



YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

*(A joint stock limited company incorporated in the People's Republic of China)*

Stock Code : 1558



OUR MISSION:

FOR EVERYONE'S HEALTH

Annual Report **2015**

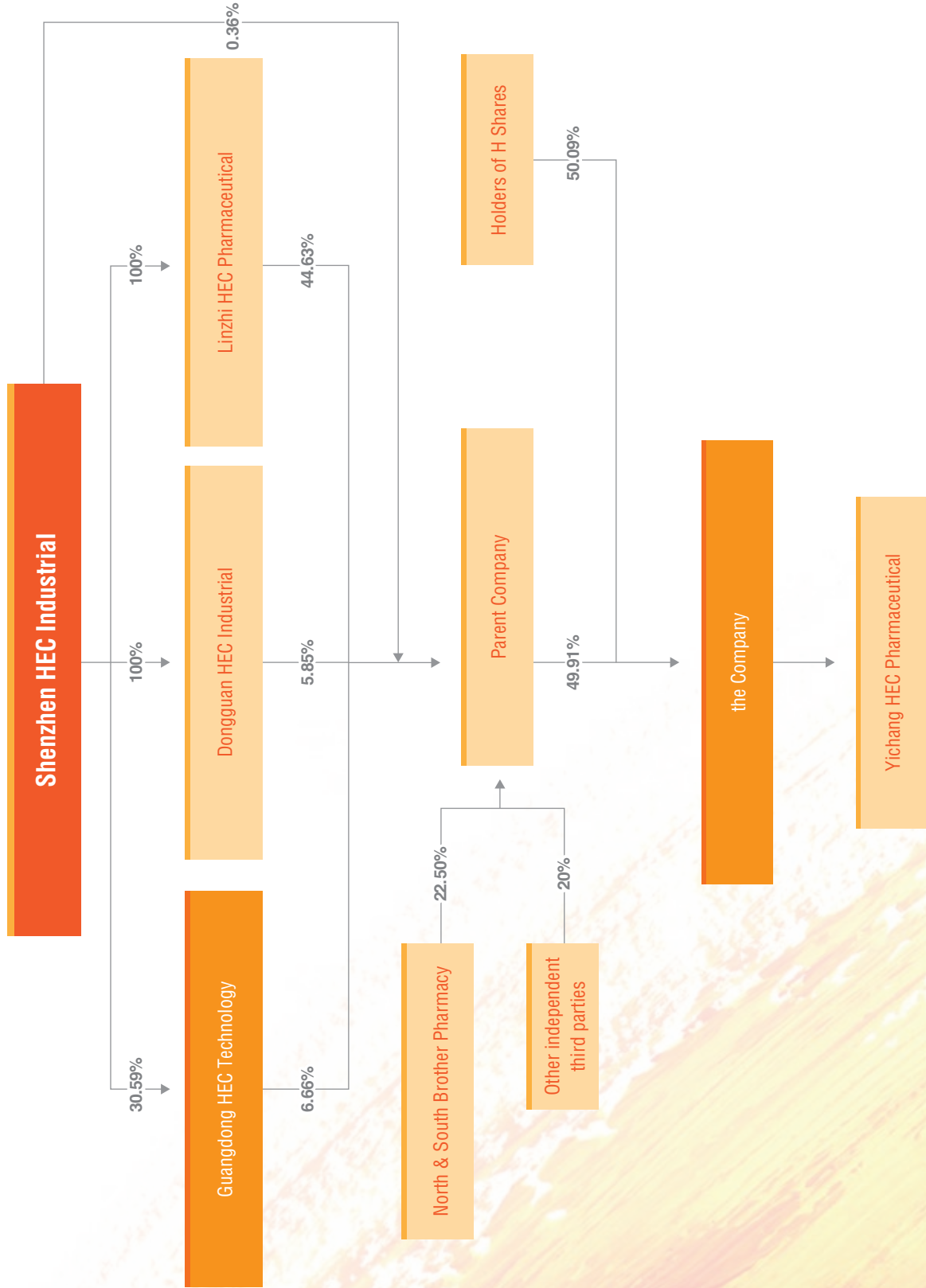


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# Corporate Structure



# Financial Summary

|   | As at 31 December/year ended 31 December |                 |                 |                 |
|---|--|-----------------|-----------------|-----------------|
|   | 2015<br>RMB'000                          | 2014<br>RMB'000 | 2013<br>RMB'000 | 2012<br>RMB'000 |
| Total non-current assets  | <b>767,491</b>                           | 471,286         | 798,553         | 760,123         |
| Total current assets  | <b>1,809,924</b>                         | 478,245         | 859,563         | 730,664         |
| Total assets  | <b>2,577,415</b>                         | 949,531         | 1,658,116       | 1,490,787       |
| Total non-current liabilities   | <b>163,400</b>                           | 226,286         | 423,935         | 428,988         |
| Total current liabilities   | <b>271,166</b>                           | 445,990         | 755,260         | 640,678         |
| Total liabilities   | <b>434,566</b>                           | 672,276         | 1,179,195       | 1,069,666       |
| Share capital/registered capital  | <b>450,659</b>                           | 170,800         | 170,800         | 170,800         |
| Reserves  | <b>1,692,190</b>                         | 106,455         | 308,121         | 250,321         |
| Total equity attributable to equity shareholders<br>of the Company        | <b>2,142,849</b>                         | 277,255         | 478,921         | 421,121         |
| Revenue   | <b>692,910</b>                           | 440,904         | 316,429         | 269,207         |
| Gross profit  | <b>514,576</b>                           | 321,075         | 200,461         | 153,483         |
| Profit from operation   | <b>339,605</b>                           | 205,445         | 119,124         | 77,589          |
| Profit for the year attributable to equity shareholders<br>of the Company | <b>265,750</b>                           | 135,343         | 57,800          | 23,008          |
| Earnings per share (RMB cents)  |  |                 |                 |                 |
| – Basic & Diluted   | <b>79</b>                                | 45              | N/A             | N/A             |

# Corporate Profile

HEC Pharm is a pharmaceutical manufacturing company that focuses on the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases. It is the domestic pharmaceutical manufacturing platform of HEC Group.

We entered into China's pharmaceutical industry by establishing our predecessor, Yichang Changjiang Pharmaceutical Co., Ltd. in 2001. Up to now, we have been operating for more than 14 years. Due to the rapid growth of our pharmaceutical sales business, we were converted into a joint stock limited company on 11 May 2015, and were listed on the Main Board of the Hong Kong Stock Exchange on 29 December 2015.

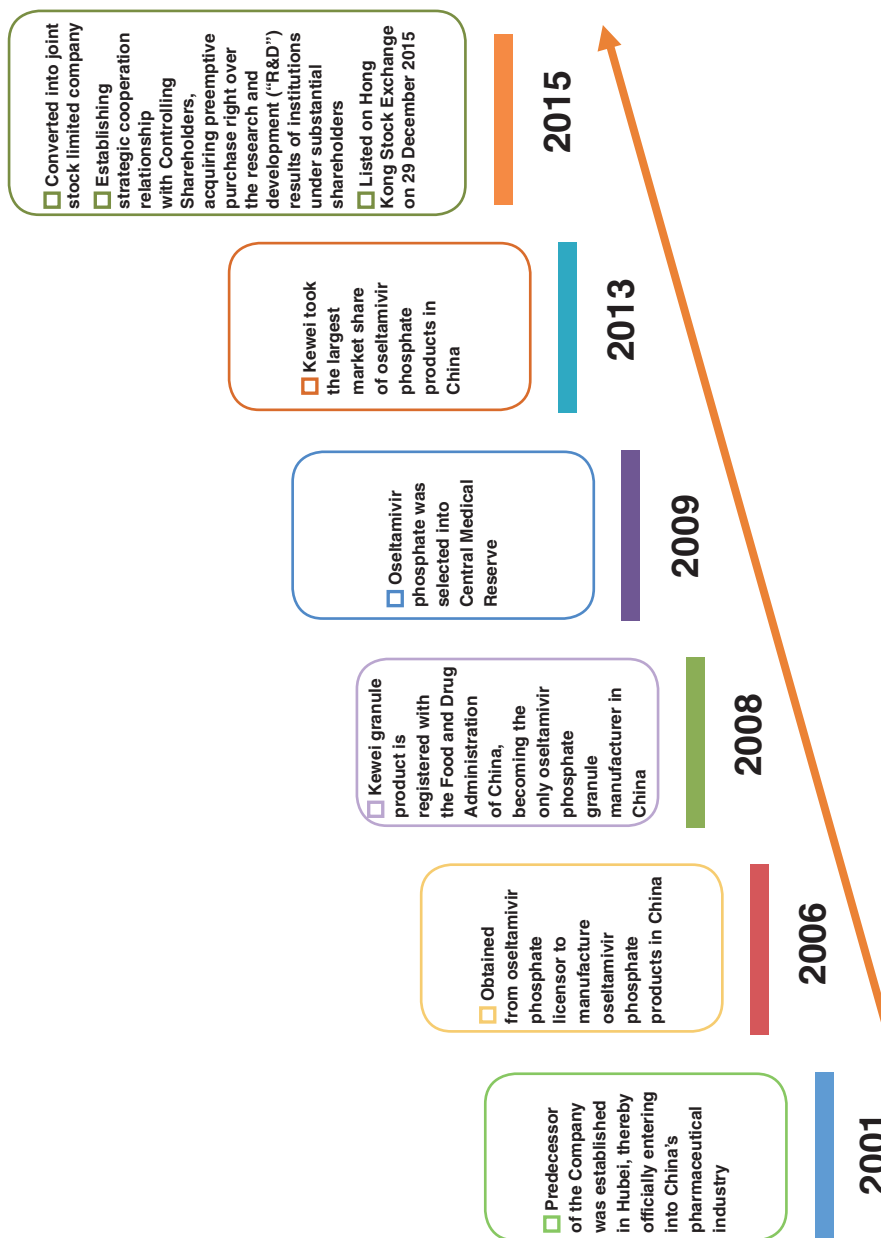
Since its establishment, our Company has always followed the motto of "serving the chinese with higher standards". Meanwhile, we have a strong industrial foundation and a leading competitive edge in the manufacturing and marketing of pharmaceutical products. As of the end of 2015, the Company has manufactured, promoted and sold a total of 33 pharmaceutical products and has a product distribution network throughout country.

We are currently the only manufacturer of oseltamivir phosphate granules in the China market. Our key product Kewei (oseltamivir phosphate) is the leading product in China's anti-influenza market. During the years from 2013 to 2015, the Company's oseltamivir phosphate product ranked first in China in terms of sales volume.

HEC Pharm adheres to the implementation of professionalism, branding and differentiation development strategy. It is committed to the establishment of a professional marketing team, a steady and innovative market operation and a strategic integration of resources, in order to create a unique brand characteristics and core competitiveness in the industry and create value for our customers and partners to the greatest.

In the future, the Company will further develop its product lines and markets, enhance international production standards and quality of the products and continue to expand the coverage of marketing and sales in order to facilitate the additional growth of our operation and profitability, and strive for more economic benefits and interests for the investors.

# History of Development





## CHAIRMAN'S STATEMENT

On behalf of the Board I am hereby pleased to present the annual results of the Group for the year ended 31 December 2015 and the future outlook of 2016.

### **2015 Review**

On 29 December 2015, HEC Pharm launched the initial public offering on the Main Board of Hong Kong Stock Exchange which provided a new platform for the Company's development.

The detailed operating results in 2015 are provided in the section headed "Operating Results and Analysis" from page 16 to page 20 of this Annual Report.

Leveraging on our experience on oseltamivir, the Group devoted to the R&D of anti-virus therapeutic area and developed a series of yimitasvir phosphate products used for the treatment of Hepatitis C viral infections. In 2015, the phase I clinical trial of our yimitasvir phosphate was accomplished. In February 2016, the Group has entered into a memorandum of understanding for new therapy of hepatitis C viral infection with TaiGen Biotechnology Company Ltd.

## Chairman's Statement

In the area of endocrine and metabolic diseases, we are currently developing three types of insulin APIs, which will be produced into six forms of insulin products. In 2015, the Group has applied for clinical trials for insulin aspart, insulin aspart injection and insulin aspart 30 injection. Recombinant human insulin is now in the phase III clinical trial.

### Future Prospects

2016 is a year full of opportunities for us. In the future, HEC Pharm will continue to endeavor to become the leading pharmaceutical enterprise in the market. While maintaining the existing product market, we will target on other therapeutic areas, such as digestive diseases area and based on HEC Research Group, a leading pharmaceutical research institution in China, through strategic cooperation agreements, constantly obtain opportunities for business and product expansion. In addition, through extensive acquisition and obtaining new permits, the Company will further diversify its product lines, expand its market, enhance the international production standard and quality of its products and continue to expand the market promotion and sales coverage to facilitate the further growth of our business capacity and profitability so as to gain more economic interest and earnings for the investors.

We plan to expand our products to other therapeutic areas. Meanwhile, we will also increase the reservation of highly competitive future products in the therapeutic areas we focus on, especially the insulin products, in order to facilitate the further growth of our business capacity and profitability.

While facilitating rapid development of the Company, we firmly believe that the true value of our Company is to provide more safe products and services of high quality to customers. With the continuing aging of China's population and innovation and upgrade of the pharmaceutical industry, HEC Pharm will face opportunities as well as challenges. We need to follow the trend, grasp the opportunities, transform our concept and carry out innovations to face the challenges. We uphold the high standards and strict requirements as before to continue manufacturing better innovative medicines meeting international standards. While promoting operation performance and creating higher economic benefits, we will provide more and better pharmaceutical products and services to the community and take more social responsibility.

We hope we can work together with our shareholders for the development of HEC Pharm and make greater achievements. I hereby express sincere appreciation to the shareholders, employees and partners of the Group.

**TANG Xinfu**

*Chairman*

27 March 2016



# Management

## Discussion and Analysis



### MANAGEMENT DISCUSSION AND ANALYSIS

#### I. Industry Review

In 2015, the growth of China's economy gradually slowed down but managed to remain steady for the entire year. Though China is facing pressure from the aggravating economic downturn, demand for medicine is not sensitive to the economic downturn. As compared with other industries in China, the development of the pharmaceutical industry remained healthy due to such factors as the constant development of China's economy, the steady increase of average income per capita, the faster population aging, the higher incidence rate of diseases in China and the increased awareness of health amongst people in China.

In 2015, China successively implemented a series of policies to promote the healthy development of the pharmaceutical industry, especially encouraging pharmaceutical enterprises to increase investment in the pediatric pharmaceutical market. At the end of 2015, China implemented its two-child policy which is expected to significantly increase the population born each year. It is expected that there will be nearly 6 million newborn babies in the upcoming three years, which will significantly drive the overall demands for the pharmaceutical products, especially in the pediatric pharmaceutical sector. Moreover, government spending on medicines and healthcare continued to increase and expanded the beneficiary coverage of basic medical insurance. The protection

## Management Discussion and Analysis



provided by policies and the improvement of the medical and health system helped to further unleash residents' medical demand, and bring new business opportunities to pharmaceutical enterprises.

The pharmaceutical industry showed a good development trend in general. However, there are still significant challenges in the future. With the full implementation of expense control of medical insurance in 2015, the expansion of the pharmaceutical industry can no longer rely on medical insurance. Moreover, the peripheral industries of the pharmaceutical industry are also under pressure. As a result, the pharmaceutical industry is now in a difficult transitional period and the overall growth rate of the industry is substantially lower. According to the forecast of Guangzhou PICO medicine Information Co., Ltd. ("**PICO**"), the per capital GDP in PRC is expected to grow to RMB55,999 by 2017, representing a CAGR of 6.4%. Looking forward to 2016, due to stricter expense control of medical insurance, lowered bidding prices and restricted use of adjuvant medicines, antibiotics and infusion solutions, the growth of the industry may be undermined.

## Management

### Discussion and Analysis

Under such circumstance, we will continue to focus on the enhancement of quality and economic effectiveness and we will carry out innovative transformation to fit into the new environment and adapt to changes of various policies. In addition, we will also spare no effort to carry out educational promotion and expand market so as to facilitate healthy and sustainable growth of our pharmaceutical products business. With respect to sales policy, we will continue to develop the anti-virus market, especially the pediatric anti-influenza market. Focusing our educational promotion activities in relation to our oseltamivir phosphate (Kewei) product, we will leverage on our successful sales experience in Guangdong of using educational promotion as the main way and strive for the support of oseltamivir phosphate from the health departments of other provinces. We will build up the sales teams in provinces with better economies and change doctors' perception of medication. Meanwhile, we have also begun to increase educational promotion on the application of our key product, benzbromarone, to the treatment of hyperuricemia, to achieve a higher sales amount. With respect to R&D, we continue to focus on the development of the insulin project and take all efforts to procure our insulin products to be permitted to enter into the market as scheduled. We will also timely accomplish the R&D of other products.

## II. Business Review

### Business Overview

The Group has five key products: Kewei, Ertongshu, Oumeining, Xinhaining and Xining. In 2015, amid the slowing down of China's economy growth and the reformation of medical system, the Group focused on product innovation and management optimization to solidify and promote the market positions of its key products. Sales volume continued to rapidly grow as a result of such policy.

Looking back to 2015, our sales revenue reached RMB692.9 million, representing an increase of 57.2% as compared with 2014, maintaining a relative higher growth rate that is substantially higher than the industrial average. Meanwhile, the revenue of Kewei and Ertongshu reached RMB453.8 million and RMB36.5 million, representing an increase of 133.4% and 21.4% as compared with those of 2014 respectively. The growth of the Group's revenue is mainly attributable to the substantial increase in sales of our anti-viral product Kewei.

