Continued)

8.2.2 Participation in Zhongshan City Charity Walk

Zhongshan City Charity Walk is a large public-benefiting charity activity participated by all people which was organized and initiated by the Red Cross Society of Zhongshan City under the theme of "Heal the Wounded and Rescue the Dying, Help Those in Distress and Aid Those in Peril, Respect the Elderly and Help the Disable", with the objective of advocating the "Universal Love" spirit of Mr. Sun Yat-sen, widely raising funds to help the public in difficulty and promoting the development of the Red Cross and social and public benefit causes of Zhongshan City. As a leading enterprise in the pharmaceutical industry in Zhongshan City, actively contributing love to the society and discharging the social responsibility as an enterprise is our obligatory responsibility. It is our wish to effectively enhance the sense of social responsibility of the Company and its employees and unite our team by participating in diversified public benefit activities. Zhongzhi Pharmaceutical participates in Zhongshan City Charity Walk every year, and actively supports public charities.

9. APPENDIX I — LIST OF POLICIES

ESG Issue	Policies
A1. Emissions	1. Environmental Protection Management System of Zhongzhi Pharmaceutical Group 2. Management System of Use of Dust Removal Equipment 3. Operating Procedures of Treatment of Waste Water from Production 4. Management Standard of Sewage Treatment Facilities 5. Standard Operating Process of Three Kinds of Waste in Laboratory 6. Sewage Treatment and Management Procedures of Herbal Slices Company
A2. Use of Resources	1. Workplace Safety Management System of Zhongzhi Pharmaceutical Group 2. Management Standard of Electricity Facilities
A3. The Environment and Natural Resources	1. Environmental Protection Management System of Zhongzhi Pharmaceutical Group 2. Environmental Protection Emergency Plan
B1. Employment	1. Attendance Management System of Zhongzhi Pharmaceutical Group (trial) 2. Human Resources Management System
B2. Health and Safety	1. Management System of Occupational Health
B3. Development and Training	1. Management System of Training
B4. Labour Standards	1. Provisions on the Prohibition of Employment of Child Labour 2. Human Resources Management System of Honeson Pharmaceutical
B5. Supply Chain Management	1. Management Standards on Suppliers 2. Standard Operating Procedures of Supplier Selection 3. Standard Operating Procedures of Supplier Assessment and Approval 4. Standard Operating Procedures of Supplier Audit 5. Standard Operating Procedures of Quality Review on Suppliers

9. APPENDIX I — LIST OF POLICIES (Continued)

ESG Issue		Policies	
B6.	Product Responsibility	1.	Emergency Response Plan for Major Safety Accident of Product Quality
		2.	Management Standard of Complaints
		3.	Management Standard of Pharmaceutical Product Direction and Labels Filing
		4.	Management Standards on Recall, Re-work, Reprocessing and Re-packaging
		5.	Operational Statutes for Receiving and Treatment Standards on Recalled Products
		6.	Operational Statutes for Verification Standards on Printing and Packaging Materials
		7.	Operational Statutes for Standards on Addressing Complaints
		8.	Operational Statutes for Quality Control Standards on Recalled Products
		9.	Management of Consumers' Complaints
		10.	Management of Pharmaceutical Product Acceptance
		11.	Management of Pharmaceutical Product Return
		12.	Management and Measures on Consumers' Privacy Protection
		13.	Requirements on Relevant Works on Confidentiality of Corporate Technologies
B7.	Anti-corruption	1.	Integrity Policies
B8.	Community Investment	1.	Management Regulations of Caojinghua Charity Fund

Environmental, Social and Governance Report

10. APPENDIX II — LIST OF DATA

	ESG Indexes	Unit	Data of 2017
A. Environmental			
A1.Emissions			
A1.1	The types of emissions and emissions data		
	NO_x	Tonne	2.19
	SO_2	Tonne	0.59
	Particulate Matter(PM)	Tonne	0.47
A1.2	Greenhouse gas emissions and intensity		
	Greenhouse gas emissions Scope 1	tCO^2e	256.99
	Greenhouse gas emissions Scope 2	tCO^2e	8,196.50
	Total greenhouse gas emissions	tCO^2e	8,453.49
	Greenhouse gas emission intensity	tCO^2e/ output value (RMB in ten thousand)	0.36
A1.3	Hazardous waste produced		
	Laboratory liquid wastes	Tonne	3.55
	Waste drugs (WH03)	Tonne	0.30
	Other hazardous waste	Tonne	0.80
	Total amount of hazardous waste discharged	Tonne	4.64
	Intensity of hazardous waste	Kilogram/output value (RMB in ten thousand)	0.20
A1.4	Non-hazardous waste produced		
	Office and domestic waste	Tonne	213.05
	Waste packaging materials	Tonne	34.66
	Waste contained Chinese medicine dregs	Tonne	902.15
	Other general industrial waste	Tonne	2.00
	Total non-hazardous waste	Tonne	1,151.86
	Non-hazardous waste intensity	Tonne/output value (RMB in ten thousand)	0.049
A2. Use of Resources			
A2.1	Total consumption of energy and energy intensity		
	Gasoline	Liter	57,521
	Diesel	Liter	25,606
	Office power consumption	kWh	1,211,585
	Production power consumption	kWh	8,627,537
	Pharmacy power consumption	kWh	3,001,996
	Power consumption in total	kWh	12,841,118
	Steam	Tonne	1,268
	Natural gas	m^3	499,779
	Biomass particle	Tonne	1,520.23
	Energy consumption in total	GWh	20.33
	Intensity of energy consumption in total	MWh/output value (RMB in ten thousand)	0.86

10. APPENDIX II — LIST OF DATA (Continued)

	ESG Indexes	Unit	Data of 2017
A. Environmental			
A2.2	Water consumption and intensity		
	Office water consumption	Tonne	29,276
	Production water consumption	Tonne	174,862
	Water consumption in total	Tonne	204,138
	Intensity of water consumption in total	Tonne/output value (RMB in ten thousand)	8.60
A2.5	Usage amount of raw and auxiliary materials and packaging materials		
	Packaging material: metal	Tonne	845.31
	Packaging materials: plastic	Tonne	745.58
	Packaging materials: paper	Tonne	1,112.3
	Packaging materials: composite membrane	Tonne	352.47
	Packaging materials in total	Tonne	3,055.66
	Intensity of packaging materials	Tonne/output value (RMB in ten thousand)	0.13
A3.1	Raw herbal medicinal materials	Tonne	2,306