## Management Discussion and Analysis

### Key Products

The following table illustrates the Group's portfolio of key products as at the end of 2015.

| Name of Top Five Products | Common Name              | Therapeutic Area   | National Medical Insurance Catalogue | Revenue in 2015 (RMB Million) | Percentage |
|---------------------------|--------------------------|--|--------------------------------------|-------------------------------|------------|
| Kewei                     | Oseltamivir phosphate    | Anti-influenza medicine                                      | Yes<br>(75mg capsules)               | 453.8                         | 65.5%      |
| Ertongshu                 | benzbromarone            | Medicine for treatment of excess level of uric acid and gout | Yes                                  | 36.5                          | 5.3%       |
| Oumeining                 | telmisartan              | Medicine for treatment and prevention of hypertension        | Yes                                  | 49.5                          | 7.1%       |
| Xinhaining                | Amlodipine besylate      | Medicine for treatment and prevention of hypertension        | Yes                                  | 32.3                          | 4.7%       |
| Xining                    | Cetirizine hydrochloride | Medicine for treatment of allergy                            | Yes                                  | 34.5                          | 5.0%       |

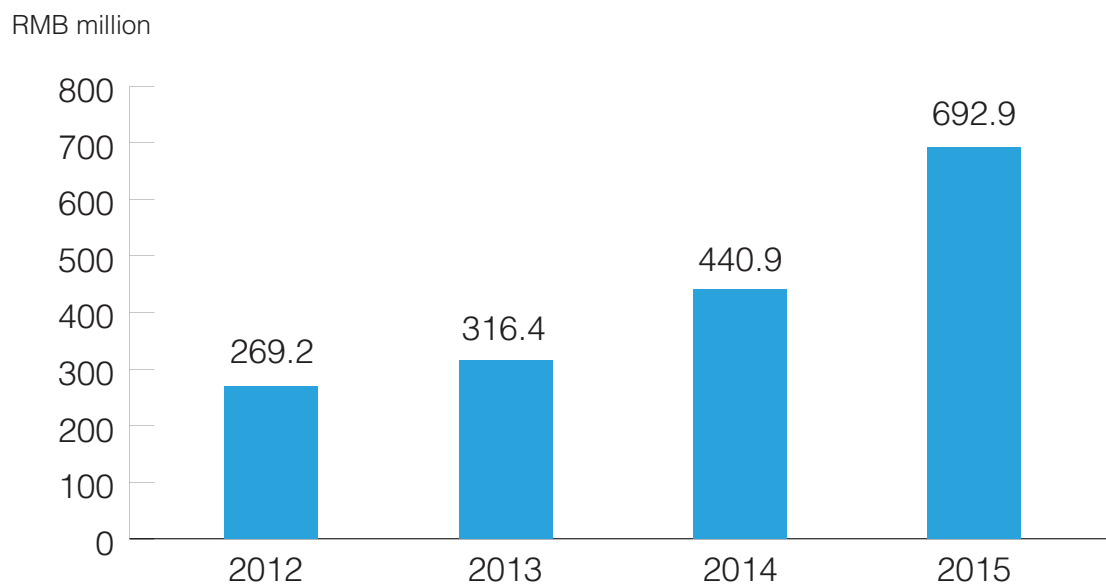


## Management

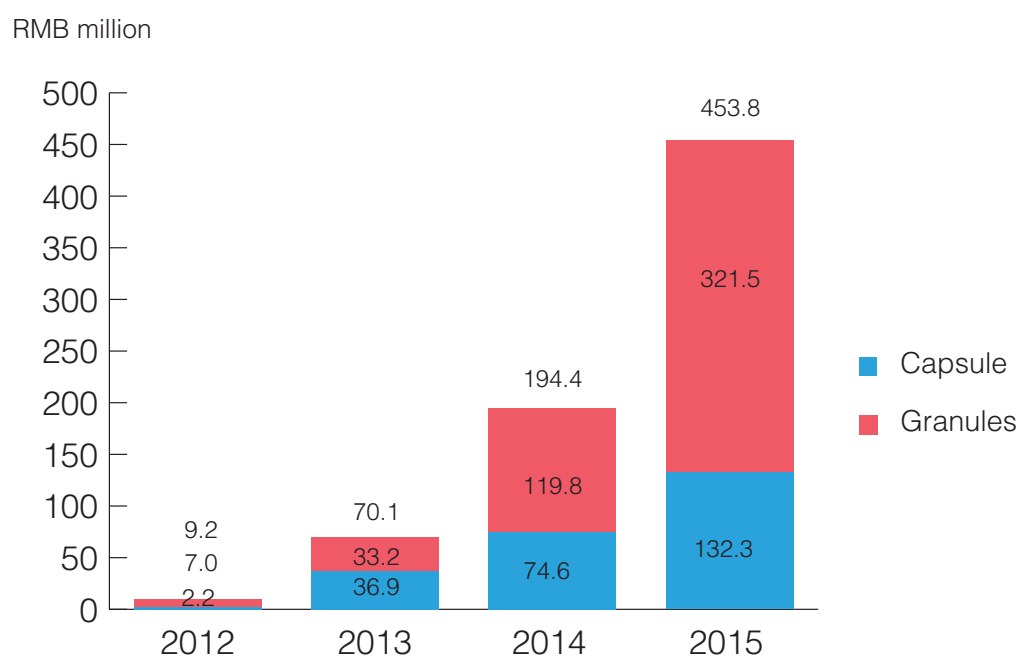
### Discussion and Analysis

The following charts illustrate the revenue of our Group as well as the revenue of our key products from 2012 to 2015.

**Revenue from 2012 to 2015**

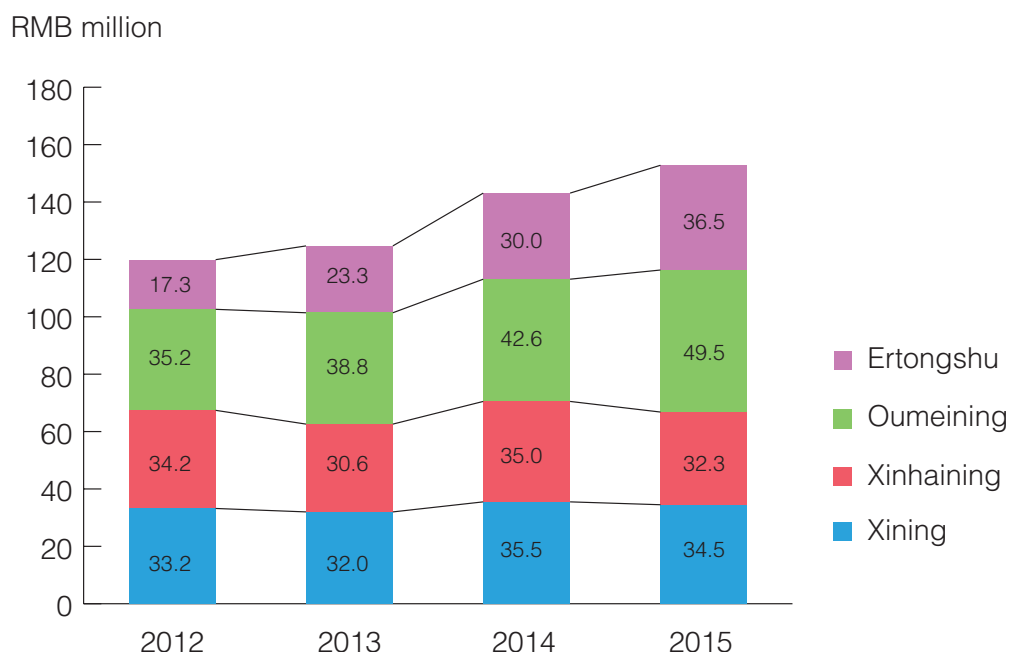


**Revenue from Sales of Kewei Product from 2012 to 2015**



## Management Discussion and Analysis

### Revenue from Sales of Other Key Products From 2012 to 2015



### R&D

Leveraging on our experience on oseltamivir, we are devoted to the anti-virus therapeutic area and expand our product portfolio. In 2015, we have entered into an agreement with Sunshine Lake Pharma pursuant to which we have acquired the right to produce and sell yimitasvir phosphate products and follow-up direct anti-viral agent compounds worldwide upon completion of development. Yimitasvir phosphate is an NS5A inhibitor used for the treatment of Hepatitis C viral infections. It is anticipated to be a National Class 1.1 drug and we believe it will be the first anti-Hepatitis C direct antiviral agent (DAA) drug wholly developed by a PRC company. We believe that this will be an important drug for the treatment of Hepatitis C viral infections in the PRC in the future. The phase I clinical trial of yimitasvir phosphate was accomplished in 2015. Yimitasvir phosphate is now pending for phase II and III clinical trial approval. We entered into a memorandum of understanding for novel all-oral interferon-free treatment for chronic hepatitis C virus infection with TaiGen Biotechnology Company Ltd. in February 2016.

In the area of endocrine and metabolic diseases, we are focusing on developing full portfolios of insulin products in order to treat diabetes. Based on the most recent epidemiological analysis (published in 2013), approximately 11.6% of Chinese adults have diabetes with a total number of 114 million, representing 1/3 of the total diabetics all over the world, and ranked first in the world. We are currently developing three types of insulin APIs, which will be produced into six forms of insulin finished products. In 2015, we have applied for clinical trials for insulin aspart, insulin aspart injection and insulin aspart 30 injection. Recombinant human insulin is now in the phase III clinical trial in China.

## Management

### Discussion and Analysis

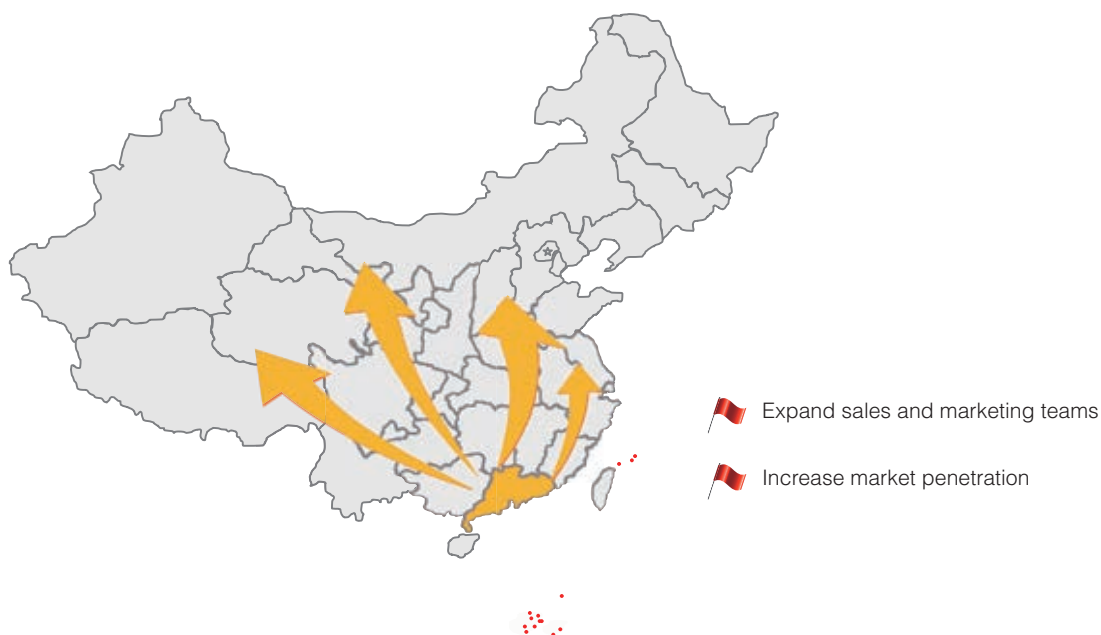
Apart from the self-developed projects, we have entered into a strategic cooperation agreement with the controlling shareholder Shenzhen HEC Industrial, which provided us with a pre-emptive right to purchase products developed by the HEC Research Group. HEC Research Group is one of the leading pharmaceutical research institutions in China in terms of the number of submitted patents in China. As of 31 December 2015, HEC Research Group has over 1,200 R&D staff, including 24 overseas experts and 44 R&D staff with doctorate degrees. The strategic cooperation agreement will allow us to have the opportunity to acquire innovative drugs, biologics and generic drugs being developed by a leading PRC pharmaceutical research institution, paving the way for the continual expansion of our product portfolio.

### Sales, Marketing and Distribution

We mainly marketed our products within China. We generated demand for our pharmaceutical products from hospitals and other medical institutions through our sales and marketing campaigns, including educational promotion activities, and our revenue was driven by the sales of our pharmaceutical products to GSP certified distributors who, in turn, would sell our products to hospitals and other medical institutions. As at 31 December 2015, we had a total of 196 employees engaged in sales and marketing. We also established relationship with about 1,800 third-party distributors covering substantially all provinces and cities in China, and established an extensive distribution network for the Group.

We attach great importance on the educational promotion activities. We consider this to be a two way communication process that allows us to educate hospital management, doctors and other medical practitioners on the benefits and uses of our products and at the same time allows us to obtain the feedback on products from our competitors. We conduct academic conferences, seminars and symposia and other forms of activities to promote our products, through which we expect to increase the awareness and recognition of our products among the industry.

## Management Discussion and Analysis



In order to make our product positioning more competitive in the market, the sales and marketing department designs specific marketing strategies through its research and analysis of the competitive positioning of our products and coordinates various other departments involved in our marketing and promotion activities. Moreover, the sales and marketing department is in charge of making the pre-marketing strategies for new products, which mainly includes market research and planing, marketing resource distribution and pricing strategy based on the characteristics and competitive condition of our new products. We analyze the market demand and sales data, and consequently prepare the product promotion strategy of “Kewei granules being the pioneer, followed by the Kewei capsules, while Ertongshu establishing its foundation”. Kewei granules have drawn significant attention from segmented markets due to its exclusive advantage on dosage form, the recognition and consent from domestic child influenza experts and the oseltamivir granules being recommended and listed in the expert consent as the first choice of medicine to treat influenza of children. These all facilitated the increased sales of Kewei capsules.

Pursuant to the license agreement with oseltamivir phosphate licensor in respect of the use of the oseltamivir phosphate patents, on 26 February 2016, Shenzhen HEC Industrial has exercised the option to extend the term of the license agreement up to 31 December 2017.



## Management

### Discussion and Analysis

#### III. Operating Results and Analysis

##### 1. Overview

In 2015, the Group has recorded a revenue of RMB692.9 million, representing an increase of 57.2% as compared with RMB440.9 million in 2014; a net profit of RMB265.8 million, representing an increase of 96.4% as compared with RMB135.3 million in 2014; profit for the year attributable to equity shareholders of RMB265.8 million, representing an increase of 96.4% as compared with RMB135.3 million in 2014.

##### 2. Revenue

For the year of 2015, the Group has recorded a revenue of RMB692.9 million, representing an increase of 57.2% as compared with RMB440.9 million in 2014. Meanwhile, revenue from the sales of our key product Kewei (oseltamivir phosphate) has grown significantly, with an increase of 133.4% as compared with that in 2014. The increase was mainly due to our educational promotion activities for Kewei which constantly enhances our product's reputation and strengthens our market competitiveness.

The following table illustrates the revenue of products of each therapeutic area and as a percentage of our total revenue.

|   | Year ended 31 December |               |                |               | Year-on-year<br>Growth<br>(%) |
|---|------------------------|---------------|----------------|---------------|-------------------------------|
|   | 2015                   |               | 2014           |               |                               |
|   | RMB'000                | %             | RMB'000        | %             |                               |
| Anti-viral drugs                            | 457,436                | 66.0%         | 199,414        | 45.2%         | 129.4%                        |
| – key product Kewei (oseltamivir phosphate) | 453,830                | 65.5%         | 194,473        | 44.1%         | 133.4%                        |
| – Kewei granules                            | 321,514                | 46.4%         | 119,832        | 27.2%         | 168.3%                        |
| – Kewei capsules                            | 132,316                | 19.1%         | 74,641         | 16.9%         | 77.3%                         |
| Cardiovascular drugs                        | 107,083                | 15.5%         | 106,209        | 24.1%         | 0.8%                          |
| Endocrine and Metabolic drugs               | 39,047                 | 5.6%          | 32,514         | 7.4%          | 20.1%                         |
| Others                                      | 89,344                 | 12.9%         | 102,767        | 23.3%         | -13.1%                        |
| <b>Total</b>                                | <b>692,910</b>         | <b>100.0%</b> | <b>440,904</b> | <b>100.0%</b> | <b>57.2%</b>                  |

## Management Discussion and Analysis

### 3. Cost of Sales

Our cost of sales consists of (i) cost of materials, primarily representing cost of API, ancillary materials and packaging materials, (ii) labour cost, primarily representing salaries and welfare benefits of our staff directly involved in the manufacture of our products, (iii) manufacturing overhead, primarily representing depreciation cost of machinery and facilities and cost of labour protection materials, fuel, machine oil and maintenance, and (iv) royalty fee paid to third parties in relation to various patent licences.

For the year of 2015, the Group's cost of sales amounted to RMB178.3 million, representing an increase of 48.8% as compared to RMB119.8 million in 2014. This is mainly due to the increase in sales volume.

The following table illustrates the cost of sales of products of each therapeutic area and as a percentage of our total cost of sales.

|                               | Year ended 31 December |               |         |        | Year-on-year<br>Growth<br>(%) |
|-------------------------------|------------------------|---------------|---------|--------|-------------------------------|
|                               | 2015                   |               | 2014    |        |                               |
|                               | RMB'000                | %             | RMB'000 | %      |                               |
| Anti-viral drugs              | <b>106,170</b>         | <b>59.5%</b>  | 45,978  | 38.4%  | 130.9%                        |
| – key product Kewei           | <b>104,469</b>         | <b>58.6%</b>  | 44,315  | 37.0%  | 135.7%                        |
| – Kewei granules              | <b>68,735</b>          | <b>38.5%</b>  | 26,936  | 22.5%  | 155.2%                        |
| – Kewei capsules              | <b>35,734</b>          | <b>20.1%</b>  | 17,379  | 14.5%  | 105.6%                        |
| Cardiovascular drugs          | <b>18,994</b>          | <b>10.7%</b>  | 21,890  | 18.3%  | -13.2%                        |
| Endocrine and Metabolic drugs | <b>5,030</b>           | <b>2.8%</b>   | 4,019   | 3.3%   | 25.2%                         |
| Others                        | <b>48,140</b>          | <b>27.0%</b>  | 47,942  | 40.0%  | 0.4%                          |
| <b>Total</b>                  | <b>178,334</b>         | <b>100.0%</b> | 119,829 | 100.0% | 48.8%                         |

## Management

### Discussion and Analysis

#### 4. Gross Profit

For the year of 2015, the Group's gross profit amounted to RMB514.6 million, representing an increase of 60.3% as compared to RMB321.1 million in 2014. This is mainly due to the strong market performance of our anti-influenza virus products in 2015.

The following table illustrates the gross profit attributable to products of each therapeutic area and as a percentage of our gross profit.

|                               | Year ended 31 December |                |                |               | Year-on-year<br>Growth<br>(%) |
|-------------------------------|------------------------|----------------|----------------|---------------|-------------------------------|
|                               | 2015                   |                | 2014           |               |                               |
|                               | RMB'000                | %              | RMB'000        | %             |                               |
| Anti-viral drugs              | 351,266                | 68.3%          | 153,436        | 47.8%         | 128.9%                        |
| – key product Kewei           | 349,361                | 67.9%          | 150,158        | 46.8%         | 132.7%                        |
| – Kewei granules              | 252,779                | 49.1%          | 92,895         | 28.9%         | 172.1%                        |
| – Kewei capsules              | 96,582                 | 18.8%          | 57,263         | 17.8%         | 68.7%                         |
| Cardiovascular drugs          | 88,089                 | 17.1%          | 84,319         | 26.3%         | 4.5%                          |
| Endocrine and Metabolic drugs | 34,017                 | 6.6%           | 28,495         | 8.9%          | 19.4%                         |
| Others                        | 41,204                 | 8.0%           | 54,825         | 17.0%         | -24.8%                        |
| <b>Total</b>                  | <b>514,576</b>         | <b>100.00%</b> | <b>321,075</b> | <b>100.0%</b> | <b>60.3%</b>                  |

#### 5. Other Revenues

Our other revenue primarily consists of (i) government grants, primarily representing amortisation of government grant for our construction of the production line of Kewei by instalment in accordance with accounting standards, allowance and other awards granted for our R&D projects by local authorities, (ii) interest income, and (iii) R&D service income received from associates and other miscellaneous income. For the year of 2015, the Group's other revenues amounted to RMB15.8 million, representing a decrease of 71.2% as compared to RMB54.8 million in 2014. This is because we ceased to provide R&D service or advances to our associates since July 2015.

## Management Discussion and Analysis

### 6. Expense Analysis

For the year of 2015, the Group's total expense amounted to RMB222.4 million, representing an increase of 4.5% as compared to RMB212.8 million in 2014. The Group's main expense comprises the following:

|                         | For Year<br>Ended 31 December |                 | Year-on-year<br>Growth<br>(%) |
|-------------------------|-------------------------------|-----------------|-------------------------------|
|                         | 2015<br>RMB'000               | 2014<br>RMB'000 |                               |
| Distribution Costs      | 77,287                        | 60,115          | 28.6%                         |
| Administrative Expenses | 120,171                       | 110,312         | 8.9%                          |
| Finance Costs           | 24,899                        | 42,330          | -41.2%                        |
| <b>Total</b>            | <b>222,357</b>                | <b>212,757</b>  | <b>4.5%</b>                   |

Distribution costs mainly consist of (i) marketing expenses relating to conducting educational promotion activities and other marketing and entertainment activities, (ii) travelling expenses for marketing purposes, (iii) labour cost, and (vi) other expenses. Increase in distribution costs was mainly due to our increased market efforts.

Administrative expenses consist of (i) research and development cost (ii) salary and welfare expenses for management and administrative personnel, (iii) depreciation and amortisation costs relating to our facilities and land use rights of offices, and (vi) other miscellaneous expenses. Increase in administrative expenses was mainly due to the listing expense in 2015 amounting to RMB23.8 million recorded as expense. Such increase was partially offset by the effect that we disposed of a subsidiary, Ruyuan HEC Pharmaceutical co., Ltd. in 2014 to our Parent Company.

Finance costs primarily consist of interests on our bank loans and fees for advances from associates, after deducting amounts capitalised in construction in progress. Decrease in finance costs was mainly because the Group has sufficient funding which had been used to settle matured bank loans, resulting in a decrease in interest expenses.

## Management

### Discussion and Analysis

#### 7. Other Income

Other income for the year amounted to RMB6.7 million, which mainly due to the fluctuation of exchange rates between HKD and RMB and between USD and RMB resulting in the foreign exchange gains derived in connection with the proceeds from Pre-IPO Investment and our initial public offering.

#### 8. Profit Before Taxation

As a result of reasons mentioned above, the profit before taxation increased from RMB163.1 million in 2014 to RMB314.7 million in 2015, representing a growth of 92.9%.

#### 9. Income Tax

Our income tax increased from RMB27.8 million in 2014 to RMB49.0 million in 2015, representing a growth of 76.3%, which was mainly due to increase in profit before taxation.

#### 10. Profit for the Year

As a result of the reasons mentioned above, profit for the year increased from RMB135.3 million in 2014 to RMB265.8 million in 2015, representing a growth of 96.4%.

#### 11. Total Comprehensive Income Attributable to Equity Shareholders of the Company

Total Comprehensive Income attributable to equity shareholders of the Company increased from RMB135.3 million in 2014 to RMB265.8 million in 2015, representing a growth of 96.4%.

The basic and diluted earnings per share increased from RMB0.45 in 2014 to RMB0.79 in 2015, representing a growth of 75.6%.

## Management Discussion and Analysis

### IV. Financial Position

#### 1. Overview

As at 31 December 2015, the Group's total assets were substantially increased. The Group's total assets amounted to RMB2,577.4 million, total liabilities amounted to RMB434.6 million and shareholders' equity amounted to RMB2,142.8 million.

#### 2. Net Current Assets

The following table illustrates the current assets, current liabilities and net current assets as of the date indicated.

|                                  | <b>As at 31 December</b> |         |
|----------------------------------|--------------------------|---------|
|                                  | <b>2015</b>              | 2014    |
|                                  | <b>RMB'000</b>           | RMB'000 |
| <b>Current Assets</b>            |                          |         |
| Inventories                      | <b>154,628</b>           | 200,276 |
| Trade and Other Receivables      | <b>260,568</b>           | 166,415 |
| Time Deposits                    | <b>33,000</b>            | –       |
| Pledged Deposits                 | <b>8,077</b>             | 25,000  |
| Cash and Cash Equivalents        | <b>1,353,651</b>         | 86,554  |
| <b>Total Current Assets</b>      | <b>1,809,924</b>         | 478,245 |
| <b>Current Liabilities</b>       |                          |         |
| Trade and Other Payables         | <b>155,961</b>           | 162,682 |
| Bank Loans                       | <b>105,000</b>           | 270,000 |
| Deferred Income                  | <b>4,379</b>             | 4,379   |
| Current tax Payable              | <b>5,826</b>             | 8,929   |
| <b>Total Current Liabilities</b> | <b>271,166</b>           | 445,990 |
| <b>Net Current Assets</b>        | <b>1,538,758</b>         | 32,255  |

Our net current assets increased from RMB32.3 million on 31 December 2014 to RMB1,538.8 million on 31 December 2015. This was mainly due to the increase of cash and cash equivalents resulted from proceeds of initial public offering upon successful listing of our H Shares on the Main Board of the Stock Exchange on 29 December 2015, and the increase of trade and other receivables resulting from the increase in sales and decrease of bank loans.

## Management

### Discussion and Analysis

#### 3. Gearing ratio and quick ratios

Gearing ratio represents total loans and borrowings as at a record date divided by total equity as at the same record date. Quick ratio represents current assets excluding inventories as at a record date divided by current liabilities as at the same record date.

The gearing ratio and quick ratio of the Group as at 31 December 2015 were 9.1% and 6.1 times respectively. The gearing ratio and quick ratio of the Group as at 31 December 2014 were 149.7% and 0.6 times respectively.

The decrease in the gearing ratio and increase in the quick ratio as at 31 December 2015 as compared with those as at 31 December 2014 was mainly due to the fundings raised from the capital injection made by certain new investors in June 2015 and the fundings raised from the initial public offering upon successful listing of our H shares on the Main Board of the Stock Exchange on 29 December 2015.

#### 4. Capital Raising

We introduced Pre-IPO investments in June 2015 and raised RMB517.1 million. On 29 December 2015, the Company was successfully listed on the Main Board of the Stock Exchange by issuing 90,132,000 H shares at the price of HKD15 per share, and raising approximately HKD1.35 billion.

#### 5. Cash Flow Analysis

In 2015, the Group's cash flow is shown in the following table:

|  | <b>Unit: RMB '000</b> |          |
|--|-----------------------|----------|
|  | <b>2015</b>           | 2014     |
| Net cash generated from operating activities           | <b>287,394</b>        | 129,878  |
| Net cash used in investing activities                  | <b>(343,575)</b>      | (38,341) |
| Net cash generated from/(used in) financing activities | <b>1,323,278</b>      | (37,350) |
| Net increase in cash and cash equivalents              | <b>1,267,097</b>      | 54,187   |

In 2015, the Group's net cash generated from operating activities increased by RMB157.5 million to RMB287.4 million, representing an increase of 121.3% as compared with 2014. This is mainly due to increase in sales.

In 2015, the Group's net cash flow used in investing activities increased by RMB305.2 million to RMB343.6 million. This mainly includes the Group's prepayment of RMB290.0 million in connection with the joint development agreement of the yimitasvir phosphate and follow-up direct anti-viral agent compounds for treatment of Hepatitis C to Sunshine Lake Pharma.

## Management Discussion and Analysis

In 2015, the Group's net cash flow generated from financing activities was RMB1,323.3 million while in 2014, the Group's cash outflow from financial activities was RMB37.4 million. The increase of RMB1,360.7 million was mainly due to the funding of RMB517.1 million raised from the capital injection made by certain new investors in June 2015 and the funding of RMB1,082.8 million (excluding listing expenses) raised from the initial public offering of our H shares upon successful listing on the Main Board of the Stock Exchange in December. The increase was partially offset by a net repayment of RMB220.0 million for bank loans.

### 6. Bank Borrowing

In 2015, the Group's indebtedness was bank loans in RMB. As at 31 December 2015, the Group's bank loan balance was RMB195.0 million, representing a decrease of 53.0% as compared to RMB415.0 million as at 31 December 2014.

As at 31 December 2015, the Group's balance of short-term bank loans was RMB50.0 million and balance of long-term bank loans was RMB145.0 million, among which RMB55.0 million will be matured in a year. The interest rates of the bank loans were all based on the benchmark interest rates released by the People's Bank of China.

The Group is in good liquidity position with sufficient funding and has no repayment risk. After the end of reporting period, the Group has repaid a matured short-term bank loans amounting to RMB50.0 million. In 2016, the Group currently has not required and has no intention to renew the matured bank loans. All bank loans of the Group are loans dominated in RMB and borrowed from domestic banks in the PRC.

### 7. Capital Structure

The Group's total equity increased by RMB1,865.5 million from RMB277.3 million as at 31 December 2014 to RMB2,142.8 million as at 31 December 2015. The increase was mainly due to the funding of RMB517.1 million raised from the Pre-IPO Investments and the funding of RMB1,082.8 million (excluding listing expenses) raised from the initial public offering of our H Shares.

As at 31 December 2015, our total share capital was 450,659,000 shares, of which 225,000,000 shares were Domestic Shares and 225,659,000 shares were H Shares, representing 49.93% and 50.07% of our total share capital respectively. On 17 January 2016, the Company announced the partial exercise of the over-allotment option and further issued 163,400 shares. After the completion of over-allotment, our total share capital increased to 450,823,000 shares, of which 225,000,000 shares were Domestic Shares and 225,823,000 shares were H Shares, representing 49.91% and 50.09% of our total share capital respectively.

### 8. Capital Expenditure

In order to meet the market demand for our products, the Group began to establish new API production plant in October 2015 and has incurred and paid a project cost of RMB6.6 million based on the construction progress for the year ended 31 December 2015. According to our agreement with Sunshine Lake Pharma in respect of the transaction mentioned in "Joint Development Agreement" set out in the Report of the Directors, we have made prepayment and milestone payment amounting to RMB290.0 million during the year of 2015.



## Management

### Discussion and Analysis

#### 9. Contingent Liabilities

As at 31 December 2015, the Group did not have any contingent liability to any external party.

#### 10. Foreign Exchange

As at 31 December 2015, our Group had no investments in hedging of any speculative derivatives. In view of the potential Renminbi exchange rate fluctuations, our Group will consider arranging for proper financial instruments at appropriate time to avoid the corresponding risks.

#### 11. Pledge of the Group's Assets

Except for bank deposits pledged to secure certain bills payable as at 31 December 2015, we had no other pledged assets.

#### 12. Employee, remuneration policies and training

##### 1. Human Resource Summary

As at 31 December 2015, the Group had a total of 946 employees,

by age:

| <b>Age Distribution</b> | <b>Number</b> | <b>Percentage</b> |
|-------------------------|---------------|-------------------|
| Under 30                | 347           | 36.7%             |
| 30-40                   | 427           | 45.1%             |
| 40-50                   | 154           | 16.3%             |
| Above 50                | 18            | 1.9%              |
| <b>Total</b>            | <b>946</b>    | <b>100.0%</b>     |

by education:

| <b>Education Level</b> | <b>Number</b> | <b>Percentage</b> |
|------------------------|---------------|-------------------|
| Master or Above        | 36            | 3.8%              |
| Bachelor               | 248           | 26.2%             |
| Associate              | 195           | 20.6%             |
| Vocational or Below    | 467           | 49.4%             |
| <b>Total</b>           | <b>946</b>    | <b>100.0%</b>     |

## Management Discussion and Analysis

### 2. Employment Incentive

The Group has established a complete comprehensive assessment system mainly on the aspects of sales, R&D, objective accomplishment and piecework. It calculates monthly performance-related pays and conducts assessment in relation to the year-end bonus.

Furthermore, it has established multiple incentive mechanisms to motivate employees. It has created rewards for reasonable advice, Employee of the Month and annual advance rewards to activate the potential of employees.

### 3. Remuneration of Employees

The Group has a well-established remuneration system which divides employees into ten categories including administrative staff, research staff, technician, business personnel, purchaser, financial staff, technical worker, clerk, general worker and occasional general worker. The remuneration of employees consists of basic pays and performance-related pays. Remuneration packages of the Directors are recommended by the remuneration and appraisal committee and approved by the Board. Employee remuneration will be determined by the management with reference to individual performance and experience and industry practice.

### 4. Employee Training

In order to standardize the training management, the Group implements training for all employees. Based on the idea that “The Group is a school.”, it trains new employees at their entries, and retrain all employees on annual basis, so that all employees can continue to improve and make progress. Thus the Group will have more qualified employees and more competent management which will constantly enhance the management level and productivity efficiency.

In 2015, the Group roughly had the following trainings: basic training, professional training for general workers, apprentice training, on-duty training, technical training, information training and manager training. In average, each employee attended five trainings with more than 50 hours per person.

### 5. Employee Benefits

The Group strictly complies with the Labor Law, the Labor Contract Law and the Social Insurance Law of the Peoples' Republic of China, under which it contributes various social insurance premiums and housing provident fund for employees. In addition to the statutory requirement, the Group also established relevant regulations in relation to the annuity system, housing benefits, children's benefits, kindergartens and infirmary rooms.

## Management

### Discussion and Analysis

#### V. Risk Factors and Risk Management

The Group's current operation and development will be impacted to a certain extent by certain factors mainly including:

- Uncertainty of interest rate will cause certain impact on the financing cost of the Group. The Group has a good credit record and sufficient credit amount granted by the bank, and has obtained a large amount of stable fund through placement of H Shares. The Group pays close attention to the change of economic environment, and will strengthen the management of debt structure according to the change of bank interest rate, and timely adjust its debt structure to minimize interest rate risk to the largest extent.
- The Group's operation is primarily concentrated on mainland China, and substantially all of its revenues and expenditures are denominated in RMB. A small portion of our revenues are generated overseas. Such revenues are obtained from sales of APIs to pharmaceutical enterprises in foreign countries (including Bangladesh, Pakistan, India, Argentina and South Korea), and are mainly denominated in USD. Therefore, any fluctuation of exchange rate between RMB and any foreign currency may affect our business. In addition, the fund raised by the Group through the offering of H shares is denominated in HKD. The fluctuation of RMB exchange rate will cause exchange loss or gain to the Group's business transacted in foreign currencies.

#### VI. Prospects

Looking forward to 2016, our business objective is to maintain the fast growth of our total sales amount. Meanwhile, we will also continue to solidify and increase the market share of Kewei, Eertongshu and other circulated products, and to build up the sales platform of generic medicines. In order to accomplish such objectives, the specific business plan prepared for 2016 is as follow:

##### (1) "Academy + Brand" Arrangement in Relation to Clinic Products

We will proactively carry out academic promotion activities and strengthen our brand reputation by holding a variety of academic seminars and other promotional events. For such purpose, we make the assignments to each department as follows: the marketing department establishes and adjusts brand strategy, develops and maintains expert relationship, as well as increases cooperation with associations and institutions and establishes platforms for project promotions; the key client department is responsible for improving the relationship with major hospital clients, expanding the distribution network, and providing more business training programs; the direct sales teams implement product strategies, increase the number of hospitals in the sales network and exercise segmented customer management; the commercial department selects and manages sales channels, bidding and tendering issues, goods delivery and payment collection.

## Management Discussion and Analysis

### (2) “Brand + Service” Arrangement in Relation to Distribution Products

We place the main target of this arrangement on the grassroots market for the following reasons: the growth of medication usage in county hospitals and basic hospitals in cities outperformed that of municipal hospitals; restrictions imposed by policies regarding the multi-level medical system and the multi-site physician practice have been released; on-line diagnosing and remote medical consultation have expanded the grassroots market gradually; distribution products have been more suitable for the grassroots market due to their low profitability and low academic appeal because they have been introduced into the market for long time, bidding prices have been lowered and product updates have been accomplished.

As to the grassroots market, we will endeavor to build a service platform for doctors and patients at the grassroots level in 2016. With this platform, doctors can save lives and increase the efficiency of their diagnosis and treatment while patients can recover quickly by using good medicines and our products are publicized and can be promoted to earn market recognition. This portfolio may maximize the interest of the doctors, the patients and the Group.

### (3) Promotional Strategies for Kewei Granules

We will continue to work on the promotion of the philosophy of “standardized pediatric influenza cares” to reinforce doctors’ concept on the standardized treatment of influenza and to maintain our leading position in the market of children anti-influenza medicines. With the particular strategy, we will continue to attract more doctors to join our network and to contact them more frequently for the sake of reinforcing their concept on the treatment of influenza and shaping their prescription patterns, and to publicize the knowledge about the the sporadic feature of influenza pandemic through disease control education. In addition, the marketing department will develop an expert pool and increase the number of doctors within our network by providing academic supports in different levels, forms and scopes.

### (4) Promotional Strategies for Kewei Capsules

We will focus our promotion in the following aspects. Firstly, we will adjust product positioning and target on high-risk groups. Relevant materials and pamphlets for different medical departments will be provided from time to time. Secondly, we will put the focus on the emergency department, the contagion department and the pneumology department. Thirdly, we will increase education promotional campaigns to increase the coverage of our education promotion on more doctors, especially those working in basic and county hospitals.

### (5) Promotional Strategies for Ertongshu

Based on the PICO data, the market size of hyperuricemia treatment products was RMB399 million in 2010 and RMB825 million in 2014. It is anticipated that the market size of hyperuricemia treatment products will reach RMB1,570 million in 2019. The compound annual growth rate from 2010 to 2014 is 19.9% and that of years from 2014 to 2019 is 13.7%. The market of hyperuricemia treatment products in China is expanding in time. In order to meet the market demand, we will establish a professional sales team under the theme of “Harm of Hyperuricemia and Clinical, Benefit of Early Intervention”.

## Profiles of Directors, Supervisors and Senior Management

### Directors

| Name                   | Date of joining the Group | Date of appointment | Position                            |
|------------------------|---------------------------|---------------------|-------------------------------------|
| Mr. TANG Xinfu (唐新發)   | 4 May 2015                | 4 May 2015          | Chairman and non-executive Director |
| Mr. ZHU Yingwei (朱英偉)  | 8 August 2001             | 8 August 2001       | Non-executive Director              |
| Mr. JIANG Juncai (蔣均才) | 4 May 2015                | 4 May 2015          | Executive Director                  |
| Mr. WANG Danjin (王丹津)  | 27 February 2006          | 27 February 2006    | Executive Director                  |
| Mr. MO Kit (毛杰)        | 4 May 2015                | 4 May 2015          | Non-executive Director              |
| Mr. CHEN Yangui (陳燕桂)  | 1 May 2014                | 4 May 2015          | Executive Director                  |
| Mr. TANG Jianxin (唐建新) | 4 May 2015                | 4 May 2015          | Independent non-executive Director  |
| Mr. FU Hailiang (付海亮)  | 4 May 2015                | 4 May 2015          | Independent non-executive Director  |
| Mr. LEE Chi Ming (李志明) | 4 May 2015                | 4 May 2015          | Independent non-executive Director  |

## Profiles of Directors, Supervisors and Senior Management

**Mr. TANG Xinfra** (唐新發), aged 46, is the Chairman and a non-executive Director of the Board. He joined the Company in May 2015 and has served as a non-executive Director since then.

Mr. Tang has extensive working experience in the following companies or entities:

| Period                                | Name of Company/Entity  | Position   | Principal Function                       |
|---------------------------------------|---|--|--|
| Since November 2015                   | Shenzhen HEC Industrial   | Director and general manager                                 | Corporate management and decision-making |
| Since March 2011                      | Parent Company  | vice chairman, executive director and deputy general manager | Corporate management and decision-making |
| Since October 2010                    | Dongguan HEC Medicine Development and Research Co., Ltd. (“ <b>Dongguan HEC Research</b> ”) | legal representative and executive director                  | Corporate management and decision-making |
| Since May 2010                        | Linzi HEC Pharmaceutical Investment   | director   | Corporate management and decision-making |
| Since September 2009                  | Ruyuan HEC Pharmaceutical Co., Ltd.   | director   | Corporate management and decision-making |
| From September 2005 to September 2010 | Sunshine Lake Pharma  | head of research institute                                   | Corporate management and decision-making |
| From September 2002 to September 2005 | Shenzhen HEC Industrial   | director of the general office                               | Corporate management and decision-making |

Mr. Tang received a master degree in literary aesthetics from the Department of Chinese of Xiamen University in September 2002.