B. Social			
B1.Employment			
B1.1	Total workforce by gender, employment type, age group and geographical region		
	Total number of employees	Persons	3,231
B1.2	Employees turnover rate by gender, employment type, age group and geographical region		
	Employees turnover rate in total	Percentage	26.63%

Environmental, Social and Governance Report

10. APPENDIX II — LIST OF DATA (Continued)

	ESG Indexes	Unit	Data of 2017
B. Social			
B2.Health and Safety			
B2.1	Number of work-related fatalities		
	Number of work-related fatalities	Persons	0
	Number of work injury	Incidence	15
B2.2	Lost days due to work injury		
	Days of common work injury	Day	372
B3.Development and Training			
B3.1	The percentage of employees trained		
	Total number of employees trained	Number of people	43,051
B3.2	Training hours of employees		
	Total training hours	Hour	122,826
B5.Suppliers Management			
B5.1	Number of Suppliers		
Geographical Region	Southern China	Number	507
	Eastern China	Number	104
	Northern China	Number	39
	Central China	Number	34
	Northeast China	Number	5
	Northwest China	Number	11
	Southwest China	Number	32
B6.Product Responsibility			
B6.2	Number of products and service related complaints received		
	Subject to recall due to safety reasons	Incidence	1
	Subject to recall due to safety reasons	Batch	20
	Other complaints related to products and service	Incidence	52

10. APPENDIX II — LIST OF DATA (Continued)

ESG Indexes		Unit	Data of 2017
B. Social			
B7.Anti-corruption			
B7.1	Number of legal cases regarding corrupt practices		0
	Initiated or concluded legal cases regarding corrupt practices	Incidence	0
B8.Community Investment			
B8.2	Resources contributed to the focus area		
	Monetary donation	RMB10,000	29.57
	Value of goods donated	RMB10,000	7.9
	Number of volunteers	Persons	278
	Volunteer hours	Hour	752

11. APPENDIX III — ESG INDEX OF THE STOCK EXCHANGE

Environmental, Social and Governance Areas, General Disclosures and KPIs			Corresponding section
Environmental			
A1 Emissions	General Disclosure	3 Green operation	
	A1.1	The types of emissions and respective emissions data	3 Green operation
	A1.2	Greenhouse gas emissions in total and intensity	3 Green operation
	A1.3	Total hazardous waste produced and intensity	3 Green operation
	A1.4	Total non-hazardous waste produced and intensity	3 Green operation
	A1.5	Description of measures to mitigate emissions and results achieved	3 Green operation
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	3 Green operation
A2: Use of Resources	General Disclosure	3 Green operation	
	A2.1	Energy consumption in total and intensity	3 Green operation
	A2.2	Water consumption in total and intensity	3 Green operation
	A2.3	Description of energy use efficiency initiatives and results achieved	3 Green operation
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	3 Green operation
	A2.5	Total packaging material used for finished products and with reference to per unit produced	3 Green operation
A3: Environment and Natural Resources	General Disclosure	3 Green operation	
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	3 Green operation
B1 Employment	General Disclosure		4 Employment
	B1.1	Total workforce by gender, employment type, age group and geographical region	4 Employment
	B1.2	Employee turnover rate by gender, age group and geographical region	4 Employment

Environmental, Social and Governance Report

11. APPENDIX III — ESG INDEX OF THE STOCK EXCHANGE (Continued)

Environmental, Social and Governance Areas, General Disclosures and KPIs			Corresponding section
Environmental			
B2: Health and Safety	General Disclosure		4 Employment
	B2.1	Number and rate of work-related fatalities	
	B2.2	Lost days due to work injury	
	B2.3	Description of occupational health and safety measures adopted , how they are implemented and monitored	4 Employment
B3 Development and Training	General Disclosure		4 Employment
	B3.1	The percentage of employees trained by gender and employee category	4 Employment
	B3.2	The average training hours completed per employee by gender and employee category	4 Employment
B4: Labour Standards	General Disclosure		4 Employment
	B4.1	Description of measures to review employment practices to avoid child and forced labour	4 Employment
	B4.2	Description of steps taken to eliminate such practices when discovered	4 Employment
B5: Supply Chain Management	General Disclosure		5 Supply Chain Management
	B5.1	Number of suppliers by geographical region	5 Supply Chain Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	5 Supply Chain Management
B6: Product Responsibility	General Disclosure		6 Product and Service
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	6 Product and Service
	B6.2	Number of products and service related complaints received and how they are dealt with	6 Product and Service
	B6.3	Description of practices relating to observing and protecting intellectual property rights	6 Product and Service
	B6.4	Description of quality assurance process and recall procedures	6 Product and Service
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	6 Product and Service
B7: Anti-corruption	General Disclosure		7 Anti-corruption
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	7 Anti-corruption
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	7 Anti-corruption
B8: Community Investment	General Disclosure		8 Community Support
	B8.1	Focus areas of contribution	8 Community Support
	B8.2	Resources contributed to the focus area	8 Community Support

Report of Directors

The Directors are pleased to present to the Shareholders the third annual report and the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

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

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

KEY RISK FACTORS

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

Impact of Local and International Regulations

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

Third-Party Risks

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

Key Relationships with Employees, Customers and Suppliers

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

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

Report of Directors

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 84 to 147.

The Board recommend the payment of a final dividend of HK2.21 cents per ordinary share (2016: HK1.0 cent) and a special dividend of HK1.709 cents per ordinary share (2016: Nil) for the year ended 31 December 2017 to shareholders on the registrar of members on 21 May 2018, which will be subject to the approval of the Company's Shareholders at the forthcoming AGM. Details are set out in note 10 to the consolidated financial statements. The final dividend and special dividend will be payable on or around 4 June 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 May 2018 to 14 May 2018, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending the forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, 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 7 May 2018.