## Profiles of Directors, Supervisors and Senior Management

**Mr. ZHU Yingwei (朱英偉)**, aged 45, is a non-executive Director. Mr. Zhu joined our Company in August 2001 and has served as a Director since then.

Mr. Zhu also serves in the following companies or entities:

| Period               | Name of Company/Entity  | Position  | Principal Function                          |
|----------------------|---|---|---|
| Since September 2012 | Linzhi HEC<br>Pharmaceutical<br>Investment                                | director  | Corporate management<br>and decision-making |
| Since December 2010  | Parent Company  | director, general<br>manager and<br>legal<br>representative | Corporate management<br>and decision-making |
| Since December 2006  | Yichang HEC<br>Power Plant Co., Ltd.                                      | director  | Corporate management<br>and decision-making |
| Since April 2004     | Yidu Changjiang<br>Mechanism<br>Equipment Co., Ltd.<br>(宜都長江機械設備<br>有限公司) | director  | Corporate management<br>and decision-making |
| Since February 2004  | Yidu HEC Industrial<br>Development<br>Co., Ltd.<br>(宜都市東陽光實業<br>發展有限公司)   | director  | Corporate management<br>and decision-making |
| Since December 2003  | Sunshine Lake<br>Pharma   | director  | Corporate management<br>and decision-making |

## Profiles of Directors, Supervisors and Senior Management

| Period              | Name of<br>Company/Entity   | Position  | Principal Function                          |
|---------------------|---|---|---|
| Since December 2001 | Ruyuan Yao<br>Autonomous Region<br>Yangzhiguang<br>Industrial<br>Development<br>Co., Ltd.<br>(乳源瑤族自治縣<br>陽之光實業發展<br>有限公司) | director  | Corporate management<br>and decision-making |
| Since December 2001 | Ruyuan<br>Yangzhiguang<br>Aluminum<br>Development Co., Ltd.<br>(乳源陽之光鋁業<br>發展有限公司)  | chairman and legal<br>representative              | Corporate management<br>and decision-making |
| Since January 2001  | Ruyuan Yao<br>Autonomous Region<br>Jingwei Industrial<br>Development Co., Ltd.<br>(乳源瑤族自治縣京偉<br>實業發展有限公司)                 | legal representative<br>and executive<br>director | Corporate management<br>and decision-making |

Mr. Zhu serves as the vice president of Yichang Foreign Investment Association since December 2007, and was a standing committee member of Hubei Pharmaceutical Industry Association from April 2012 to April 2015. Mr. Zhu graduated with a bachelor degree in science from Jilin University in July 1993. He was recognised as a senior engineer in pharmaceutical engineering by the Professional Title Reformation Office of Hubei (湖北省職稱改革辦公室) in July 2009.



## Profiles of Directors, Supervisors and Senior Management

**Mr. JIANG Juncai ( 蔣均才 )**, aged 34, is an executive Director and the general manager of the Company. He joined the Company in May 2015 and has served as an executive Director since then.

Mr. Jiang has also served as a director of Yidu HEC Industrial Development Co., Ltd. from March 2012 to May 2015. Prior to that, Mr. Jiang was a director of Yichang Shancheng Cordyceps Sinensis Co., Ltd. ( 宜昌山城水都冬蟲夏草有限公司 ) from March 2012 to July 2015, and successively served as a researcher at the biochemistry division, a researcher and deputy head of the traditional Chinese medicine division and the deputy head of the zoological and botanical division of Sunshine Lake Pharma from July 2006 to May 2012.

Mr. Jiang graduated with a master degree in science from Shenyang Pharmaceutical University in June 2006.

**Mr. WANG Danjin ( 王丹津 )**, aged 46, is an executive Director and a deputy general manager of the Company. He joined the Company in February 2006, and has served as an executive Director since then.

Mr. Wang has also served as a supervisor of Parent Company from December 2010 to July 2015, and a director of our Company since April 2006. Prior to joining our Company, Mr. Wang was the head of production department of Jilin Tonghua Dongri Pharmaceutical Joint Stock Co., Ltd. ( 吉林省通化東日藥業股份有限公司 ) from March 2002 to January 2006, and a technologist at Liaoning Jilin Dandong Pharmaceutical Factory ( 吉林省丹東製藥廠 ) from November 1991 to February 2002.

Mr. Wang graduated with a bachelor degree from Shenyang Pharmaceutical University ( 瀋陽藥科大學 ) through correspondence courses in January 2008. He is recognised as a licensed pharmacist by Ministry of Human Resources and Social Security of the People's Republic of China (formerly known as Ministry of Personnel of the People's Republic of China), and was recognised as a pharmacist-in-charge by Bureau of Human Resources and Social Security of Dandong (formerly known as Bureau of Personnel of Dandong ( 丹東市人事局 ) in October 2001.

**Mr. MO Kit ( 毛杰 )**, aged 65, is a non-executive Director. He joined the Company in May 2015, and has served as a non-executive Director since then.

Mr. Mo has also served as a director of North & South Brother Pharma since October 2006, a director of Dongguan Bisheng Electronic Limited since June 2002, a member of the board of directors of Ruyuan Yangzhiguang Aluminium Development Co., Ltd. since June 1998 and a director of North & South Brother (HK) since September 1998.

## Profiles of Directors, Supervisors and Senior Management

**Mr. CHEN Yangui** (陳燕桂), aged 35, is an executive Director of the Board. He joined the Company in May 2014, serving as the head of the sales department, Mr. Chen has served as an executive Director since May 2015.

Mr. Chen has also served as a general manager of Yichang HEC Pharmaceutical since March 2016, a supervisor of Ruyuan HEC Medical Instrument Co., Ltd. (乳源東陽光醫療器械有限公司) since July 2012 and a director of Ruyuan HEC Pharmaceutical Co., Ltd. since February 2010. Mr. Chen joined Dongguan HEC Research in 2005, and successively held positions as a researcher, the deputy head of research and development department and the head of synthesis department before he was appointed as the deputy head of research institute and the head of generic drug department.

Mr. Chen graduated with a master degree in science from Hunan University in June 2006.

**Mr. TANG Jianxin** (唐建新), aged 51, was appointed as an independent non-executive Director in May 2015.

Mr. Tang has also served as an independent director of Sino Great Wall Co., Ltd. (SZSE Stock Exchange stock number: 000018) since December 2015 and an independent director of Pingdingshan Tianan Coal Mining Co., Ltd. (SSE stock code: 601666) since May 2013. He has been an independent director of Zhongbai Holdings Group Co., Ltd. (SZSE stock code: 000759) since December 2011 and an independent director of Shenzhen Huapengfei Modern Logistics Co., Ltd. (SZSE stock code: 300350) since August 2010. He was an independent director of Wuhan Sanzhen Industry Holding Co., Ltd. (SSE stock code: 600168) from June 2009 to June 2015, and an independent director of Wuhan Zhongnan Commercial (Group) Co., Ltd. (SZSE stock code: 000785) from May 2008 to May 2014. Prior to that, Mr. Tang served as an independent director of Wuhan Accelink Technologies Co., Ltd. (SZSE stock code: 002281) from September 2006 to September 2009 and an independent director of Hubei Chutian Expressway Co., Ltd (湖北楚天高速公路股份有限公司) (SSE stock code: 600035) from April 2002 to April 2008. Mr. Tang has been a doctoral tutor at Wuhan University since 2006 and the dean of Accounting Department of Economics and Management School. He has been a professor at Wuhan University since 2004, and worked for the postdoctoral research center of the accounting department of Renmin University of China from 2000 to 2002.

Mr. Tang received his bachelor degree from the Economics Department of Wuhan University in June 1985, and then obtained a master degree in economics and a doctoral degree in economics from Wuhan University in September 1988 and January 1999 respectively. Mr. Tang was granted practicing auditor qualifications by the National Audit Office of the People's Republic of China in December 1992, and Certified Public Valuer qualification by the China Appraisal Society in December 1997.

## Profiles of Directors, Supervisors and Senior Management

**Mr. FU Hailiang** ( 付海亮 ), aged 45, was appointed as an independent non-executive Director in May 2015.

Mr. Fu has been a partner and the head of administration function of Hubei S&H Law Firm since May 2005. He was a partner of Hubei Haohan Law Firm ( 湖北浩瀚律師事務所 ) from October 2000 to May 2005 and an associate at Wuhan Third Law Firm ( 武漢市第三律師事務所 ) from November 1996 to October 2000. Mr. Fu has been a council member of the Wuhan Lawyers Association and the chief of the Association of Finance, Securities and Law Industry ( 金融證券法律專業委員會 ) since February 2014.

Mr. Fu graduated with a professional certification in financial management from Wuhan University in July 1993, and graduated with a bachelor degree in law from Zhongnan University of Economics and Law in June 1998. After that, he graduated with a master degree in law from Wuhan University in February 2003. Mr. Fu has been admitted to practice PRC law in June 1998 and was recognized as an excellent lawyer of Hubei by the Department of Justice of Hubei and the Hubei Lawyers Association ( 湖北省律師協會 ) in March 2011.

**Mr. LEE Chi Ming** ( 李志明 ), aged 63, was appointed as an independent non-executive Director in May 2015.

Mr. Lee has also served as a director of Ever East Consultants Limited in Hong Kong since August 2013. Prior to that, Mr. Lee served as an executive science director in the research of central nervous system and pain control and a global product director of AstraZeneca Pharmaceuticals Co. Ltd., a section head, associate director and project manager at Bayer Corporation and a senior group leader of neuroscience at Abbott Laboratories. He also worked as a lecturer and then a senior lecturer at the Chinese University of Hong Kong from September 1982 to February 1992.

Mr. Lee received a bachelor degree in science and a master degree in biochemistry from the University of Hong Kong in June 1975 and July 1977 respectively, and a doctoral degree in pharmacology from the University of Cambridge in July 1980 before he completed his postdoctoral research at the Johns Hopkins University in July 1982.

## Profiles of Directors, Supervisors and Senior Management

### Supervisors

| Name                     | Date of joining the Group | Date of appointment | Position                              |
|--------------------------|---------------------------|---------------------|---------------------------------------|
| Ms. HUANG Fangfang (黃芳芳) | 4 May 2015                | 4 May 2015          | Chairman of the supervisory committee |
| Ms. XUE Lian (薛蓮)        | 20 November 2009          | 4 May 2015          | Employee representative supervisor    |
| Mr. LIN Jian (林健)        | 4 May 2015                | 4 May 2015          | Supervisor                            |

**Ms. HUANG Fangfang (黃芳芳)**, aged 34, is a Supervisor of the Company. She joined the Company in May 2015, and has been the chairman of the supervisory committee since then. She has also served as the executive deputy head of the generic drug department of Sunshine Lake Pharma since June 2014, and the head of formulation department of Sunshine Lake Pharma since February 2009. Prior to that, Ms. Huang was the head of analysis section under the formulation department of Sunshine Lake Pharma from July 2006 to February 2009.

Ms. Huang graduated with a master degree in science from Sun Yat-sen University in June 2006.

**Ms. XUE Lian (薛蓮)**, aged 36, is an employee representative Supervisor of the Company. She joined the Company in November 2009 and has served as the chief quality officer and the head of quality division of the Company. She has been an employee representative Supervisor since May 2015.

Prior to that, Ms. Xue was the director of quality assurance department of Parent Company from May 2006 to November 2009, a quality assurance specialist of Parent Company from December 2004 to April 2006 and a quality control and quality assurance specialist from March 2002 to December 2004.

Ms. Xue graduated with a bachelor degree from Wuhan Institute of Technology through correspondence courses in January 2008, and also graduated with a master degree in engineering from Peking University in July 2015. She was recognised as an engineer in pharmaceutical engineering by the Professional Title Reformation Office of Yichang (宜昌市職稱改革辦公室) in December 2008.

## Profiles of Directors, Supervisors and Senior Management

**Mr. LIN Jian (林健)**, aged 32, is a Supervisor of the Company. He joined the Company in May 2015, and has been a Supervisor since then. He has been an deputy director of the generic drug department of Dongguan HEC Research since June 2012.

Mr. Lin graduated with a doctor's degree in science, majoring in organic chemistry from Jilin University (吉林大學) in June 2012.

### Senior Management

| Name                   | Date of joining the Group | Date of appointment | Position                | Responsibility                    |
|------------------------|---------------------------|---------------------|-------------------------|-----------------------------------|
| Mr. JIANG Juncai (蔣均才) | 4 May 2015                | 4 May 2015          | General manager         | Overall day-to-day management     |
| Mr. WANG Danjin (王丹津)  | 27 February 2006          | 4 May 2015          | Deputy general manager  | Operational management            |
| Mr. LI Shuang (李爽)     | 7 August 2005             | 4 May 2015          | Deputy general manager  | Operational management            |
| Mr. ZHU Qiaohong (朱巧洪) | 11 May 2002               | 11 May 2002         | Deputy general manager  | Operational management            |
| Mr. LEI Xiantong (雷先桐) | 4 May 2015                | 4 May 2015          | Chief financial officer | Financial management              |
| Mr. PAN Sanxiong (潘三雄) | 4 May 2015                | 4 May 2015          | Secretary of the Board  | Day-to-day operation of the Board |

For the biography of Mr. JIANG Juncai (蔣均才) and Mr. WANG Danjin (王丹津), please refer to "Directors" in this section.

## Profiles of Directors, Supervisors and Senior Management

**Mr. LI Shuang (李爽)**, aged 35, is the deputy general manager of the Company. He joined the Company in August 2005 and worked as a technician of the ferment laboratory. He has served as the deputy general manager of the Company since May 2015.

Mr. Li has also served as the deputy head of the Company's insulin factory since October 2013 and the head of API workshop of that factory since April 2013 until September 2013. Mr. Li was the head of purification department of the Company's insulin factory from December 2008 to March 2013, and member of the insulin research team from September 2005 to November 2008.

Mr. Li graduated with a bachelor degree in engineering from China Three Gorge University (三峽大學) in June 2004.

**Mr. ZHU Qiaohong (朱巧洪)**, aged 47, is the deputy general manager of the Company. He joined the Company in May 2002, and has served as the deputy general manager of the Company since then.

Mr. Zhu has been the vice chairman of Pharmaceutical Profession Association of Hubei Province since April 2015, and has also served as a supervisor of our Company since June 2005. Mr. Zhu was the director of GMP office of Apeloa Kangyu Pharmaceutical Co., Ltd. from October 1993 to May 2002, and a technician of the General Security Station of the State-owned Ecological Forest (國有生態公益林業保護總站) of Dongyang City from August 1990 to October 1993.

Mr. Zhu graduated with a bachelor degree in science from Jilin University in July 1990. He was recognised as an engineer in pharmaceutical engineering by the Bureau of Human Resources and Social Security of Jinhua (formerly known as the Bureau of Personnel of Jinhua (金華市人事局)) in August 1999.

**Mr. LEI Xiantong (雷先桐)**, aged 45, is the chief financial officer of the Company. Mr. Lei joined the Company in May 2015, and has served as our chief financial officer since then.

Mr. Lei has been the chief financial officer of Parent Company from December 2010 to May 2015. Mr. Lei has also been the deputy head of financial department of Yidu Dongyangguang Industrial Development Co., Ltd. from January 2004 to December 2010 and a staff member at the financial department from September 2001 to January 2004. Mr. Lei held positions relating to financial accounting in various companies before that.

Mr. Lei graduated with a professional certification in financial accounting from Zhongnan University of Economics (currently known as Zhongnan University of Economic and Law) in June 1997. Mr. Lei was recognised as a registered tax agent of China by the Ministry of Human Resources and Social Security of the People's Republic of China.

## Profiles of Directors, Supervisors and Senior Management

**Mr. PAN Sanxiong ( 潘三雄 )**, aged 34, is the secretary of the Board. He joined the Company in May 2015 and has served as the secretary of the Board since then.

Prior to that, Mr. Pan was a representative of the securities department of Parent Company from April 2010 to April 2015, responsible for investor communication, handling financing and corporate secretarial matters. Mr. Pan also worked in the securities department of Starway Bio-technology Co., Ltd. in Guangdong ( 廣東星河生物科技股份有限公司 ) from October 2008 to April 2010.

Mr. Pan graduated with a bachelor degree in management from Guizhou University of Finance and Economics in 2007. He obtained a Qualification Certificate of Board Secretary issued by the Shanghai Stock Exchange in November 2010 and passed the qualification examination for practitioners in the securities industry held by Security Association of China in November 2009.

### Joint Company Secretaries

#### Mr. PAN Sanxiong ( 潘三雄 )

For the biography of Mr. PAN Sanxiong ( 潘三雄 ), please refer to “Senior Management” in this section.

#### Ms. NG Wing Shan ( 吳詠珊 )

Ms. NG Wing Shan ( 吳詠珊 ) was appointed as a joint company secretary of the Company on 24 July 2015. Ms. Ng is an assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in respect of professional company secretarial work. She has over 10 years of professional experience in the company secretarial field and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Prior to joining SW Corporate Services Group Limited, she worked for a corporate service provider and was responsible for handling secretarial and compliance matters in relation to Hong Kong listed companies and private companies incorporated in different jurisdictions.

# Report of the Directors

The Board of Directors of the Company now presents the Annual Report and the Group's consolidated financial statement for the year ended 31 December 2015 (the "**Financial Statements**") to Shareholders.

## PRINCIPAL BUSINESS

The Company is a PRC pharmaceutical manufacturing company that focuses on the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases. For further information of the principal business of the Company, please refer to the section "Business Review" of this Annual Report.

## SHARE CAPITAL

As of 31 December 2015, the total share capital of the Company was RMB450,659,450, divided into 450,659,450 Shares (including 225,000,000 Domestic Shares and 225,659,450 H Shares) of RMB1.00 each. Details of movements in the share capital of the Company during the year of 2015 are set out in note 23 to the Financial Statements.

On 20 January 2016, the Company issued 163,400 additional new H Shares to cover as a result of the partial exercise of the over-allotment option. As at the date of this Annual Report, the total share capital of the Company was RMB450,822,850, divided into 450,822,850 Shares (including 225,000,000 Domestic Shares and 225,822,850 H Shares) of RMB1.00 each.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the Company's initial public offering as described in the prospectus of the Company dated 15 December 2015, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2015.

## DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2015.

## EQUITY-LINKED AGREEMENT

The Company did not entered into any equity-linked agreement, nor did any equity-linked agreement exist during the year ended 31 December 2015.

## PERMITTED INDEMNITY PROVISION

The Company has purchased appropriate liability insurance for its Directors, Supervisors and senior management. The permitted indemnity provisions are set out in such liability insurance.



## Report of the Directors

Save as disclosed above, no permitted indemnity provision was made by the Company for the year ended 31 December 2015 and no permitted indemnity provision was in force as at the Latest Practicable Date.

### **PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDER**

The Controlling Shareholder didn't pledge any of its shares in the Company to secure the Company's debts or to secure guarantees or other support of the Company's obligations for the year ended 31 December 2015.

### **LOAN AGREEMENTS OR FINANCIAL ASSISTANCE OF THE COMPANY**

The Company didn't provide any financial assistance nor guarantee to its affiliated companies for the year ended 31 December 2015, which gives rise to a disclosure under Rule 13.16 of the Listing Rules. The Company didn't enter into any loan agreement with covenants relating to specific performance of its Controlling Shareholder nor breach the terms of any loan agreements for the year ended 31 December 2015.

### **SHARE OPTION SCHEME**

The Company did not adopt any share option scheme for the year ended 31 December 2015.

### **PRE-EMPTIVE RIGHTS**

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing Shareholders in proportion to their shareholdings.

### **RESULTS**

The audited results of operations of the Company and its subsidiaries for the year ended 31 December 2015 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 76. The financial condition of the Company and its subsidiaries for the year ended 31 December 2015 is set out in the Consolidated Statement of Financial Position on pages 77 to 78. The consolidated cash flows of the Company and its subsidiaries for the year ended 31 December 2015 is set out in the Consolidated Cash Flow Statement on page 80.

Discussion and analysis about the operating performance and significant elements affecting the results of operations and financial condition of the Company during the year of 2015 are set out in Management Discussion and Analysis of the Annual Report on page 8 to page 27.

## Report of the Directors

### BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided on pages 10 to 15 and pages 26 to 27 of this Annual Report, respectively. Description of possible risks and uncertainties that the Group may be facing can be found on page 26 of this Annual Report. Particulars of important events affecting the Group that have occurred since the end of the financial year are provided on note 28 to the Financial Statements. An analysis of the Group's performance during the year using financial key performance indicators is provided on pages 16 to 24 of this Annual Report.

In addition, further information of the Company's environmental policies, performance and initiatives can be found in the section heading "environmental policies and performance" of this Report of the Directors. Our Company's compliance with relevant laws and regulations which have a significant impact on the Group are provided in the section heading "compliance with laws and regulations" of this Report of the Directors. An account of the Company's relationships with its key stakeholders are disclosed in the section heading "relationship with stakeholders" of this Report of the Directors.

### FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.15 (tax inclusive) per Share for the year ended 31 December 2015 (the "**2015 Final Dividend**") with an aggregate amount of approximately RMB67.6 million to Shareholders of the Company whose names are listed on the Company's register of members as at 18 June 2016 in the forthcoming Annual General Meeting (the "**AGM**") to be held on 6 June 2016. The 2015 Final Dividend will be denominated and declared in RMB. We will pay dividends in respect of Domestic Shares in RMB and dividends in respect of H Shares in HKD. Once the relevant resolution is passed in the AGM, the 2015 Final Dividend is expected to be paid on or around 15 July 2016.

Pursuant to the Enterprise Income Tax Law of the People's Republic of China and its implementation rules both effective since 1 January 2008, and other relevant provisions, the Company is required to withhold and pay a 10% enterprise income tax when paying the recommended 2015 Final Dividend to non-residential enterprise Shareholders listed on the Company's register of members of H Shares. Any H Share registered in the name of a non-individual Shareholder, such as HKSCC Nominees Limited, other nominees, trustees, organizations or corporates, will be deemed as shares held by a non-residential enterprise Shareholder, and therefore the enterprise income tax on the receivable dividend in respect of such Shares will be withheld.

According to the Individual Income Tax Law of China (《中華人民共和國個人所得稅法》) implemented on 1 September 2011 and its implementation provisions, the Notice Concerning Individual Income Tax on the Dividends, Bonuses that Foreign Individuals Obtain from Foreign-invested Enterprises Issued by the Ministry of Finance of Hubei Province (《湖北省地方稅務局關於對外籍個人從外商投資企業取得股息紅利所得徵收個人所得稅問題的公告》) and other laws and regulations, the Company will withhold and pay a 20% personal income tax on the dividend amount for individual Shareholders.

## Report of the Directors

The aforesaid non-residential enterprises and individuals may enjoy the concessionary tax rate in accordance with the relevant provisions of treaties or arrangements for avoidance of double taxation entered into between their country (region) and PRC, and Announcement No. 60 2015 of the State Administration of Taxation: Administrative Measures for Non-residents to Enjoy the Treatments of Tax Treaties (the “**Measures**”) after completing relevant procedures. The aforesaid Shareholders shall provide complete information as required by the Measures to the Company by 29 June 2016. The Company will file tax return to enable the aforesaid Shareholders to enjoy the concessionary tax rate stipulated in the Measures.

### CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholders’ entitlement to attend and vote at the AGM and to the proposed 2015 Final Dividend, the H shares register of members of the Company will be closed from Friday, 6 May 2016 to Monday, 6 June 2016 (both days inclusive) and from Monday, 13 June 2016 to Saturday, 18 June 2016 (both days inclusive), respectively, during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, all unregistered Shareholders of the Company shall lodge transfer documents with the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Thursday, 5 May 2016. In order to qualify for receiving the proposed 2015 Final Dividend (subject to the approval by Shareholders at the forthcoming AGM), unregistered Shareholders of the Company shall lodge transfer documents with the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Friday, 10 June 2016.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and its subsidiaries during the year of 2015 are set out in note 10 to the Financial Statements.

### RESERVES

Details of movements in the reserves of the Company during the year of 2015 are set out in Consolidated Statement of Changes in Equity, of which details of reserves available for distribution to Shareholders are set out in Consolidated Statement of Changes in Equity. The Company’s reserves available for distribution to Shareholders as at 31 December 2015 represents the retained profits of approximately RMB208.8 million (2014: RMB0.5 million).

### DONATIONS

During the reporting period, the Company and its subsidiaries made external donations of approximately RMB0.8 million (excluding personal donations of employees).

## Report of the Directors

### **BANK BORROWINGS AND OTHER BORROWINGS**

Details of bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2015 are set out in note 19 to the Financial Statements.

### **INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

The partial information and the biographical details of Directors, Supervisors and senior management of the Company are set out on page 28 to page 38 of the Annual Report.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive Directors to be independent.

### **SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS**

The Company has entered into service contracts with the Directors. The principal particulars of these service contracts are (1) each of the contracts is for a term of three years following each Director's respective appointment date; and (2) each of the contracts is subject to termination in accordance with their respective terms. The service contracts may be renewed under the Articles of Association and applicable rules.

The Company has entered into contracts with the Supervisors in respect of, among others, compliance with relevant laws and regulations, the Articles of Association and provisions of arbitration.

Save as disclosed above, none of the Directors or Supervisors has entered into a contract of service with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Report of the Directors

### EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the emoluments of the Directors and Supervisors of the Company in 2015 are set out in note 7 to the Financial Statements. None of the Directors or supervisors waived any emoluments during the year ended 31 December 2015.

Details of the emoluments of each senior management of the Company (excluding Directors who also hold executive positions) in 2015 are set out below:

| <b>Senior Management</b> | <b>Annual Salary<br/>of 2015<br/>(RMB)</b> |
|--------------------------|--|
| LEI Xiantong             | 133,107                                    |
| PAN Sanxiong             | 111,865                                    |
| LI Shuang                | 178,537                                    |
| ZHU Qiaohong             | 205,012                                    |

*Note: Mr. LEI Xiantong and Mr. PAN Sanxiong were appointed as our senior management since 4 May 2015. The above information represented their emoluments from the appointment date to 31 December 2015.*

### DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

At the end of the year of 2015 or at any time during the year, there were no transactions, arrangement or contracts of significance subsisting in relation to the Group's business to which the Company or any of its subsidiaries was a party, directly or indirectly, and in which any Director or Supervisor (or an entity connected with any Director or Supervisor) had a material interest.

### ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year of 2015, none of the Directors or their associates had any interests in any business that constitutes or may constitute direct or indirect competition with the Company's businesses.

## Report of the Directors

### INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of the Directors, Supervisors and member of senior management of our Company in the shares, underlying shares or debentures of our Company and our any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests and short position in accordance with such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register kept by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

| Name of Director        | Types of Shares | Capacity                           | Number of Shares/ underlying shares held (share) | Approximate percentage of relevant class of share capital (%) | Approximate percentage of total share capital (%) |
|-------------------------|-----------------|------------------------------------|--|---|---|
| Mr. Mo Kit <sup>1</sup> | H Shares        | Interest in controlled corporation | 75,000,000 (L)                                   | 33.24%  | 16.64%  |

(L) – Long position

The calculation is based on the total number of 450,659,450 Shares in issue of the Company as at 31 December 2015, comprising 225,000,000 Domestic Shares and 225,659,450 H Shares.

**Note:**

1. Mr. Mo Kit owned 100% equity interest in North & South Brother Investment Holdings Limited and is deemed to be interested in the Shares which are interested by North & South Brother Investment Holdings Limited.

Save as disclosed above, as at 31 December 2015, so far as is known to the Directors, none of the Directors, Supervisors or member of senior management of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or our any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests and short position in accordance with such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register kept by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2015, to the knowledge of the Directors of the Company, the persons (other than the Directors, Supervisors or member of the senior management of the Company) who have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

| Name of Shareholders   | Types of Shares | Capacity                           | Number of Shares/<br>underlying<br>shares held<br>(shares) | Approximately<br>percentage<br>of relevant<br>class of<br>share capital<br>(%) | Approximately<br>percentage<br>of total<br>share capital<br>(%) |
|--|-----------------|------------------------------------|--|--|---|
| Parent Company*  | Domestic Shares | Beneficial owner                   | 225,000,000 (L)  | 100.00%  | 49.93%  |
| Linzhi HEC Pharmaceutical Investment <sup>1*</sup>                                 | Domestic Shares | Interest in controlled corporation | 225,000,000 (L)  | 100.00%  | 49.93%  |
| Shenzhen HEC Industrial <sup>1*</sup>  | Domestic Shares | Interest in controlled corporation | 225,000,000 (L)  | 100.00%  | 49.93%  |
| Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. <sup>1</sup>     | Domestic Shares | Interest in controlled corporation | 225,000,000 (L)  | 100.00%  | 49.93%  |
| Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. <sup>1</sup> | Domestic Shares | Interest in controlled corporation | 225,000,000 (L)  | 100.00%  | 49.93%  |
| Mr. Zhang Zhongneng <sup>2</sup>   | Domestic Shares | Interest in controlled corporation | 225,000,000 (L)  | 100.00%  | 49.93%  |
| Ms. Guo Meilan <sup>3</sup>  | Domestic Shares | Interest in controlled corporation | 225,000,000 (L)  | 100.00%  | 49.93%  |

## Report of the Directors

| Name of Shareholders   | Types of Shares | Capacity                           | Number<br>of Shares/<br>underlying<br>shares held<br>(shares) | Approximately<br>percentage<br>of relevant<br>class of<br>share capital<br>(%) | Approximately<br>percentage<br>of total<br>share capital<br>(%) |
|--|-----------------|------------------------------------|---|--|---|
| North & South Brother Pharmacy                                 | H Shares        | Beneficial owner                   | 75,000,000 (L)  | 33.24%   | 16.64%  |
| North & South Brother Investment Holdings Limited <sup>4</sup> | H Shares        | Interest in controlled corporation | 75,000,000 (L)  | 33.24%   | 16.64%  |
| Ample Market Investment Limited                                | H Shares        | Beneficial owner                   | 23,847,914 (L)  | 10.57%   | 5.29%   |
| Silver Knight Investment Ltd. (Cayman) <sup>5</sup>            | H Shares        | Interest in controlled corporation | 23,847,914 (L)  | 10.57%   | 5.29%   |
| New Horizon Master IV Investment Ltd. (Cayman) <sup>5</sup>    | H Shares        | Interest in controlled corporation | 23,847,914 (L)  | 10.57%   | 5.29%   |
| Apsif Investment Ptd Ltd <sup>5</sup>                          | H Shares        | Interest in controlled corporation | 23,847,914 (L)  | 10.57%   | 5.29%   |
| Champion Zone Investment Limited                               | H Shares        | Beneficial owner                   | 11,959,765 (L)  | 5.30%  | 2.65%   |
| Kingsley Investment Ltd. (Cayman) <sup>6</sup>                 | H Shares        | Interest in controlled corporation | 11,959,765 (L)  | 5.30%  | 2.65%   |
| Raisson Capital L.P. (Cayman) <sup>6</sup>                     | H Shares        | Interest in controlled corporation | 11,959,765 (L)  | 5.30%  | 2.65%   |
| Pinpoint Asset Management Limited                              | H Shares        | Investment manager                 | 11,368,000 (L)  | 5.04%  | 2.52%   |



## Report of the Directors

| <b>Name of Shareholders</b>                            | <b>Types of Shares</b> | <b>Capacity</b>                    | <b>Number of Shares/<br/>underlying<br/>shares held<br/>(shares)</b> | <b>Approximately<br/>percentage<br/>of relevant<br/>class of<br/>share capital<br/>(%)</b> | <b>Approximately<br/>percentage<br/>of total<br/>share capital<br/>(%)</b> |
|--|------------------------|------------------------------------|--|--|--|
| Pinpoint Capital Management Group <sup>7</sup>         | H Shares               | Interest in controlled corporation | 11,368,000 (L)   | 5.04%  | 2.52%  |
| Wealth Ocean Holdings Limited <sup>7</sup>             | H Shares               | Interest in controlled corporation | 11,368,000 (L)   | 5.04%  | 2.52%  |
| Mr. Bao Jiarong <sup>7</sup>                           | H Shares               | Interest in controlled corporation | 11,368,000 (L)   | 5.04%  | 2.52%  |
| EJ Holdings Ltd. <sup>8</sup>                          | H Shares               | Interest in controlled corporation | 11,368,000 (L)   | 5.04%  | 2.52%  |
| Mr. Wang Qiang <sup>8</sup>                            | H Shares               | Interest in controlled corporation | 11,368,000 (L)   | 5.04%  | 2.52%  |
| Sanxing Electric (Hong Kong) Company Limited           | H Shares               | Beneficial owner                   | 15,503,000 (L)   | 6.87%  | 3.44%  |
| Ningbo Sanxing Medical Electric Co., Ltd. <sup>9</sup> | H Shares               | Interest in controlled corporation | 15,503,000 (L)   | 6.87%  | 3.44%  |
| AUX Holdings Co., Ltd. <sup>9</sup>                    | H Shares               | Interest in controlled corporation | 15,503,000 (L)   | 6.87%  | 3.44%  |
| Mr. Zheng Jianjiang <sup>9</sup>                       | H Shares               | Interest in controlled corporation | 15,503,000 (L)   | 6.87%  | 3.44%  |
| Ms. He Yiju <sup>10</sup>                              | H Shares               | Interest of spouse                 | 15,503,000 (L)   | 6.87%  | 3.44%  |
| 中金智德股權投資管理有限公司   | H Shares               | Other                              | 11,705,490 (L)   | 5.19%  | 2.60%  |

## Report of the Directors

| Name of Shareholders  | Types of Shares | Capacity                                  | Approximately  |   |   |
|---|-----------------|---|--|---|---|
|   |                 |   | Number of Shares/<br>underlying<br>shares held<br>(shares) | percentage<br>of relevant<br>class of<br>share capital<br>(%) | Approximately<br>percentage<br>of total<br>share capital<br>(%) |
| China International Capital Corporation Hong Kong Securities Limited      | H Shares        | Beneficial owner                          | 24,740,200 (L)   | 10.96%  | 5.49%   |
|   |                 | Interest held jointly with another person | 13,519,800 (S)   | 5.99%   | 3.00%   |
| China International Capital Corporation (Hong Kong) Limited <sup>11</sup> | H Shares        | Interest in controlled corporation        | 24,740,200 (L)   | 10.96%  | 5.49%   |
|   |                 |   | 13,519,800 (S)   | 5.99%   | 3.00%   |
| China International Capital Corporation Limited <sup>11</sup>             | H Shares        | Interest in controlled corporation        | 36,445,690 (L)   | 16.15%  | 8.09%   |
|   |                 |   | 13,519,800 (S)   | 5.99%   | 3.00%   |

(L) – Long position; (S) – Short position

The calculation is based on the total number of 450,659,450 Shares in issue of the Company as at 31 December 2015, comprising 225,000,000 Domestic Shares and 225,659,450 H Shares.

### Notes:

- \* Mr. Tang Xinfu is a director of the Parent Company, Linzhi HEC Pharmaceutical Investment, and Shenzhen HEC Industrial. Mr Zhu Yingwei is a director of the Parent Company and Linzhi HEC Pharmaceutical Investment.
1. Linzhi HEC Pharmaceutical owned 44.63% equity interest in our Parent Company, therefore Linzhi HEC Pharmaceutical is deemed to be interested in the Shares held by our Parent Company. Shenzhen HEC Industrial owned 100% equity interest in Linzhi HEC Pharmaceutical, therefore Shenzhen HEC Industrial is deemed to be interested in the Shares which are interested by Linzhi HEC Pharmaceutical. Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. owned 58% equity interest in Shenzhen HEC Industrial, therefore Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial Development. Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. owned 42% equity interest in Shenzhen HEC Industrial, therefore Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial.

## Report of the Directors

2. *Mr. Zhang Zhongneng owned 99.69% equity interest in Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd., therefore Mr. Zhang is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd..*
3. *Ms. Guo Meilan owned 99.51% equity interest in Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd., therefore Ms. Guo is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.. Ms. Guo is the spouse of Mr. Zhang and is deemed to be interested in the Shares which are interested by Mr. Zhang under the SFO.*
4. *North & South Brother Investment Holdings Limited owned 100% equity interest in North & South Brother Pharmacy and is deemed to be interested in the Shares which are interested by North & South Brother Pharmacy.*
5. *Silver Knight Investment Ltd. (Cayman) owned 100% equity interest in Ample Market Investment Limited and is deemed to be interested in the Shares which are interested by Ample Market Investment Limited. New Horizon Master IV Investment Ltd. (Cayman) owned 45% equity interest in Silver Knight Investment Ltd. (Cayman) and is deemed to be interested in the Shares which are interested by Silver Knight Investment Ltd. (Cayman). Apsif Investment Ptd Ltd owned 50.2% equity interest in Silver Knight Investment Ltd. (Cayman) and is deemed to be interested in the Shares which are interested by Silver Knight Investment Ltd. (Cayman).*
6. *Kingsley Investment Ltd. (Cayman) owned 100% equity interest in Champion Zone Investment Limited and is deemed to be interested in the Shares which are interested by Champion Zone Investment Limited. Raisson Capital L.P. (Cayman) owned 100% equity interest in Kingsley Investment Ltd. (Cayman) and is deemed to be interested in the Shares which are interested by Kingsley Investment Ltd. (Cayman).*
7. *Pinpoint Capital Management Group owned 100% equity interest in Pinpoint Asset Management Limited and is deemed to be interested in the Shares which are Pinpoint Asset Management Limited. Wealth Ocean Holdings Limited, which is wholly owned by Mr. Bao Jiarong, owned 35.5% equity interest in Pinpoint Capital Management Group and therefore, Wealth Ocean Holdings Limited and Mr. Bao Jiarong are deemed to be interested in the Shares which are interested by Pinpoint Capital Management Group.*
8. *EJ Holdings Ltd. owned 64.5% of Pinpoint Capital Management Group and is deemed to be interested in the Shares which are interested by Pinpoint Capital Management Group. Mr. Wang Qiang owned 100% equity interest in EJ Holdings Ltd. and is deemed to be interested in the Shares which are interested by EJ Holdings Ltd..*

## Report of the Directors

9. *Ningbo Sanxing Medical Electric Co., Ltd. owned 100% equity interest in Sanxing Electric (Hong Kong) Company Limited and is deemed to be interested in the Shares which are interested by Sanxing Electric (Hong Kong) Company Limited. AUX Holdings Co., Ltd. and Mr. Zheng Jianjiang owned 37.54% and 19.61% equity interest in Ningbo Sanxing Medical Electric Co., Ltd. respectively. Mr. Zheng Jianjiang owned 70% equity interest in AUX Holdings Co., Ltd. Therefore, AUX Holdings Co., Ltd. and Mr. Zheng Jianjiang are deemed to be interested in Shares which are interested by Ningbo Sanxing Medical Electric Co., Ltd.*
10. *Ms. He Yiju is the spouse of Mr. Zheng Jianjiang and is deemed to be interested in the Shares which are interested by Mr. Zheng Jianjiang under the SFO.*
11. *China International Capital Corporation Limited owned 100% equity interest in 中金智德股權投資管理有限公司 and is deemed to be interested in the Shares which are interested by 中金智德股權投資管理有限公司. China International Capital Corporation Limited owned 100% equity interest in China International Capital Corporation (Hong Kong) Limited, which owned 100% equity interest in China International Capital Corporation Hong Kong Securities Limited, therefore, China International Capital Corporation Limited is deemed to be interested in China International Capital Corporation (Hong Kong) Limited.*

Save as disclosed above, as at 31 December 2015, the Directors are not aware of any other person (other than the Directors, Supervisors or member of senior management of the Company) have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 336 of the SFO.

### MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of our business was entered into by the Company or existed in 2015.

### CONNECTED TRANSACTIONS

The Group has conducted certain non-exempt connected transactions during the year of 2015.

## Report of the Directors

### CONTINUING CONNECTED TRANSACTIONS

The Group has conducted certain non-exempt continuing connected transactions during the year.

| Connected transactions under                               | Connected persons                             | Annual caps for 2015 (RMB million) | Actual transaction value in 2015 (RMB million) |
|--|---|------------------------------------|--|
| Energy Purchase  | Parent Company                                | 7.3                                | 2.3  |
|  | Yichang HEC Power Plant Co., Ltd.             |                                    | 4.3  |
| Purchase of Packaging Materials and Chemical Raw Materials | Yichang HEC Power Plant Co., Ltd.             | 14.3                               | 2.4  |
|  | Shaoguan HEC Packaging and Printing Co., Ltd. |                                    | 10.6   |
| Purchase of APIs   | Parent Company                                | 19.0                               | 12.6   |

#### Framework Energy Procurement Agreement

On 6 December 2015, our Company entered into a framework energy procurement agreement with Shenzhen HEC Industrial in relation to the purchase of electricity and steam from Shenzhen HEC Industrial and its subsidiaries from time to time.

#### Pricing Policy

According to the framework energy procurement agreement, the price for the electricity to be charged under the framework energy procurement agreement was determined with reference to the official written reply issued by Yidu Price Bureau (宜都市物價局) in response to the pricing enquiry of the electricity and steam submitted by Yichang HEC Power Plant Co., Ltd. in 2011 (the "Reply"), which provided the reference price of electricity of RMB0.383 per kWh. The price for the steam to be charged under the framework energy procurement agreement will be determined pursuant to the price range of RMB85 per ton to RMB135 per ton as prescribed by Yidu Price Bureau in the Reply.

#### Framework Packaging and Chemical Materials Purchase Agreement

On 6 December 2015, our Company entered into a framework packaging and chemical materials purchase agreement with Shenzhen HEC Industrial in relation to the purchase of certain packaging and chemical materials from Shenzhen HEC Industrial and/or its associates (other than the Group) for the packaging and manufacturing of our pharmaceutical products.

#### Pricing Policy

According to the framework packaging and chemical materials purchase agreement, when selecting supplier of the packaging and chemical materials, our Company obtains quotations from our connected person as well as from at least two independent third party suppliers. During the reporting period, the price and terms offered by our connected person were fair and reasonable and comparable to those offered by such independent third party suppliers.

## Report of the Directors

### Framework API Purchase Agreement

On 6 December 2015, our Company entered into a framework API purchase agreement with Shenzhen HEC Industrial for the purchase of certain APIs from Shenzhen HEC Industrial and/or its subsidiaries (other than the Group) for the production of our pharmaceutical products, mainly azithromycin, clarithromycin and roxithromycin products.

### Pricing Policy

According to the framework API purchase agreement, when selecting supplier of the API, our Company obtains quotations from our connected person as well as from at least two independent third party suppliers. As our Company is also engaged in manufacturing of pharmaceutical products industry, we are familiar with the market price of relevant APIs required for the production. During the reporting period, the price and terms offered by our connected person were fair and reasonable and comparable to those offered by such independent third party suppliers.

### Review by and Confirmation of Independent Non-executive Directors of the Company

The independent non-executive Directors have reviewed the above continuing connected transactions, and confirmed that such transactions were:

- (i) carried out in the ordinary and usual course of business of the Group;
- (ii) made on normal commercial terms or better (as defined in the Listing Rules); and
- (iii) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable, and in the interests of the Shareholders as a whole.

### Confirmation of the Auditors

As to the requirement set forth in Rule 14A.56 of the Listing Rules, the auditor of the Company has written to the Board to confirm that it has not been aware of any matter which leads it to believe the aforesaid continued connected transactions:

- (i) have not been approved by the Board;
- (ii) are not carried out based on the pricing policies of the Group in each material aspect;
- (iii) are not carried out in accordance with the agreements related to transaction in each material aspect; and
- (iv) exceed the annual cap.

Details of the related party transactions of the Group are set out in Note 26 of the Financial Statements.

Apart from the connected transactions and continuing connected transactions as disclosed in this Annual Report, none of the related party transactions constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, which are subject to announcement or independent shareholders' approval requirements.

## Report of the Directors

### NON-COMPETITION AGREEMENT

The Company had entered into a non-competition agreement on 6 December 2015 (the “**Non-Competition Agreement**”) with the Controlling Shareholders, under which our Controlling Shareholders agreed not to, and to procure its subsidiaries (other than the Group) not to, compete with us in our businesses and granted us options to acquire the businesses of production and sale of APIs and overseas sale of pharmaceutical products operated by HEC Pharm Co., Ltd. and/or its subsidiaries (other than the Group) and certain future new business.

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the Non-competition Agreement for disclosure in this report during the reporting period.

The independent non-executive Directors have reviewed the Non-competition Agreement and had determined that the Controlling Shareholders have not been in breach of the Non-competition Undertaking during the reporting period.

Save as disclosed above, during the reporting period, Directors (including independent non-executive Directors) did not make any decisions in relation to whether to exercise or terminate an option or a right of first refusal and take up or waive any business opportunity.

### JOINT DEVELOPMENT AGREEMENT

On 22 July 2015, the Group entered into an agreement with Sunshine Lake Pharma. Pursuant to the agreement, the Group have acquired the right to use all the relevant knowhow and patents relating to yimitasvir phosphate and follow-up direct anti-viral agent compounds (the “**Compounds**”) and, upon obtaining necessary government approvals, the right to manufacture and sell worldwide for a consideration of RMB700.0 million. The consideration comprised a down payment of RMB250.0 million and eight milestone payments totalling RMB450.0 million payable upon each stage of development or approval of Yimitasvir phosphate or the Compounds. The agreement expires on 31 December 2030 or the date when the first patent mentioned above expires, whichever is earlier.

Should the fourth or eighth stage of development or approval of Yimitasvir phosphate or the Compounds in above agreement fail to be achieved before 31 December 2018 or 31 December 2025, the Group is entitled for a refund of RMB50.0 million and RMB70.0 million, respectively. Should Sunshine Lake Pharma be unable to obtain the relevant government approvals or permits when the agreement expires, Sunshine Lake Pharma will fully refund the Group for the total amounts paid.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the total amount of procurement from the five largest suppliers of the Company accounted for 48.8% of the total amount of procurement of the year. Among the five largest suppliers for the year of 2015, Yichang HEC Power Plant Co., Ltd. and Shaoguan HEC Packaging and Printing Co., Ltd. are subsidiaries of Shenzhen HEC Industrial; the single largest supplier was our Parent Company and our purchase from our Parent Company accounted for 22.1% of the total purchase amount during the year.

For the year ended 31 December 2015, the total amount of sales to the five largest customers of the Company accounted for 23.0% of the total revenue of sales of the year. The sales to the largest customers accounted for 6.7% of the total revenue of sales of the year.

## Report of the Directors

Save as disclosed above, during the year 2015, to the knowledge of the Directors, none of the Directors, their close associates, or Shareholders of the Company (which, to the knowledge of the Directors, owned more than 5% of the number of issued Shares of the Company) had interests in the five largest suppliers or customers of the Company.

### **CONTRACT OF SIGNIFICANCE**

Save as disclosed in this Annual Report, at no time during the year of 2015 had the Company or any of its subsidiaries entered into any contract of significance with the Controlling Shareholder or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by the Controlling Shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

### **RETIREMENT AND EMPLOYEE BENEFITS SCHEME**

Please refer to the note 5 to the Financial Statements for detailed information on the retirement and employee benefits scheme.

### **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

As a company listed on the Stock Exchange, the Company always strives to maintain a high level of corporate governance and complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2015.

### **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a public float of no less than 25% of the issued shares as at the date of this Annual Report, which was in line with the requirement under the Listing Rules.

### **USE OF PROCEEDS**

The proceeds of the Company from initial public offering totaling approximately HK\$1,255.5 million (net of issue expenses) before exercise of over-allotment option. As of 31 December 2015, the proceeds were not utilised.

### **SIGNIFICANT LEGAL PROCEEDINGS**

For the year ended 31 December 2015, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

### **AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed the Group's 2015 annual results announcement, Annual Report and the audited Financial Statements for the year ended 31 December 2015 prepared in accordance with the IFRS.



## Report of the Directors

### ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is committed to the sustainable development of the environment and the society. In recognition of the potential climate impact due to manufacturing of pharmaceutical products, the Company strives to enhance the environmental performance of its pharmaceutical products manufacturing and development through eco-friendly operational measures as well as supporting a number of external charters with regard to energy efficiency and carbon reduction. In addition, during the reporting period, the Group had continually increased investment in upgrading its technology, improved production process, focused on the establishment of drug quality system, extended the life cycle of pharmaceutical products and lowered the cost in order to offer safe, efficient, affordable products and services. The Group constantly strengthened environment protection, optimized the production process and improved the utilization rate of the production facilities for the purposes of energy saving, emission reduction and environment protection. The Group emphasized harmonious development with nature to protect the sustainable development of the environment. The Group also improved clean production as well as environmental protection construction, and proactively supported environmental protection and charitable matters in the community.

### COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. During the year of 2015 under review, the Group has complied, to the best of our knowledge, with all relevant rules and regulations that have a significant impact on the Company, including but not limited to the Company Law, the Securities Law of the PRC, the Code of Corporate Governance for Listed Companies in China, the Listing Rules, the Law of the PRC on the Administration of Drugs, the Measures for the Administration of Drug Registration and the Good Manufacture Practice of Drugs.

### RELATIONSHIP WITH STAKEHOLDERS

The Company recognizes that our employees, customers and business partners are keys to our sustainability journey. We strive to achieve corporate sustainability through engaging our employees, providing quality services for our customers, collaborating with business partners and supporting our community.

The Company places significant emphasis on human capital. The Company provides a fair workplace, promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. The Company administers its employee health and safety management system and ensures the adoption of the principles across the Group. The Company provides regular trainings for staff to keep them abreast of the latest developments in the market and industry, in the form of both internal trainings and trainings provided by experts from external organizations.

## Report of the Directors

To enhance customer satisfaction and promote a customer-oriented culture within the Company, we take “Customer First” as one of our core values. We value the feedback from customers through daily communication, regular inspections and etc. We have also established the mechanism about customer service, support and complaints. When dealing with a customer complaint, we treat it as an opportunity to improve our relationship with the customer, addressing the concern in a timely manner and in accordance with international standards.

We believe that our suppliers are equally important in driving quality delivery of our products. We proactively collaborate with our business partners (including suppliers and contractors) to deliver quality sustainable products and services. We have developed included certain requirements in our standard tender documents. These requirements include regulatory compliance, labour practices, anti-corruption and other business ethics. We assure the performance of our suppliers through supplier approval process and by conducting factory audits/site visits and spot checks on the delivered goods at site during the contractual periods.

### AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2015 have been audited by KPMG who retire and, being eligible, offer themselves for reappointment. A resolution for the re-appointment of KPMG as the Company’s auditors will be proposed for shareholders’ approval at the forthcoming Annual General Meeting.

### FINANCIAL SUMMARY

Summary of results of operation and the assets and liabilities of the Group for the last four financial years is set out on page 3 in the Annual Report.

By order of the board

**YiChang HEC ChangJiang Pharmaceutical Co., Ltd.**

**TANG Xinfa**

*Chairman*

Hubei, the PRC

27 March 2016

# Report of the Supervisory Committee

In 2015, all members of the supervisory committee of the Company (the “**Supervisory Committee**”) complied with requirement of the Company Law, the Securities Law of the PRC and the Articles of Association as well as relevant laws and regulations to diligently and honestly perform their duties. They independently exercised their power under the law to ensure the standard operation of the Company and maintain the interest of the Company and the shareholders. The Supervisory Committee supervised the long-term development plan, production and operation activities, major events, financial position and performance of duty of directors and senior management of the Company, and facilitated the standard operation and healthy development of the Company. Now the report of main works of the supervisory board for the year is as follows:

## Part One: Works of the Supervisory Committee in 2015

1. The first meeting of the first session of the Supervisory Board was held on 4 May 2015 in the form of site meeting. It considered and passed the Resolution on Electing the Chairman of the first session of the Supervisory Committee of the Company.
2. The second meeting of the first session of the Supervisory Committee was held on 24 July 2015 in the form of site meeting. It considered and passed the Resolution on Amending Rules of the Procedures of the Supervisory Committee, and approved the Rules of the Procedures of the Supervisory Committee (Draft) proposed by the Company which is applicable after the foreign shares (H Shares) issued by the Company are listed on Hong Kong Stock Exchange. The Supervisory Committee may adjust and amend the Rules of the Procedures of the Supervisory Committee (Draft) considered and passed in the shareholders’ meeting of the Company based on requirement of domestic and foreign laws and regulations, requirement and advises of relevant government authorities and regulatory institutions and the actual situation of the issuance and listing.

## Part Two: Review Opinion of the Supervisory Committee Regarding Relevant Matters of the Company in 2015

### 1. Lawful Operation of the Company

During the reporting period, the Company’s supervisors attended each meeting of the Directors and the shareholders, and supervised the convening, holding, consideration and decision procedures of the meeting of the Directors and the shareholders, as well as the performance of resolutions passed in shareholders’ meetings by the Board of Directors and performance of the Company’s duties by the Directors and the senior management of the Company. The Supervisory Committee is in a view that the Board of Directors of the Company can operate in compliance with relevant requirement of the Company Law, the Securities Law of the PRC and the Articles of Association, strictly perform each resolution and authorized matter of the shareholders’ meetings of the Company, and make reasonable decisions with sound internal control mechanisms. The Directors and senior management faithfully performs their duty. No violation of state laws and administrative regulations or the Articles of Association of the Company or damage of interest of the Company and the shareholders is found in performance of duty by the Directors or senior management of the Company.

## Report of the Supervisory Committee

### 2. Inspection of the Company's Financial Matters

During the reporting period, the financial management works of the Company were conducted in strict compliance with the current enterprise accounting system and standards. The Company's financial accounting system is sound. The Company has no major omission or false accounting record in 2015. The financial statements of the Company truthfully reflect the Company's financial position and operating results.

### 3. Use of the Company's Raised Funds

During the reporting period, the Company strictly complied with legal procedures to disclose the use of raised funds. The Supervisory Committee is in a view that as at the end of the reporting period, the fundraising projects of the Company are not exposed to major risks. Raised funds are being used in good condition. The Company has not used the raised funds beyond its authorization and use of the raised funds is legal and compliant with the laws and regulations.

### 4. Acquisition and Disposal of the Company's Assets

During the reporting period, the Company was not engaged in major acquisition or disposal of assets. No insider dealing existed, and no violation of Shareholders' interest or loss of the Company's assets occurred.

### 5. Connected Transactions of the Company

Connected transactions occurred in the Company during the reporting period were handled in accordance with the principles of "fairness, impartiality and reasonableness", with no harm to the Company's interest or insider dealing.

### 6. Internal Control of the Company

The Supervisory Committee reviewed the Company's self assessment report of internal control, and believes that the Company's internal control mechanism is reasonably designed and effectively implemented and that the Company's internal control mechanism was complete, reasonable and effective. 2015 Annual Report of Risk management and Internal Control Mechanism of the Company truthfully and objectively reflects the development and operation of the Company's internal control mechanism. The form and content of the report comply with the requirement of relevant laws, regulations and regulatory documents. It reflects the fact of the Company's governance and internal control and ensures compliance operation of the Company and effective performance of the Company's internal regulations. In 2015, there's no non-compliances incident with the internal control system of the Company. The Supervisory Committee holds no objection to the report of risk management and internal control system of the Company.

## Report of the Supervisory Committee

### 7. Establishment and Implementation of Regulation of People Acquainted with Inside Information of the Company

During the reporting period, after the Supervisory Committee carefully reviewed the Company's proposal to establish the System of Registration and Regulation of People Acquainted with Inside Information, it is in a view that the Company has established the System of Registration and Regulation of People Acquainted with Inside Information in compliance with requirement of security regulatory institution, and timely registered the list and personal information of people acquainted with the Company's inside information. No insider dealing occurred. The Company's principles of "fairness, impartiality and reasonableness" have been observed, and the legal interest of the investors is protected.

### Part Three: Supervisory Committee's Opinion on the Standard Auditor's Report with Unqualified Opinion

The Supervisory Committee has reviewed the financial statement and the auditor's report of the Company, and believes that the financial statements objectively reflect the financial position of the Company, and therefore the Supervisory Committee holds no objection to the auditor's report with unqualified opinion issued by KPMG.

In 2016, the Supervisory Committee will continue to perform its duty and further facilitate the Company's standard operation in strict compliance with the Company Law, the Articles of Association and relevant laws, regulations and policies of the state.

*Chairman of the Supervisory Committee*

**HUANG Fangfang**

Hubei, the PRC

27 March, 2016

# Corporate Governance Report

The Board is pleased to present this corporate governance report as set out in the Company's annual report for the year ended 31 December 2015.

The Group strive to maintain high standards of corporate governance to enhance Shareholder value and safeguard Shareholder interests. The Company's corporate governance principles emphasize the importance of a quality Board, effective internal controls and accountability to Shareholders.

## **CORPORATE GOVERNANCE PRACTICE**

The Company was in compliance with all the code provisions as set out in Appendix 14 of the Listing Rules since the Listing Date up to the date of this Annual Report.

The Company will review its corporate governance practices regularly to ensure its compliance with the corporate governance code.

## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code regarding Directors' and Supervisors' dealings in the Company's securities (the "Model Code" ).

The Company has made specific enquiry to all of the Directors and Supervisors and all of the Directors and Supervisors have confirmed that they have complied with the Model Code since the Listing Date to 31 December 2015.

## Corporate Governance Report

### BOARD OF DIRECTORS

#### Board composition

The Board is responsible for and has general powers over the management and operation of the business of the Company. The Board currently consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. The Directors who held office during the Listing Date up to the date of this report are:

#### Executive Directors

Mr. JIANG Juncai  
Mr. WANG Danjin  
Mr. CHEN Yanguai

#### Non-executive Directors

Mr. TANG Xinfu (Chairman)  
Mr. ZHU Yingwei  
Mr. MO Kit

#### Independent Non-executive Directors

Mr. TANG Jianxin  
Mr. FU Hailiang  
Mr. LEE Chi Ming

The Directors have no financial, business, family or other material/relevant relationships with each other.

The biographies of the Directors are set out in the section headed “Profiles of Directors, Supervisors and Senior Management” of this report.

Each of the Directors has entered into a service contract with our Company. The principal particulars of these service contracts are: (a) each of the contracts is for a term of three years following each Director's respective appointment date; and (b) each of the contracts is subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the Articles of Association and the applicable rules.