To determine the entitlement of the proposed final dividend and special dividend, the register of members of the Company will be closed from 18 May 2018 to 21 May 2018, both days inclusive, during which period no transfers of shares shall be effected. In order to eligible for receiving the final dividend and special 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 17 May 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 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 26 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

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.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in the note 37 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, 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 RMB334.8 million, of which RMB27.4 million has been proposed as final dividend and special dividend for the year after the Reporting Period. The amount of RMB334.8 million includes the Company's share premium and retained profits at 31 December 2017, 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 RMB0.1 million during the Reporting Period (2016: RMB0.6 million).

MANAGEMENT CONTRACTS

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

MAJOR SUPPLIERS AND CUSTOMERS

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

During the Reporting Period, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 6.9% and 28.6% (2016: 6.8% and 31.3%) of the total purchases of the year, respectively.

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

Report of Directors

DIRECTORS

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

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

Non-executive Director
Ms. Jiang Li Xia

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

Mr. Lai Zhi Tian, Ms. Mou Li and Mr. Cao Xiao Jun 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.

Ms. Mou Li has informed the Company that she will not offer herself for re-election as she would like to retire. Ms. Mou Li confirmed that she has no disagreements with the Board and there is no matters which need to be brought to the attention of the shareholders of the Company.

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 onethird (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 17 to 20 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS (Continued)

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.

INDEMNITY OF DIRECTORS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

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

Name of Director	Beneficial interest	Interest in a controlled corporation	Family interest	Other	Total interest	Approximate percentage of the issued share capital of the Company
	Number of ordinary shares	Number of ordinary shares	Number of ordinary shares	Number of ordinary shares	Number of ordinary shares	
Mr. Lai Zhi Tian ("Mr. Lai") (Note 1)	1,176,000	471,105,000 (Note 2)	42,240,000 (Note 3)	12,015,000 (Note 4)	526,536,000	62.68%
Ms. Jiang Li Xia ("Mrs. Lai")	–	42,240,000 (Note 3)	484,296,000 (Note 2)	–	526,536,000	62.68%

Report of Directors

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 471,105,000 ordinary shares of the Company, is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai. Accordingly, each of Mr. Lai and Mrs. Lai is deemed to be interested in the ordinary shares of the Company held by Crystal Talent under the SFO.

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

4. Of these 12,015,000 shares, 6,025,000 shares are held by Ms. Lai Shun Ling; and 5,990,000 shares are held by Mr. Lai Ying Feng, the daughter and the son of Mr. Lai respectively.

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

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

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

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

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

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

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

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

As at 31 December 2017, the following persons (other than the interests of the Directors of the Company as disclosed above) had interests or short positions in the ordinary shares of the Company or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the ordinary shares of the Company

Name	Beneficial interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent (Note 1)	471,105,000	471,105,000	56.08%
Cheer Lik (Note 2)	42,240,000	42,240,000	5.28%
Advance Keypath Global Investment Limited (Note 3)	60,000,000	60,000,000	7.50%
Novich Positioning Investment Limited Partnership (Note 4)	42,039,000	42,039,000	5.00%

Notes:

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

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

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

4. These 42,039,000 share are held by Novich Positioning Investment Limited Partnership, a company incorporated in the Cayman Islands.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2017 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Saved as disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and in the section "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

Report of Directors

DIRECTORS' INTEREST IN A COMPETING BUSINESS

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

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

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

EQUITY-LINKED AGREEMENT

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

SHARE OPTION SCHEME

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

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

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

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. There is no share option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2017.

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

SHARE AWARD PLAN

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

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

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

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

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

In 2016, the Company purchased 8,000,000 of its ordinary shares through the Trustee at prices ranging from HK$2.15 to HK$2.40 per share at a total consideration of approximately HK$18,313,000 (equivalent to approximately RMB15,651,000).

The Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.70) on the day of the grant, amounting to HK$1,823,000 (equivalent to approximately RMB1,618,000). At the end of 31 December 2017, these shares granted has not been transferred.

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

CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

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

Report of Directors

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 2017 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 2017 is approximately RMB8.0 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 RMB94.8 million to Zhongzhi Pharmaceutical) after deducting, inter alia, all the expenses (which included rental fee of RMB2.5 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 2017.

For the year ended 31 December 2017, 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.

Report of Directors

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 2017.

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

Waiver from the Stock Exchange and Annual Review

Zhongzhi Herb Pieces is owned as to 89.56% by Mr. Lai and is therefore an associate of Mr. Lai and hence a connected person of our Company pursuant to 14A.07(4) of the Listing Rules. The Group operates its decoction pieces business in the PRC through a series of Contractual Arrangements entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions under the Listing Rules.

The Stock Exchange has agreed to grant a waiver from strict compliance with (i) announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, subject to the certain conditions as disclosed on 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 2017 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 2017, and (iii) any new contracts entered into, renewed or reproduced between the Group and Zhongzhi Herb Pieces during the year ended 31 December 2017 are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the shareholders of the Company as a whole.

Confirmations from our Company's Independent Auditor

The auditor of our Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into during the year ended 31 December 2017:

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

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

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

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

Zhongzhi Herb Pieces

Revenue attributable to Zhongzhi Herb Pieces was approximately RMB95.6 million during the year ended 31 December 2017. As at 31 December 2017, the total asset and net asset attributable to Zhongzhi Herb Pieces was approximately RMB58.7 million and RMB27.7 million respectively.

FUTURE PROSPECT AND DEVELOPMENT

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

Report of Directors

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.

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 2017.

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 2017, save for the deviation as disclosed in Corporate Governance Report from pages 21 to 34, which provide further information on the Company's corporate governance practices. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 14 May 2018 to seek Shareholders' approval on the appointment of Ernst & Young as the Company's auditor until the conclusion of the next AGM and to authorize the Board to fix their remuneration.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 26 March 2018

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Zhongzhi Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 84 to 147, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
We focused on the recoverability of trade receivables because a high level of management judgement is required in assessing whether there would be impairment provision for trade receivables. Furthermore, trade receivable balances were significant to the Group as they represented 9.7% of the total assets of Group as at 31 December 2017. Specific factors that management considers in the estimation of the impairment provision include the age of the balances, type of customers, existence of disputes, recent historical payment patterns and other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for the total balances receivable from customers. Related disclosures are included in notes 3, 19 and 35 to the consolidated financial statements.	We tested the controls of the Group's collection procedures and the Group's assessment of the impairment provision required at year end. We checked bank advices for the settlement of trade receivables made subsequent to the year end. We also assessed management's assumptions used to calculate the impairment amount of trade receivables by checking the correctness of the ageing of receivables and assessing significant overdue individual trade receivables.
Provision for obsolete inventories	
We focused on the provision of obsolete inventories because the inventory balance was material to the consolidated financial statements as it represented 15.1% of the total assets of the Group as at 31 December 2017 and significant management judgement is required in assessing whether there would be obsolete inventory at the year end. The specific factors considered by management in the estimation of the provision include types of inventories, conditions of the inventories, expiration dates of medicines, and the forecasted inventory usage and sales. Related disclosures are included in notes 3 and 18 to the consolidated financial statements.	We obtained an understanding of the management's process about how to identify the obsolete inventories and calculate the provision. We evaluated management's assumptions used to calculate the provision amount of obsolete inventories by checking the ageing of inventories and the subsequent usage and sales of inventories on a sampling basis. We tested samples of inventory items held by the companies of the Group with significant inventory balances to assess their cost and net realisable values. We also attended and observed management's inventory counts at all material inventory locations and in certain self-owned chain pharmacies of the Group.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

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

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

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

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

Ernst & Young
Certified Public Accountants

Hong Kong
26 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**944,634**	730,472
Cost of sales		**(380,381)**	(331,034)
Gross profit		**564,253**	399,438
Other income and gains	5	**16,019**	22,497
Selling and distribution expenses		**(386,990)**	(277,350)
Administrative expenses		**(64,881)**	(56,534)
Other expenses	6	**(38,526)**	(18,892)
PROFIT BEFORE TAX	6	**89,875**	69,159
Income tax expense	9	**(19,819)**	(15,287)
PROFIT FOR THE YEAR		**70,056**	53,872
Attributable to owners of the parent		**70,056**	53,872
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic — For profit for the year		**RMB8.77 cents**	RMB6.79 cents
Diluted — For profit for the year		**RMB8.69 cents**	RMB6.73 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 **RMB'000**	2016 RMB'000
PROFIT FOR THE YEAR	**70,056**	53,872
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(4,359)**	1,390
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**65,697**	55,262
Attributable to owners of the parent	**65,697**	55,262

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**203,198**	180,053
Prepayments for property, plant and equipment		**3,206**	2,345
Prepaid land lease payments	13	**13,426**	13,896
Goodwill	14	**1,628**	1,628
Other intangible assets	15	**10,413**	1,709
Investment in a joint venture	16	**405**	430
Available-for-sale investments	17	**8,650**	8,650
Deferred tax assets	25	**7,681**	5,758
Other non-current assets		**4,787**	8,516
Total non-current assets		**253,394**	222,985
CURRENT ASSETS			
Prepaid land lease payments	13	**470**	470
Inventories	18	**137,924**	121,081
Trade and notes receivables	19	**118,318**	63,863
Prepayments, deposits and other receivables	20	**42,388**	20,694
Cash and bank balances	21	**359,458**	326,135
Total current assets		**658,558**	532,243
CURRENT LIABILITIES			
Trade payables	22	**71,623**	57,531
Other payables and accruals	23	**123,211**	81,482
Amounts due to related parties	32(a)	**8,786**	8,786
Deferred income	24	**11,314**	6,493
Amount due to a joint venture		**376**	430
Tax payable		**15,272**	15,589
Total current liabilities		**230,582**	170,311
NET CURRENT ASSETS		**427,976**	361,932
TOTAL ASSETS LESS CURRENT LIABILITIES		**681,370**	584,917

Consolidated Statement of Financial Position

31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	24	**11,628**	14,693
Deferred tax liabilities	25	**1,467**	1,843
Total non-current liabilities		**13,095**	16,536
Net assets		**668,275**	568,381
Equity			
Equity attributable to owners of the parent			
Issued capital	26	**6,650**	6,309
Reserves	29	**661,625**	562,072
Total equity		**668,275**	568,381

Lai Zhitian
Director

Cao Xiaojun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the parent									
	Issued capital	**Shares held for share award plan**	**Share premium**	**Merger reserve**	**Statutory surplus reserve**	**Share-based payment**	**Share award reserve**	**Exchange fluctuation reserve**	**Retained profits**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 26	Note 28	Note 26	Note 29(a)	Note 29(b)	Note 29(c)	Note 28			
At 1 January 2016	6,309	–	364,997	31,200	30,239	5,680	–	19,946	104,317	562,688
Profit for the year	–	–	–	–	–	–	–	–	53,872	53,872
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	1,390	–	1,390
Total comprehensive income for the year	–	–	–	–	–	–	–	1,390	53,872	55,262
Shares purchased for the Share Award Plan	–	(15,651)	–	–	–	–	–	–	–	(15,651)
Equity-settled Share Award Plan	–	292	–	–	–	–	11	–	–	303
Transfer from retained profits	–	–	–	–	1,776	–	–	–	(1,776)	–
Final 2015 dividend declared	–	–	(23,305)	–	–	–	–	–	–	(23,305)
Interim 2016 dividend	–	–	(10,916)	–	–	–	–	–	–	(10,916)
At 31 December 2016	6,309	(15,359)	330,776	31,200	32,015	5,680	11	21,336	156,413	568,381
At 1 January 2017	6,309	(15,359)	330,776	31,200	32,015	5,680	11	21,336	156,413	568,381
Profit for the year	–	–	–	–	–	–	–	–	70,056	70,056
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(4,359)	–	(4,359)
Total comprehensive income for the year	–	–	–	–	–	–	–	(4,359)	70,056	65,697
Issue of shares	341	–	51,795	–	–	–	–	–	–	52,136
Equity-settled Share Award Plan	–	2,178	–	–	–	–	(560)	–	–	1,618
Transfer from retained profits	–	–	–	–	2,822	–	–	–	(2,822)	–
Final 2016 dividend declared	–	–	(6,902)#	–	–	–	–	–	–	(6,902)
Interim 2017 dividend	–	–	(12,655)#	–	–	–	–	–	–	(12,655)
At 31 December 2017	6,650	(13,181)*	363,014*	31,200*	34,837*	5,680*	(549)*	16,977*	223,647*	668,275

* These reserve accounts comprise the consolidated reserves of RMB661,625,000 (2016: RMB562,072,000) in the consolidated statement of financial position.