Since the Listing Date and up to the date of this report, the Board at all times complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

## Corporate Governance Report

The Company has received written confirmation from each of the independent non-executive Director of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

### Responsibilities of the Board

The Board shall exercise the following functions and powers:

- To convene the general meetings, submit relevant matters to the general meetings for passing, and report on its work to the Shareholders;
- To implement the resolution of the general meeting;
- To decide on the business plans and investment schemes of the Company;
- To formulate our Company's proposed annual financial budget and final accounts;
- To formulate our Company's profit distribution plan and plan for making up for losses;
- To formulate proposals for the increase or reduction of our Company's registered capital, and plans for the issue of corporate bonds or other securities and the listing plan;
- To draw up plans for material assets acquisition or disposal, purchase of our Company's Shares, or merger, demerger, dissolution or change of the form of our Company;
- To decide on the establishment of our Company's internal management organization;
- To appoint or remove our Company's general manager and secretary of the Board; to appoint or remove other senior management officers pursuant to the general manager's nominations, and to determine the abovementioned matters relating to the remuneration, incentives and punishments of the senior management officers;
- To formulate the Company's basic management system;
- To formulate proposals for any amendment to the Articles of Association;
- To decide on the matters such as merger, division, reorganization or dissolution of our Company's wholly-owned subsidiaries and subsidiaries;



## Corporate Governance Report

- To change the use of the placement to the extent beyond the decision of the general meeting as required by laws and regulations;
- To decide on the establishment of special committees under the Board and to appoint or remove its person-in-charge;
- To propose at the general meetings a resolution in respect of candidates for independent Directors and replacement of independent Directors;
- To propose at the general meetings for the appointment, renewal or remove of accountants' firm conducting auditing for our Company;
- To hear the work report and inspect the work of the general manager;
- To manage information disclosure of our Company;
- To formulate the equity incentive plan;
- Save as otherwise required to be decided by the general meetings under laws and regulations and the Articles of Association, the Board exercises its power to make decisions on external investments (including capital increase and equity transfer of the invested enterprises), financing, risk management and trust management, external guarantees, etc.;
- To decide on other major affairs of our Company, save for matters to be resolved at the general meetings as required by the Company Law and the Articles of Association;
- To exercise other functions and powers as granted by the Articles of Association or the general meetings of our Company; and
- To conduct other matters as required by PRC laws and regulations.

In addition, the Board undertakes corporate governance function includes:

- To establish and review our Company's corporate governance policies and codes;
- To review and supervise the training and sustained professional development of our Company's Directors, Supervisors and senior management officers;
- To review and supervise our Company's policies and codes in connection with compliance with laws and regulatory requirements;

## Corporate Governance Report

- To establish, review and supervise the codes of conduct and compliance handbook (if any) applicable to Directors and employees;
- To review our Company's compliance with the Code on Corporate Governance Practices and the disclosures made in the Corporate Governance Report.

Matters relating to the daily operations of our Group are delegated to the management by the Board. During the year, the Board considered and approved the annual budget and its performance under management supervision together with the business reports from the management. The Board also reviewed and approved the final results for the year ended 31 December 2015 and other critical business operations. The Board also assessed the internal control and the financial matters of our Group.

In addition, this corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

### Operation of the Board

Meetings of the Board of Directors shall be held at least 4 times each year. Such meetings shall be convened by the Chairman of the Board.

In case of any of the followings, the Chairman of the Board shall convene an interim meeting of the Board of Directors within 10 days:

- When proposed by Shareholders representing one tenth of voting rights or more;
- When proposed by one third of Directors or more;
- When the Chairman of the Board deems it necessary;
- When proposed by two or more independent Directors;
- When proposed by the Supervisory Committee; or
- When the General Manager proposes the convening of the interim meetings of the Board of Directors.

To convene a regular or interim meeting of the Board of Directors, a written notice shall be sent to all Directors and Supervisors 14 days prior to the date of a regular meeting or 3 days prior to an interim meeting. By written consent of all Directors present at the meeting, the above time limit may not be observed. The office or other department designated by the Board of Directors is responsible for serving the written meeting notice to all Directors and Supervisors by direct service, fax, e-mail or other means. If an interim meeting of the Board of Directors needs to be held quickly due to urgent circumstances, a meeting notice may be given at any time by telephone or other oral methods, provided that the convener makes an explanation thereof at the meeting.

## Corporate Governance Report

Meetings of the Board of Directors may be held only if more than one half of the Directors are present. Each Director shall have one vote. Unless specified otherwise in the laws, administrative regulations or the Articles of Association, resolutions of the Board must be passed by more than half of all the Directors.

Directors shall not vote the resolution on the approval of contract, arrangement or other suggestions that they or their associates maintain interests inside (which shall not be included in the quorum of the relevant meetings). Even though such Directors claim to vote, the votes will not be counted, unless otherwise specified in laws, administrative regulations, relevant regulatory regulations or rules.

No Directors' meeting and no general meeting was held since the Listing Date up to the year ended 31 December 2015.

### **NOMINATION, APPOINTMENT AND REMOVAL OF DIRECTOR**

The Company has formulated a formal and transparent procedure for the appointment of new Directors to the Board. Nomination of new Director is first considered by the Nomination Committee and the Remuneration and Appraisal Committee and then recommended to the Board for consideration. All newly nominated Directors are subject to the approval of the Shareholders at the general meetings of the Company. Removal of members of the Board are also subject to the approval of the Shareholders at the Company's general meetings.

### **DIRECTOR'S TRAINING**

The Directors are continually updated their knowledge on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged by the Company where necessary. Individual Directors also participated in the courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online aids or reading relevant materials.

Our Directors, Mr. TANG Xinfu, Mr. JIANG Juncai, Mr. WANG Danjin, Mr. CHEN Yangui, Mr. ZHU Yingwei, Mr. MO Kit, Mr. TANG Jianxin, Mr. FU Hailiang and Mr. LEE Chi Ming have participated in a training regarding Connected Transactions, Corporate Governance, a training regarding Publicity Restriction of Hong Kong Listed Companies and a training regarding continuing obligations and responsibilities of Hong Kong listed companies directors and supervisors and senior management personnel, all Directors had provided the relevant records to the Company. The Directors developed and updated their knowledge and skills through participation in the training programmes, which in turn ensures that they could make suitable contribution to the Board.

## Corporate Governance Report

### CHAIRMAN AND GENERAL MANAGER

The roles and duties of the Chairman and the general manager are separate and held by different persons and have been clearly defined in the Articles of Association.

The Chairman, Mr. TANG Xinfu, a non-executive Director is entitled to exercise the following functions and powers:

- To preside over Shareholder's general meetings, to convene and preside over meetings of the Board of Directors;
- To procure and inspect the implementation of the resolutions of the Board of Directors;
- To sign the share certificates, corporate bonds and other negotiable securities issued by the Company;
- To sign important documents of the Board of Directors and other documents to be signed by the legal representative of the Company, and to exercise the functions and powers of the legal representative;
- To organize and establish various systems and harmonize the operation of the Board of Directors;
- To hear the regular or irregular work reports of the senior management officers of the Company, and give guidance on the implementation of the resolutions of the Board of Directors;
- To nominate the list of the secretary candidates of the Board of Directors; and
- Other functions and powers conferred by the laws, regulations or the Articles of Association, and the Board of Directors.

Mr. JIANG Juncai, an executive Director and general manager of the Company, is responsible to the Board of Directors and exercise the following functions and powers:

- To be in charge of the production, operation and management of the Company, and report to the Board of Directors;
- To organize and implement the resolutions of the Board of Directors, annual business plans and investment schemes of the Company;
- To prepare the annual financial budget plan, and final account plan of the Company, and make recommendations to the Board of Directors;

## Corporate Governance Report

- To prepare the basic management system and plan for establishment of the Company's internal management organization;
- To formulate specific rules of the Company;
- To request the Board of Directors to engage or dismiss other senior management officers; and
- To engage or dismiss the responsible managers except those who shall be engaged or dismissed by the Board of Directors.

### BOARD COMMITTEES

The Board had delegated certain responsibilities to various committees. The Company had established three Board committees, being the Nomination Committee, Remuneration and Appraisal Committee and Audit Committee.

#### Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely Mr. Lee Chi Ming, Mr. Zhu Yingwei and Mr. Fu Hailiang, among whom Mr. Lee Chi Ming serves as the chairman of Nomination Committee.

The primary duties of the Nomination Committee are to review the composition of the Board, assess the independence of independent non-executive Directors and make recommendations to the Board on the appointment and removal of Directors.

The Company had adopted a diversification policy aims to set out the approach to achieve the diversity of members of the Board to enhance the effectiveness of the Board. The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members.

The Nomination Committee will follow a range of diversified criteria, including but not limited to sex, age, cultural and education background, race, professional experience, skills, knowledge and years of service. The ultimate decision will be made upon the possible contribution that the selected candidates will bring to the Board.

No Nomination Committee meeting was held since the Listing Date up to the year ended 31 December 2015.

## Corporate Governance Report

### Remuneration and Appraisal Committee

The Company had established a Remuneration and Appraisal Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration and Appraisal Committee consists of three members, namely Mr. Fu Hailiang, Mr. Jiang Juncal and Mr. Tang Jianxin, among whom Mr. Fu Hailiang serves as the chairman of Remuneration and Appraisal Committee.

The primary duties of the Remuneration and Appraisal Committee are to advise on and formulate the remuneration and appraisal policy in respect of Directors, senior management and other managing members of the Group and make recommendations to the Board.

No Remuneration and Appraisal Committee meeting was held since the Listing Date up to the year ended 31 December 2015.

### Remuneration of Directors and senior management

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2015 are set out in Note 7 to the Financial Statements.

Remuneration paid to the senior management (excluding the Directors) by bands for the year ended 31 December 2015 is set out below:

| <b>Remuneration bands RMB</b> | <b>Number of individuals</b> |
|-------------------------------|------------------------------|
| Nil to \$1 million            | 6                            |

### Audit Committee

The Company had established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three members, namely Mr. Tang Jianxin, Mr. Lee Chi Ming and Mr. Tang Xinfa, among whom Mr. Tang Jianxin serves as the chairman of Audit Committee.

The primary duties of the Audit Committee are to oversee the financial reporting system and internal control procedures of the Company, review the financial information of the Company and consider issues relating to the external auditors and their appointment.

## Corporate Governance Report

The work performed by the Audit Committee during the year under review included review of the adequacy and effectiveness of the internal control system and making recommendation to the Board for improvement of internal control, credit control and risk management.

No Audit Committee meeting was held since the Listing Date up to the year ended 31 December 2015.

### **ACCOUNTABILITY AND AUDIT**

The Directors acknowledge their responsibility for preparing the Financial Statements of the Company for the year ended 31 December 2015. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's Financial Statements, which are put to the Board for approval.

### **INTERNAL CONTROLS**

The Board is responsible for maintaining an adequate internal control system to safeguard Shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

## Corporate Governance Report

### AUDITOR'S REMUNERATION

The statement of the external auditor of the Company regarding its reporting responsibilities for the Financial Statements is set out in the "Independent Auditor's Report" on page 74.

During the year ended 31 December 2015, the remuneration paid/payable to the Company's external auditor, KPMG, is set out below:

|                       | <b>Amount<br/>RMB'000</b> |
|-----------------------|---------------------------|
| Annual audit services | 800                       |
| Non-audit services    | 4,100                     |
| <b>Total fees</b>     | <b>4,900</b>              |

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions. The general meetings of the Company provide a forum for communication between the Board and the Shareholders face-to-face dialogue with the Shareholders.

#### Shareholder rights

##### Right to propose to convene extraordinary general meeting

Pursuant to the Articles of Association, the Shareholders request for the convening of the extraordinary general meeting or meeting of class Shareholders shall follow the procedure below:

Shareholders who individually or collectively hold 10% or more of the Shares carrying voting rights on the proposed general meeting can request the Board to convene an extraordinary general meeting or a class meeting by signing one or several copies of written request(s) in the same form and content, and stating the motions proposed. The Board shall convene the extraordinary general meeting or the class meeting as soon as practicably upon receipt of the foresaid written requirement. The number of shareholdings referred to above shall be calculated as at the date of request made.

If the Board fails to issue a notice on the convening of meeting within 30 days after receiving the aforesaid written request, the proposing Shareholders are entitled to submit a written request to the Supervisory Committee on the convening of extraordinary general meeting or meeting of the class Shareholders.



## Corporate Governance Report

If the Supervisory Committee fails to issue a notice on the convening of meeting within 30 days after receiving the aforesaid written request, the Shareholders individually or collectively representing 10% or more of the Company's voting Shares at the proposed meeting for at least consecutive 90 days may convene the meeting on their own within four months after the Board of Directors receives the request. The convening procedures shall be the same as the procedures for the convening of general meeting by the Board of Directors.

### Shareholders' right to propose resolutions at the general meeting

The Shareholders individually or jointly holding no less than 3% of Shares in the Company may make extraordinary proposals 10 days prior to the convening of the general meeting and notify the convener in writing. The convener shall, within two days from the receipt of such proposal, give supplementary notice for the general meeting, and submit the extraordinary proposals to the general meeting for deliberation. Contents of the extraordinary proposals shall be within the scope of the functions and powers of the general meeting, and have clear subjects and specific resolution matters.

The Company sets out the following contact details for the Shareholders to communicate with the Company:

|                  |   |  |
|------------------|---|--|
| Telephone number | : | 0769-81768866  |
| Company website  | : | <a href="http://www.hec-changjiang.com">www.hec-changjiang.com</a>       |
| E-mail address   | : | <a href="mailto:pansanxiong82@dyg-hec.com">pansanxiong82@dyg-hec.com</a> |

### AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the period from the Listing Date to the date of this Annual Report, there has been no change to the Company's memorandum and articles of association. The Company's Articles of Association are available on the website of the Company and that of the Stock Exchange.

### COMPANY SECRETARY

Mr. PAN Sanxiong and Ms. NG Wing Shan act as joint company secretaries of the Company. For the biography of Mr. PAN and Ms. NG, please refer to the section headed "Profiles of Directors, Supervisors and Senior Management" of this report.

Ms. NG is an assistant vice president of SW Corporate Services Group Limited and her primary corporate contact person at the Company is Mr. PAN Sanxiong. In compliance with Rule 3.29 of the Listing Rules, each of Mr. PAN and Ms. NG has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2015.

## Corporate Governance Report

### **NON-COMPETITION UNDERTAKING**

The Company had entered into the Non-Competition Agreement on 6 December 2015 with the Controlling Shareholders. Please refer to page 54 of this Annual Report for details.

The independent non-executive Directors have reviewed the Non-competition Agreement and had determined that the Controlling Shareholders have not been in breach of the Non-competition Undertaking during the Listing Date to 31 December 2015.

# Independent Auditor's Report



## **Independent auditor's report to the shareholders of YiChang HEC ChangJiang Pharmaceutical Co., Ltd.**

*(Incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. ("the Company") and its subsidiary (together "the Group") set out on pages 76 to 134, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

### **Directors' responsibility for the consolidated financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Independent Auditor's Report

### Opinion

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

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

27 March 2016

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015 (Expressed in Renminbi)

|   | Note | Year ended 31 December |                 |
|---|------|------------------------|-----------------|
|   |      | 2015<br>RMB'000        | 2014<br>RMB'000 |
| <b>Revenue</b>  | 3    | <b>692,910</b>         | 440,904         |
| Cost of sales   |      | <b>(178,334)</b>       | (119,829)       |
| <b>Gross profit</b>   |      | <b>514,576</b>         | 321,075         |
| Other revenue   | 4(a) | <b>15,801</b>          | 54,829          |
| Distribution costs  |      | <b>(77,287)</b>        | (60,115)        |
| Administrative expenses   |      | <b>(120,171)</b>       | (110,312)       |
| Other net income/(loss)   | 4(b) | <b>6,686</b>           | (32)            |
| <b>Profit from operation</b>  |      | <b>339,605</b>         | 205,445         |
| Finance costs   | 5(a) | <b>(24,899)</b>        | (42,330)        |
| <b>Profit before taxation</b>   | 5    | <b>314,706</b>         | 163,115         |
| Income tax  | 6    | <b>(48,956)</b>        | (27,772)        |
| <b>Profit for the year attributable to equity shareholders of the Company</b>                     |      | <b>265,750</b>         | 135,343         |
| <b>Total comprehensive income for the year attributable to equity shareholders of the Company</b> |      | <b>265,750</b>         | 135,343         |
| <b>Basic and diluted earnings per share</b>   | 9    | <b>RMB0.79</b>         | RMB0.45         |

The notes on pages 81 to 134 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 23(b).

# Consolidated Statement of Financial Position

For the year ended 31 December 2015 (Expressed in Renminbi)

|   |             | <b>As at 31 December</b> |         |
|---|-------------|--------------------------|---------|
|   | <i>Note</i> | <b>2015</b>              | 2014    |
|   |             | <b>RMB'000</b>           | RMB'000 |
| <b>Non-current assets</b>   |             |                          |         |
| Fixed assets  |             |                          |         |
| – Property, plant and equipment                                       | 10          | <b>378,801</b>           | 378,004 |
| – Interests in leasehold land held for own use under operating leases | 10          | <b>83,699</b>            | 85,631  |
|   |             | <b>462,500</b>           | 463,635 |
| Prepayments   | 12          | <b>294,599</b>           | 1,804   |
| Deferred tax assets   | 21(b)       | <b>10,392</b>            | 5,847   |
| <b>Total non-current assets</b>                                       |             | <b>767,491</b>           | 471,286 |
| <b>Current assets</b>   |             |                          |         |
| Inventories   | 13          | <b>154,628</b>           | 200,276 |
| Trade and other receivables   | 14          | <b>260,568</b>           | 166,415 |
| Time deposits   | 15          | <b>33,000</b>            | –       |
| Pledged deposits  | 16          | <b>8,077</b>             | 25,000  |
| Cash and cash equivalents   | 17          | <b>1,353,651</b>         | 86,554  |
| <b>Total current assets</b>   |             | <b>1,809,924</b>         | 478,245 |
| <b>Current liabilities</b>  |             |                          |         |
| Trade and other payables  | 18          | <b>155,961</b>           | 162,682 |
| Bank loans  | 19          | <b>105,000</b>           | 270,000 |
| Deferred income   | 20          | <b>4,379</b>             | 4,379   |
| Current tax payable   | 21(a)       | <b>5,826</b>             | 8,929   |
| <b>Total current liabilities</b>                                      |             | <b>271,166</b>           | 445,990 |
| <b>Net current assets</b>   |             | <b>1,538,758</b>         | 32,255  |
| <b>Total assets less current liabilities</b>                          |             | <b>2,306,249</b>         | 503,541 |

The notes on pages 81 to 134 form part of these financial statements.

## Consolidated Statement of Financial Position

For the year ended 31 December 2015 (Expressed in Renminbi)

|                                |             | <b>As at 31 December</b> |         |
|--------------------------------|-------------|--------------------------|---------|
|                                | <i>Note</i> | <b>2015</b>              | 2014    |
|                                |             | <b>RMB'000</b>           | RMB'000 |
| <b>Non-current liabilities</b> |             |                          |         |
| Bank loans                     | 19          | <b>90,000</b>            | 145,000 |
| Deferred income                | 20          | <b>73,400</b>            | 81,286  |
| Total non-current liabilities  |             | <b>163,400</b>           | 226,286 |
| Net assets                     |             | <b>2,142,849</b>         | 277,255 |
| Capital and reserves           |             |                          |         |
| Share capital                  | 23(c)       | <b>450,659</b>           | 170,800 |
| Reserves                       | 23(d)       | <b>1,692,190</b>         | 106,455 |
| Total equity                   |             | <b>2,142,849</b>         | 277,255 |

Approved and authorised for issue by the board of directors on 27 March 2016.