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

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**89,875**	69,159
Adjustments for:			
Interest income	5	**(5,633)**	(8,698)
Loss on disposal of items of property, plant and equipment	5,6	**523**	87
Depreciation	6,12	**22,368**	21,651
Recognition of prepaid land lease payments	6,13	**470**	470
Amortisation of other intangible assets	6,15	**777**	296
Equity-settled share award expense	6	**1,618**	303
Government grants released	24	**(8,661)**	(11,899)
Write-down of inventories to net realisable value	6	**2,872**	290
		104,209	71,659
Increase in inventories		**(19,715)**	(21,477)
Increase in trade and notes receivables		**(54,455)**	(7,417)
Increase in prepayments, deposits and other receivables		**(21,694)**	(8,121)
Decrease/(Increase) in non-current assets		**3,729**	(4,734)
Increase in trade payables		**14,092**	3,955
Increase in other payables and accruals		**37,473**	12,904
Increase in deferred income	24	**9,979**	12,300
Cash generated from operations		**73,618**	59,069
Income tax paid		**(22,435)**	(10,034)
Net cash flows from operating activities		**51,183**	49,035
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(45,824)**	(111,059)
(Increase)/Decrease in prepayments for purchase of property, plant and equipment		**(861)**	1,040
Proceeds from disposal of items of property, plant and equipment		**1,410**	132
Purchase of other intangible assets	15	**(6,876)**	(197)
Receipt of government grants for property, plant and equipment	24	**438**	1,331
Purchases of available-for-sale investments, non-current		**–**	(1,000)
Purchases of available-for-sale investments, current		**(180,000)**	(30,000)
Proceeds upon maturity of available-for-sale investments		**180,000**	30,000
Interest received	5	**5,633**	8,698
(Increase)/Decrease in non-pledged time deposits with original maturity of more than three months when acquired		**(59,330)**	94,438
Net cash flows used in investing activities		**(105,410)**	(6,617)

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	26	**52,136**	–
Dividends paid		**(19,557)**	(34,221)
Purchase of shares held under the Share Award Plan		**–**	(15,651)
Net cash flows from/(used in) financing activities		**32,579**	(49,872)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(21,648)**	(7,454)
Cash and cash equivalents at beginning of year		**326,135**	332,199
Effect of foreign exchange rate changes, net		**(4,359)**	1,390
CASH AND CASH EQUIVALENTS AT END OF YEAR		**300,128**	326,135
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**180,120**	276,348
Non-pledged time deposits	21	**179,338**	49,787
Cash and bank balances as stated in the statement of financial position		**359,458**	326,135
Non-pledged time deposits with original maturity of more than three months when acquired		**(59,330)**	–
Cash and cash equivalents at end of year		**300,128**	326,135

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

1. CORPORATE AND GROUP INFORMATION

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

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries:

Particulars of the Company's subsidiaries as at 31 December 2017 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
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")	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
Shenzhen Caojinghua Electronic Business Co., Ltd. ("Shenzhen Caojinghua")	PRC 10 January 2017, Mainland China	RMB1,000,000	–	100%	Sale of pharmaceutical drugs
Guangzhou Yunzhi Health Technology Co., Ltd. ("Guangzhou Yunzhi")	PRC 1 December 2017, Mainland China	RMB1,000,000	–	100%	Sale of pharmaceutical drugs

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries: (Continued)

(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.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements.

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 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 described below:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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 will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

(a) Classification and measurement

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

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and other receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

IFRS 15, issued in May 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 from 1 January 2018 and plans to adopt the full retrospective approach. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15. The Group's principal activities consist of the manufacture and sale of pharmaceutical products. The directors of the Company anticipate that the application of IFRS 15 may result in more disclosures, however, they do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting period.

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

IFRS 16, issued in January 2016, replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e.,the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 30(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB122,485,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

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

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

Business combinations and goodwill

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

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

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

Fair value measurement

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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

Related parties

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

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

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

or

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

Leasehold improvements	1-10 years
Buildings	5-43 years
Machinery	2-20 years
Motor vehicles	4-5 years
Office equipment	3-5 years

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

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

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

Intangible assets (other than goodwill)

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

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

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

Software	10 years

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

Research and development costs

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

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

Leases

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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

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

Financial liabilities

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

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

The Group's financial liabilities include trade and other payables, accruals, an amount due to a shareholder.

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

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

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Government grants

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

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

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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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

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

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

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.

Dividends

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

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

Foreign currencies

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Contractual arrangements

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

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

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB1,628,000. Further details are given in note 14.

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

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

Impairment of trade receivables

Impairment of trade receivables is recognised based on an assessment of the recoverability of trade receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade receivables amounted to nil as at 31 December 2017 (2016: Nil).

Provision for obsolete inventories

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

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 2017 and 2016, no revenue from transactions with a single customer amounted to 10% or more of the Group's sales.

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

4. OPERATING SEGMENT INFORMATION (Continued)

Operating segment information for the year ended 31 December 2017:

	Year ended 31 December 2017		
	Operation of chain pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Segment revenue:			
Revenue from external customers	437,152	507,482	944,634
Intersegment sales	–	45,372	45,372
Elimination of intersegment sales	–	(45,372)	(45,372)
Revenue	437,152	507,482	944,634
Cost of sales	(226,632)	(153,749)	(380,381)
Segment results	210,520	353,733	564,253
Reconciliation:			
Other income and gains			16,019
Selling and distribution expenses			(386,990)
Administrative expenses			(64,881)
Other expenses			(38,526)
Profit before tax			89,875

4. OPERATING SEGMENT INFORMATION (Continued)

Operating segment information for the year ended 31 December 2016:

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

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Year ended 31 December 2017

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	2017 RMB'000	2016 RMB'000
Revenue			
Sale of pharmaceutical products		**944,634**	730,472
Other income			
Interest income		**2,635**	1,263
Interest income from available-for-sale investments		**2,998**	7,435
		5,633	8,698
Gains			
Government grants:	24		
— Related to assets		**336**	1,293
— Related to income		**8,325**	10,606
Gain on disposal of items of property, plant and equipment		**67**	49
Others		**1,658**	1,851
		10,386	13,799
		16,019	22,497

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6. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold	4	**380,381**	331,034
Depreciation	12	**22,368**	21,651
Recognition of prepaid land lease payments*	13	**470**	470
Amortisation of other intangible assets*	15	**777**	296
Write-down of inventories to net realisable value		**2,872**	290
Minimum lease payments under operating leases		**31,986**	31,796
Auditor's remuneration		**2,644**	2,408
Employee benefit expenses (including directors' remuneration (note 8)):			
Wages and salaries		**199,912**	155,331
Pension scheme contributions (defined contribution scheme)		**12,027**	10,153
Staff welfare expenses		**17,052**	12,165
Equity-settled share award expense		**1,618**	303
		230,609	177,952
Other expenses:			
Research and development costs		**34,501**	17,689
Loss on disposal of items of property, plant and equipment		**590**	136
Others		**3,435**	1,067
		38,526	18,892

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

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Year ended 31 December 2017

7. 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:

	2017 **RMB'000**	2016 RMB'000
Fees	**2,395**	2,369
Other emoluments:		
Salaries, allowances and benefits in kind	**1,467**	1,075
Pension scheme contributions	**181**	163
	4,043	3,607

(a) Independent non-executive directors

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

	2017 **RMB'000**	2016 RMB'000
Ng Kwun Wan	**156**	154
Wong Kam Wah	**156**	154
Zhou Daihan	**156**	154
	468	462

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

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

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

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2016: four directors), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining one (2016: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries, allowances and benefits in kind	**309**	246
Pension scheme contributions	**11**	30
	320	276

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

	2017	2016
Nil to HK$1,000,000	**1**	1

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

9. 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%(2016: 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 and Zhongzhi Pharmaceutical are qualified high and new technology enterprises and were subject to income tax at a preferential tax rate of 15% for the reporting period.

Zhongzhi Pharmaceutical applied for the high and new technology enterprise accreditation in 2016, and acquired the qualification certificate in 2017.

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

9. INCOME TAX EXPENSE (Continued)

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

	2017 RMB'000	2016 RMB'000
Mainland China		
Current income tax	22,187	15,456
Deferred income tax credit	(2,368)	(169)
Total income tax expense	19,819	15,287

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:

	2017 RMB'000	2017 %	2016 RMB'000	2016 %
Profit before tax	89,875		69,159	
Tax at the PRC statutory tax rate	22,469	25.0	17,290	25.0
Effect of different applicable tax rates for certain subsidiaries	(5,794)	(6.4)	(3,641)	(5.3)
Effect on opening deferred tax of decrease in rates	852	0.9	–	–
Expenses not deductible for tax	2,292	2.6	1,638	2.4
Tax charge at the Group's effective tax rate	19,819	22.1	15,287	22.1

The effective tax rate of the Group was 22.1% in 2017 (2016: 22.1%).

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Year ended 31 December 2017

10. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Interim — HK1.875 cents (2016: HK1.6 cents) per ordinary share	**12,763**	11,020
Proposed final — HK2.21 cents (2016: HK1.0 cent) per ordinary share	**15,451**	7,167
Proposed special — HK1.709 cents (2016: Nil) per ordinary share	**11,948**	–
	40,162	18,187

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

11. 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 799,076,404 (2016: 793,606,296) in issue during the year.

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

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

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**70,056**	53,872

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11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Continued)

	2017	2016
Shares		
Weighted average number of ordinary shares in issue	**806,136,986**	800,000,000
Weighted average number of shares held for the share award plan (note 28)	**(7,060,582)**	(6,393,704)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**799,076,404**	793,606,296
Effect of dilution — weighted average number of ordinary shares:		
Share awarded shares	**7,060,582**	6,393,704
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**806,136,986**	800,000,000

12. 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 2017							
At 1 January 2017:							
Cost	77,292	120,588	53,538	4,402	15,728	20,708	292,256
Accumulated depreciation	(48,984)	(32,472)	(18,007)	(3,386)	(9,354)	-	(112,203)
Net carrying amount	28,308	88,116	35,531	1,016	6,374	20,708	180,053
At 1 January 2017, net of accumulated depreciation	28,308	88,116	35,531	1,016	6,374	20,708	180,053
Additions	7,074	-	6,046	507	5,565	28,254	47,446
Disposals	(293)	-	(1,330)	(73)	(237)	-	(1,933)
Depreciation provided during the year (note 6)	(10,251)	(4,183)	(4,182)	(361)	(3,391)	-	(22,368)
Transfers	6,205	-	-	-	-	(6,205)	-
At 31 December 2017, net of accumulated depreciation	31,043	83,933	36,065	1,089	8,311	42,757	203,198
At 31 December 2017:							
Cost	90,278	120,588	57,033	3,621	20,668	42,757	334,945
Accumulated depreciation	(59,235)	(36,655)	(20,968)	(2,532)	(12,357)	-	(131,747)
Net carrying amount	31,043	83,933	36,065	1,089	8,311	42,757	203,198

Notes to the Consolidated Financial Statements

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12. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 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

As at 31 December 2017, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB496,000 (2016: RMB568,000). The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

13. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**14,366**	14,836
Recognised during the year	**(470)**	(470)
Carrying amount at 31 December	**13,896**	14,366
Current portion	**(470)**	(470)
Non-current portion	**13,426**	13,896

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14. GOODWILL

	2017 **RMB'000**	2016 RMB'000
At 1 January and 31 December	**1,628**	1,628

Goodwill is acquired through the business combination of Honeson Pharmaceutical in the prior year. Goodwill acquired through business combinations is allocated to the pharmaceutical drugs cash-generating unit for impairment testing. There was no impairment charge made against goodwill for the years ended 31 December 2017 and 2016.

Impairment testing of goodwill

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The pre-tax discount was 5.5% as at 31 December 2017 (2016: 5.5%) and the growth rate beyond the five-year period has been projected as 3% (2016: 3%).

Assumptions were used in the value in use calculation of cash-generating unit for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

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15. OTHER INTANGIBLE ASSETS

	2017 Software RMB'000	2016 Software RMB'000
At 1 January:		
Cost	**3,096**	2,899
Accumulated amortisation	**(1,387)**	(1,091)
Net carrying amount	**1,709**	1,808
At 1 January, net of accumulated amortisation	**1,709**	1,808
Additions	**9,481**	197
Amortisation provided during the year (note 6)	**(777)**	(296)
At 31 December, net of accumulated amortisation	**10,413**	1,709
At 31 December:		
Cost	**12,577**	3,096
Accumulated amortisation	**(2,164)**	(1,387)
Net carrying amount	**10,413**	1,709

16. INVESTMENT IN A JOINT VENTURE

	2017 RMB'000	2016 RMB'000
Share of net assets	**405**	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.

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Year ended 31 December 2017

17. AVAILABLE-FOR-SALE INVESTMENTS

	2017 **RMB'000**	2016 RMB'000
Non-current		
Unlisted equity investments, at cost	**8,650**	8,650

As at 31 December 2017, 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.

18. INVENTORIES

	2017 **RMB'000**	2016 RMB'000
Raw materials	**27,698**	17,613
Work in progress	**10,739**	8,272
Finished goods	**99,487**	95,196
	137,924	121,081

Investories with a value of RMB13,647,000 (2016: RMB290,000) are carried at net realisable value, this being lower than cost.

19. TRADE AND NOTES RECEIVABLES

	2017 **RMB'000**	2016 RMB'000
Trade receivables	**88,074**	38,216
Notes receivable	**30,244**	25,647
	118,318	63,863
Less: Impairment of trade receivables	**–**	–
	118,318	63,863

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

Notes to the Consolidated Financial Statements

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19. TRADE AND NOTES RECEIVABLES (Continued)

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

	2017 RMB'000	2016 RMB'000
Within 1 month	**50,520**	25,325
1 to 3 months	**18,433**	6,619
3 to 6 months	**11,634**	3,836
6 to 12 months	**6,745**	1,417
Over 12 months	**742**	1,019
	88,074	38,216

The notes receivable are settled within 180 days. No notes receivable were discounted as at 31 December 2017 and 2016. As at 31 December 2017, the Group has endorsed notes receivable of RMB19,804,000 (2016: RMB12,651,000) to settle trade payables (note 36).

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**55,127**	28,600
Less than 3 months past due	**20,471**	4,526
Over 3 months past due	**12,476**	5,090
	88,074	38,216

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.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments	**33,219**	14,682
VAT recoverable	**2**	1,935
Deposits and other receivables	**9,167**	4,077
	42,388	20,694

21. CASH AND BANK BALANCES

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**180,120**	276,348
Time deposits	**179,338**	49,787
	359,458	326,135
Denominated in:		
– RMB	**293,203**	273,816
– Hong Kong Dollars ("HK$")	**66,255**	52,319
	359,458	326,135

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

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

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22. TRADE PAYABLES

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

	2017 RMB'000	2016 RMB'000
Within 3 months	**61,813**	48,817
3 to 6 months	**6,070**	4,541
6 to 12 months	**1,884**	2,603
over 12 months	**1,856**	1,570
	71,623	57,531

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

23. OTHER PAYABLES AND ACCRUALS

	Note	2017 RMB'000	2016 RMB'000
Accruals and other payables		**25,834**	10,173
Accrued salaries and welfare		**30,353**	27,789
Advances from customers		**8,037**	7,433
Endorsed notes	36	**19,804**	12,651
Deposits received		**23,523**	13,450
Payables for purchases of property and equipment		**8,894**	4,667
Other tax payables		**6,766**	5,319
		123,211	81,482

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

24. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
At 1 January	**21,186**	19,454
Received amounts	**10,417**	13,631
Released amounts	**(8,661)**	(11,899)
At 31 December	**22,942**	21,186
Current	**11,314**	6,493
Non-current	**11,628**	14,693
	22,942	21,186

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

25. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**7,681**	5,758
Deferred tax liabilities	**(1,467)**	(1,843)

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25. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

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

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

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Year ended 31 December 2017

25. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

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

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

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

	2017 RMB'000	2016 RMB'000
Tax losses		
Unused tax credit	**1,643**	3,263
Deductible temporary differences	**–**	290
Total	**1,643**	3,553

At 31 December 2017, the Group had tax losses arising in Mainland China of RMB1,643,000 (2016: RMB3,553,000) that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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25. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

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 2016 and 31 December 2017, 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 RMB250,294,000 at 31 December 2017 (2016: RMB171,515,000).

26. ISSUED CAPITAL

	2017	2016
Issued and fully paid:		
840,000,000 (2016: 800,000,000) ordinary shares of HK$0.01 each (HK$'000)	**8,400**	8,000
Equivalent to RMB'000	**6,650**	6,309

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

	Note	**Number of Issued and fully paid ordinary shares**	**Share capital** RMB'000
At 1 January 2016		800,000,000	6,309
At 31 December 2016 and 1 January 2017		800,000,000	6,309
Issue of new shares	(a)	40,000,000	341
At 31 December 2017		840,000,000	6,650

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

27. 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 72 to 73.

No share options were granted during the year ended 31 December 2017 and no share options were outstanding under the Scheme as at 31 December 2017 and 2016.

28. SHARE AWARD PLAN

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

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

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28. SHARE AWARD PLAN (Continued)

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

During the year ended 31 December 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.70) on the day of the grant, amounting to HK$1,823,000 (equivalent to approximately RMB1,618,000). The Group recognised a share award expense of RMB1,618,000 during the year.

As at 31 December 2017, 6,778,500 shares of the Company were held by the Trustee and have yet to be awarded.

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 88.

(a) Merger reserve

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

(b) Statutory surplus reserve

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

(c) Share-based payment reserve

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

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30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year	**250**	243
In the second to fifth years, inclusive	**293**	145
	543	388

(b) As lessee

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

	2017 **RMB'000**	2016 RMB'000
Within one year	**31,562**	26,376
In the second to fifth years, inclusive	**81,133**	65,283
Beyond five years	**9,790**	9,294
	122,485	100,953

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31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following capital commitments at the end of the reporting period:

	2017 **RMB'000**	2016 RMB'000
Contracted, but not provided for:		
Leasehold improvements	**–**	3,817
Plant and machinery	**29,324**	27,936
	29,324	31,753

At the end of 31 December 2017 and 31 December 2016, the Group had a significant authorised, but not contracted, capital commitment of RMB6,100,000 and nil, respectively.

32. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2017 and 2016 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 terms of repayment.

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

	2017 **RMB'000**	**2016** **RMB'000**
Salaries, allowances and benefits in kind	**5,008**	**4,360**
Pension scheme contributions	**294**	**294**
	5,302	**4,654**

Further details of directors' and the chief executive's emoluments are included in note 7.

33. 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	**2017 RMB'000**	2016 RMB'000
Financial assets – loans and receivables			
Rental deposits		**4,787**	4,402
Trade and notes receivables	19	**118,318**	63,863
Deposits and other receivables	20	**9,167**	4,077
Cash and bank balances	21	**359,458**	326,135
		491,730	398,477
Financial assets – available-for-sale			
Available-for-sale investments	17	**8,650**	8,650
Financial liabilities at amortised cost			
Amount due to a joint venture		**376**	430
Trade payables	22	**71,623**	57,531
Financial liabilities included in other payables and accruals		**78,055**	40,941
Due to related parties	32(a)	**8,786**	8,786
		158,840	107,688

34. 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 an amount due to a joint venture approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2017

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

Foreign currency risk

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

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

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

	Increase/ (decrease) in HK$ rate	**Increase/ (decrease) in profit before (or after) tax**	**Increase/ (decrease) in equity***
	%	RMB'000	RMB'000
2017			
If RMB weakens against the HK$	**5**	**–**	**16,830**
If RMB strengthens against the HK$	**(5)**	**–**	**(16,830)**
2016			
If RMB weakens against the HK$	5	–	16,156
If RMB strengthens against the HK$	(5)	–	(16,156)

* Excluding retained profits

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

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

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

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

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.

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35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

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

	2016				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Amount due to a joint venture	430	–	–	–	430
Trade payables	35,105	22,426	–	–	57,531
Financial liabilities included in other payables and accruals	20,562	13,137	7,242	–	40,941
Due to related parties	8,786	–	–	–	8,786
	64,883	35,563	7,242	–	107,688

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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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:

	2017 **RMB'000**	2016 RMB'000
Interest-bearing bank borrowings	**–**	–
Equity attributable to owners of the parent	**668,275**	568,381
Gearing ratio	**–**	–

36. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2017 and 2016, the Group endorsed certain notes receivable accepted by certain banks in Mainland China (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). Subsequent to the Endorsement, the Group does not retain any rights to the use of the Endorsed Notes, including sale, transfer or pledge of the Endorsed Notes to any other third parties. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The total carrying amount of the Endorsed Notes as at 31 December 2017 was RMB65,685,000 (2016: RMB42,654,000), of which the Endorsed Notes and the associated trade payables with a carrying amount of RMB45,881,000 as at 31 December 2017 (2016: RMB30,003,000), had been fully derecognised. The Group carefully assesses the default risk of the PRC banks. The Group only derecognises the notes receivable that have been accepted by banks with high credit reputation as the directors are of the view that the default risk of these banks is remote and the Group has transferred substantially all the risks and rewards relating to such notes (the "Derecognised Notes"). The Derecognised Notes had a maturity of 1 to 8 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 2017 and 2016, 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 2017 and 2016 or cumulatively. The Endorsement has been made evenly throughout the years ended 31 December 2017 and 2016.

The Group continued to recognise the carrying amount of the remaining Endorsed Notes and associated trade payables settled of RMB 19,804,000 as at 31 December 2017 (2016: RMB 12,651,000) 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.

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37. 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:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**297,188**	309,644
Total non-current assets	**297,188**	309,644
CURRENT ASSETS		
Prepayments, deposits and other receivables	**180**	143
Cash and bank balances	**67,048**	51,703
Total current assets	**67,228**	51,846
CURRENT LIABILITIES		
Due to subsidiaries	**16,062**	17,285
Other payables and accruals	**5**	8
Total current liabilities	**16,067**	17,293
NET CURRENT ASSETS	**51,161**	34,553
TOTAL ASSETS LESS CURRENT LIABILITIES	**348,349**	344,197
Net assets	**348,349**	344,197
Equity		
Issued capital	**6,650**	6,309
Reserves (Note)	**341,699**	337,888
Total equity	**348,349**	344,197

Notes to the Consolidated Financial Statements

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37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Share premium* RMB'000	Share held for share award plan* RMB'000	Share award reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000
At 1 January 2016	364,997	–	–	22,661	(19,048)	368,610
Loss for the year	–	–	–	–	(4,116)	(4,116)
Exchange differences on translation of foreign operations	–	–	–	22,963	–	22,963
Total comprehensive income for the year	–	–	–	22,963	(4,116)	18,847
Shares repurchased	–	(15,651)	–	–	–	(15,651)
Equity-settled share award expense	–	292	11	–	–	303
Dividends declared	(34,221)	–	–	–	–	(34,221)
At 31 December 2016	330,776	(15,359)	11	45,624	(23,164)	337,888
Loss for the year	**–**	**–**	**–**	**–**	**(5,084)**	**(5,084)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**(24,961)**	**–**	**(24,961)**
Total comprehensive income for the year	**–**	**–**	**–**	**(24,961)**	**(5,084)**	**(30,045)**
Issue of shares	**51,795**	**–**	**–**	**–**	**–**	**51,795**
Equity-settled share award expense	**–**	**2,178**	**(560)**	**–**	**–**	**1,618**
Final 2016 dividend declared	**(6,902)**	**–**	**–**	**–**	**–**	**(6,902)**
Interim 2017 dividend	**(12,655)**	**–**	**–**	**–**	**–**	**(12,655)**
At 31 December 2017	**363,014**	**(13,181)**	**(549)**	**20,663**	**(28,248)**	**341,699**

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2018.

Financial Summary

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

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**944,634**	730,472	688,036	595,565	482,805
PROFIT BEFORE TAX	**89,875**	69,159	101,191	114,810	46,803
Income tax expense	**(19,819)**	(15,287)	(20,652)	(28,122)	(9,165)
PROFIT FOR THE YEAR AND ATTRIBUTABLE TO OWNERS OF THE COMPANY	**70,056**	53,872	80,539	86,688	37,638

ASSETS AND LIABILITIES

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**911,952**	755,228	723,528	297,924	298,874
TOTAL LIABILITIES	**243,677**	186,847	160,840	177,027	168,664