Tang Xinfu  
Director

Chen Yangui  
Director

The notes on pages 81 to 134 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2015 (Expressed in Renminbi)

|  | Share capital | Capital<br>reserve | Statutory<br>reserve | Retained<br>earnings | Total equity |
|--|---------------|--------------------|----------------------|----------------------|--------------|
|  | RMB'000       | RMB'000            | RMB'000              | RMB'000              | RMB'000      |
| Note   | Note23(c)     | Note23(d)(i)       | Note23(d)(ii)        |                      |              |
| <b>At 1 January 2014</b>                               | 170,800       | 8,064              | 97,726               | 202,331              | 478,921      |
| <b>Changes in equity for 2014:</b>                     |               |                    |                      |                      |              |
| Total comprehensive income                             |               |                    |                      |                      |              |
| for the year   | –             | –                  | –                    | 135,343              | 135,343      |
| Deemed shareholder contribution                        | 22            | –                  | –                    | 52,991               | 52,991       |
| Dividends approved                                     | 23(b)         | –                  | –                    | (390,000)            | (390,000)    |
| <b>At 31 December 2014 and<br/>1 January 2015</b>      | 170,800       | 8,064              | 97,726               | 665                  | 277,255      |
| <b>Changes in equity for 2015:</b>                     |               |                    |                      |                      |              |
| Total comprehensive income                             |               |                    |                      |                      |              |
| for the year   | –             | –                  | –                    | 265,750              | 265,750      |
| Conversion to joint stock limited<br>liability company | 129,200       | (635)              | (97,722)             | (30,843)             | –            |
| Capital injection                                      | 60,527        | 456,567            | –                    | –                    | 517,094      |
| Shares issued upon initial public<br>offering          | 90,132        | 992,618            | –                    | –                    | 1,082,750    |
| Appropriation to statutory reserve                     | –             | –                  | 26,567               | (26,567)             | –            |
| <b>At 31 December 2015</b>                             | 450,659       | 1,456,614          | 26,571               | 209,005              | 2,142,849    |

The notes on pages 81 to 134 form part of these financial statements.



# Consolidated Cash Flow Statement

For the year ended 31 December 2015 (Expressed in Renminbi)

|   | Note  | Year ended 31 December |                 |
|---|-------|------------------------|-----------------|
|   |       | 2015<br>RMB'000        | 2014<br>RMB'000 |
| <b>Operating activities</b>   |       |                        |                 |
| Cash generated from operations                                      | 17(b) | 343,998                | 146,910         |
| The People's Republic of China (the "PRC")<br>income tax paid       | 21(a) | (56,604)               | (17,032)        |
| <b>Net cash generated from operating activities</b>                 |       | <b>287,394</b>         | 129,878         |
| <b>Investing activities</b>   |       |                        |                 |
| Interest received   |       | 2,172                  | 242             |
| Payment for purchase of property, plant and<br>equipment            |       | (28,004)               | (35,470)        |
| Proceeds received from disposal of property,<br>plant and equipment |       | 5,257                  | 73              |
| Prepayment for intangible assets                                    | 12    | (290,000)              | –               |
| Investment in time deposits with maturity<br>over three months      |       | (33,000)               | –               |
| Net cash outflow in respect of disposal of a subsidiary             | 22    | –                      | (3,186)         |
| <b>Net cash used in investing activities</b>                        |       | <b>(343,575)</b>       | (38,341)        |
| <b>Financing activities</b>   |       |                        |                 |
| Proceeds from issuance of shares                                    |       | 1,613,481              | –               |
| Payment of listing expenses   |       | (14,916)               | –               |
| Proceeds of bank loans  |       | 50,000                 | 294,310         |
| Repayments of bank loans  |       | (270,000)              | (462,940)       |
| Receipts from related parties                                       |       | –                      | 173,881         |
| Repayment to related parties  |       | (30,091)               | –               |
| Interest paid   |       | (25,196)               | (42,601)        |
| <b>Net cash generated from/(used in)<br/>financing activities</b>   |       | <b>1,323,278</b>       | (37,350)        |
| <b>Net increase in cash and cash equivalents</b>                    |       | <b>1,267,097</b>       | 54,187          |
| <b>Cash and cash equivalents at 1 January</b>                       |       | <b>86,554</b>          | 32,367          |
| <b>Cash and cash equivalents at 31 December</b>                     | 17(a) | <b>1,353,651</b>       | 86,554          |

The notes on pages 81 to 134 form part of these financial statements.

# Notes to Consolidated Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”), Interpretations issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of presentation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiary.

The Company was formerly named as Yichang Changjiang Pharmaceutical Company Limited, which was established as a limited liability company in Yichang City, Hubei Province, the People’s Republic of China (“PRC”) on 8 August 2001. On 11 May 2015, the Company was converted into a joint stock limited liability company and with a registered capital of RMB300,000,000 in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited. Upon completion of this conversion, the Company changed its name to YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (宜昌東陽光長江藥業股份有限公司).

All material intra-group transactions and balances have been eliminated on consolidation.

The financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Basis of presentation of the financial statements (continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2.

#### (c) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- *Annual Improvements to IFRSs 2010-2012 Cycle*
- *Annual Improvements to IFRSs 2011-2013 Cycle*

#### Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, Related party disclosures has been amended to expand the definition of a “related party” to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group’s related party disclosures as the Group does not obtain key management personnel services from management entities.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(h)).

#### (e) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 1(h)):

- Buildings held for own use which are situated on leasehold land classified as held under operating leases (Note 1(g)); and
- Other items of property, plant and equipment.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Property, plant and equipment (continued)

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 1(r)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion
- Machinery 15 years
- Motor vehicles 10 years
- Office equipment and others 5 – 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction, and is stated at cost less impairment losses (Note 1(h)). Cost comprises direct costs of construction during the construction period. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially complete and ready for its intended use. No depreciation is provided in respect of construction in progress.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

#### (g) Leasehold land held for own use under operating leases

Leasehold land held for own use under operating leases represent cost of land use rights paid to the PRC government authorities. Land use rights are stated as cost less accumulated amortisation and impairment losses (Note 1(h)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of the rights.

#### (h) Impairment of assets

##### (i) Impairment of trade and other receivables

Trade and other current and non-current receivables that are stated at amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Impairment of assets (continued)

##### (i) Impairment of trade and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognized as follows. For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

##### (ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

- Property, plant and equipment;
- Interest in leasehold land held for own use under operating leases;
- Prepayments; and
- Investments in subsidiaries of the Company.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Impairment of assets (continued)

If any such indication exists, the asset's recoverable amount is estimated.

##### – Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### – Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

##### – Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

#### (i) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.



## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) Inventories (continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### (j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (Note 1(h)).

#### (k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

#### (l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within six months of maturity at acquisition.

#### (n) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Annual contributions to retirement benefit schemes operated by the government in the PRC are recognised in the profit or loss as and when incurred.

## Notes to Consolidated Financial Statements

*(Expressed in Renminbi unless otherwise indicated)*

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (o) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (o) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

#### (p) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) Provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

##### (i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

##### (ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

##### (iii) Government grants

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset by way of recognized in other revenues.

##### (iv) Service income

Service income is recognised when the relevant services are rendered.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

#### (s) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss.

#### (t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (t) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities 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.
- (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).
- (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 Group's parent.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

#### (u) Segment reporting

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on sales of pharmaceutical products. Therefore, management considers there to be only one operating segment under the requirements of IFRS 8, Operating Segments. In this regard, no segment information is presented for the year end 31 December 2015.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (u) Segment reporting (continued)

No geographic information is shown as the Group's operating profit is derived from activities of manufacture and sale of pharmaceutical products in the PRC.

### 2 ACCOUNTING ESTIMATES AND JUDGEMENTS

The key sources of estimation uncertainty and critical accounting judgments in applying the Group's accounting policies are described below.

#### (a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value.

The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future years is adjusted if there are significant changes from previous estimation.

#### (b) Impairments

- (i) In considering the impairment losses that may be required for certain property, plant and equipment and lease prepayments, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.
- (ii) Impairment losses for doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment losses would affect the net profit or loss in future years.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 3 REVENUE

The principal activities of the Group are manufacturing and sales of pharmaceuticals.

Revenue represents the sales value of goods supplied to customers. Revenue excludes sales taxes and surcharges and is after deduction of any trade discounts. The amount of each significant category of revenue is as follows:

|                               | Year ended 31 December |                 |
|-------------------------------|------------------------|-----------------|
|                               | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Anti-viral drugs              | 457,436                | 199,414         |
| Endocrine and metabolic drugs | 39,047                 | 32,514          |
| Cardiovascular drugs          | 107,083                | 106,209         |
| Others                        | 89,344                 | 102,767         |
|                               | <b>692,910</b>         | 440,904         |

The Group's customer base is diversified and included one customer with whom transactions have exceeded 10% of the Group's revenues for the years ended 31 December 2015 and 2014, including sales to entities which are known to the Group under common control with this customer. Revenues from this customer amounted to approximately RMB202,478,000 and RMB78,005,000 for the years ended 31 December 2015 and 2014 respectively. Details of concentrations of credit risk arising from this customer are set out in Note 24(a).



## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 4 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

#### (a) Other revenue

|                                   | Year ended 31 December |                 |
|-----------------------------------|------------------------|-----------------|
|                                   | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Government grants                 |                        |                 |
| – Unconditional subsidies         | 4,490                  | 323             |
| – Conditional subsidies (Note 20) | 7,886                  | 4,379           |
| Interest income                   | 2,172                  | 21,301          |
| Research service income           | 1,129                  | 28,707          |
| Others                            | 124                    | 119             |
|                                   | <b>15,801</b>          | <b>54,829</b>   |

#### (b) Other net income/(loss)

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Gain/(loss) on disposal of fixed assets | 13                     | (5)             |
| Exchange gain                           | 8,001                  | –               |
| Others                                  | (1,328)                | (27)            |
|   | <b>6,686</b>           | <b>(32)</b>     |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

#### (a) Finance costs

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Interest expenses  | 24,899                 | 53,163          |
| Less: interest expense capitalised into construction<br>in progress* | —                      | (10,833)        |
|  | 24,899                 | 42,330          |

\* The borrowing costs have been capitalised at an annual rate of 6% – 6.88% for the years ended 31 December 2014.

#### (b) Staff costs

|                                       | Year ended 31 December |                 |
|---------------------------------------|------------------------|-----------------|
|                                       | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Salaries, wages, bonuses and benefits | 47,964                 | 49,274          |
| Contribution to retirement schemes    | 4,513                  | 3,586           |
|                                       | 52,477                 | 52,860          |

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the local government authorities whereby the Group is required to make contributions to the Schemes based on certain percentages of the eligible employee’s salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 5 PROFIT BEFORE TAXATION (continued)

#### (c) Other items

|                                   | Note | Year ended 31 December |                 |
|-----------------------------------|------|------------------------|-----------------|
|                                   |      | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Depreciation                      | 10   | 25,747                 | 31,945          |
| Auditor's remuneration            |      |                        |                 |
| – audit services                  |      | 800                    | 500             |
| – non-audit services (iii)        |      | 2,763                  | –               |
| Impairment losses on              |      |                        |                 |
| – trade receivables               | 14   | 7,064                  | 2,367           |
| – other receivables               |      | 994                    | 399             |
| Operating lease charges           |      | 364                    | 500             |
| Research and development cost (i) |      | 52,303                 | 73,584          |
| Cost of inventories (ii)          | 13   | 130,546                | 98,983          |
| Listing expenses (iii)            |      | 23,815                 | –               |

- (i) During the years ended 31 December 2015 and 2014, research and development cost include RMB21,796,000 and RMB30,701,000 relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 5(b) for each of these types of expenses.
- (ii) During the years ended 31 December 2015 and 2014, cost of inventories include RMB24,761,000 and RMB22,218,000 relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 5(b) for each of these types of expenses.
- (iii) During the year ended 31 December 2015, listing expenses include RMB2,763,000 relating to non-audit services, which amount is also included above in auditor's remuneration.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statements of profit or loss and other comprehensive income represents:

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2015<br>RMB'000        | 2014<br>RMB'000 |
| <b>Current tax</b>   |                        |                 |
| Provision for PRC Corporate Income<br>Tax for the year ( <i>Note 21(a)</i> ) | 53,501                 | 28,516          |
| <b>Deferred tax</b>  |                        |                 |
| Origination and reversal of temporary differences                            | (4,545)                | (744)           |
| <b>Total income tax</b>  | <b>48,956</b>          | <b>27,772</b>   |

(b) Reconciliation between income tax expenses and accounting profit at applicable tax rates:

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Profit before taxation  | 314,706                | 163,115         |
| Applicable tax rate (i)   | 25%                    | 25%             |
| Notional tax on profit before taxation                                  | 78,676                 | 40,779          |
| Effect of non-deductible expenses                                       | 4,796                  | 3,053           |
| Effect of preferential tax rate (ii)                                    | (31,475)               | (18,007)        |
| Effect of bonus deduction of research and<br>development expenses (iii) | (3,041)                | (2,249)         |
| Effect of tax losses not recognised (iv)                                | –                      | 4,196           |
| <b>Income tax expenses</b>  | <b>48,956</b>          | <b>27,772</b>   |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

#### (b) Reconciliation between income tax expenses and accounting profit at applicable tax rates: (continued)

- (i) The PRC corporate income tax rate is 25%.
- (ii) The PRC Corporate Income Tax Law allows enterprises to apply for the certificate of “High and New Technology Enterprise” (“HNTE”) which entitles the qualified companies to a preferential income tax rate of 15%. The Company is qualified as a HNTE in 2012 and the qualification was valid for three years from 2011 to 2013. The qualification was renewed in 2014 and the valid period is extended to 2016. Therefore, the Company was entitled to a preferential income tax rate of 15% for the years ended 31 December 2015 and 2014.

Yichang HEC Pharmaceutical Co., Ltd. (宜昌東陽光醫藥有限公司, “Yichang HEC Pharmaceutical”) was qualified as a Small Micro-Size Enterprise (小微企業), which entitled to a preferential income tax rate of 10% for the years ended 31 December 2015 and 2014.

Other PRC subsidiary is subject to the PRC statutory corporate income tax rate of 25%.

- (iii) According to relevant tax rules in the PRC, qualified research and development expenses (“R&D expenses”), which are not capitalised, are allowed for bonus deduction for income tax purpose, i.e. an additional 50% of such expenses could be deemed as deductible expenses.
- (iv) In accordance with the accounting policy set out in Note 1(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of Ruyuan HEC Pharmaceutical Co., Ltd. (乳源東陽光藥業有限公司, “Ruyuan HEC Pharma”) of RMB4,196,000 as at 31 December 2014 because Ruyuan HEC Pharma was transferred at a consideration of RMB100,000,000 to HEC Pharm Co., Ltd (宜昌東陽光藥業股份有限公司, “HEC Pharm”) on 29 September 2014 as set out in Note 22.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 7 DIRECTORS' AND SUPERVISORS' REMUNERATION

The details of directors' remuneration are disclosed as follows:

|  | For the year ended 31 December 2015 |   |   |                       |              |
|--|-------------------------------------|---|---|-----------------------|--------------|
|  | Directors' fees                     | Salaries, allowances and benefits in kind | Contributions to defined retirement plans | Discretionary bonuses | Total        |
|  | RMB'000                             | RMB'000                                   | RMB'000                                   | RMB'000               | RMB'000      |
| <b>Executive directors</b>                 |                                     |   |   |                       |              |
| Mr. Jiang Juncai                           | –                                   | 146                                       | 13  | 47                    | 206          |
| Mr. Wang Danjin                            | –                                   | 144                                       | 13  | 51                    | 208          |
| Mr. Chen Yangui                            | –                                   | 164                                       | 21  | 60                    | 245          |
| <b>Non-executive directors</b>             |                                     |   |   |                       |              |
| Mr. Tang Xinfu                             | –                                   | –   | –   | –                     | –            |
| Mr. Zhu Yingwei                            | –                                   | –   | –   | –                     | –            |
| Mr. Mo Kit                                 | –                                   | –   | –   | –                     | –            |
| Mr. Lou Wangjun                            | –                                   | –   | –   | –                     | –            |
| <b>Independent non-executive directors</b> |                                     |   |   |                       |              |
| Mr. Tang Jianxin                           | 54                                  | –   | –   | –                     | 54           |
| Mr. Fu Hailiang                            | 53                                  | –   | –   | –                     | 53           |
| Mr. Lee Chi Ming                           | 107                                 | –   | –   | –                     | 107          |
| <b>Supervisors</b>                         |                                     |   |   |                       |              |
| Ms. Huang Fangfang                         | –                                   | –   | –   | –                     | –            |
| Ms. Xue Lian                               | –                                   | 112                                       | 13  | 47                    | 172          |
| Mr. Lin Jian                               | –                                   | –   | –   | –                     | –            |
| <b>Total</b>                               | <b>214</b>                          | <b>566</b>                                | <b>60</b>                                 | <b>205</b>            | <b>1,045</b> |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 7 DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

|                                | For the year ended 31 December 2014 |   |  |                       |         |
|--------------------------------|-------------------------------------|---|--|-----------------------|---------|
|                                | Directors' fees                     | Salaries, allowances and benefits in kind | Contributions to defined contribution retirement plans | Discretionary bonuses | Total   |
|                                | RMB'000                             | RMB'000                                   | RMB'000  | RMB'000               | RMB'000 |
| <b>Executive director</b>      |                                     |   |  |                       |         |
| Mr. Wang Danjin                | –                                   | 143                                       | 11   | 36                    | 190     |
| <b>Non-executive directors</b> |                                     |   |  |                       |         |
| Mr. Zhu Yingwei                | –                                   | –   | –  | –                     | –       |
| Mr. Lou Wangjun                | –                                   | –   | –  | –                     | –       |
| <b>Total</b>                   | –                                   | 143                                       | 11   | 36                    | 190     |

Mr. Jiang Juncai and Mr. Chen Yangui were appointed as executive directors on 4 May 2015.

Mr. Tang Xinfa and Mr. Mo Kit were appointed as non-executive directors on 4 May 2015.

Mr. Tang Jianxin, Mr. Fu Hailiang and Mr. Lee Chi Ming were appointed as independent non-executive directors on 4 May 2015.

Ms. Huang Fangfang, Ms. Xue Lian and Mr. Lin Jian were appointed as supervisors on 4 May 2015.

Mr. Lou Wangjun resigned as non-executive director on 11 May 2015.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2014: one) are the directors whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other two (2014: four) individuals are as follows:

|                                    | Year ended 31 December |                 |
|------------------------------------|------------------------|-----------------|
|                                    | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Salaries and other emoluments      | 356                    | 634             |
| Discretionary bonuses              | 102                    | 156             |
| Contribution to retirement schemes | 27                     | 42              |
|                                    | 485                    | 832             |

The emoluments of the two (2014: four) individuals with the highest emoluments are within the following bands:

|                     | Year ended 31 December           |                                  |
|---------------------|----------------------------------|----------------------------------|
|                     | 2015<br>Number of<br>Individuals | 2014<br>Number of<br>Individuals |
| Nil to HKD1,000,000 | 2                                | 4                                |



## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 9 EARNINGS PER SHARE

#### (a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2015 is based on the profit attributable to ordinary equity shareholders of the Company of RMB265,750,000 and the weighted average of 335,564,823 ordinary shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2014 is based on the profit attributable to ordinary equity shareholders of the Company of RMB135,343,000 and 300,000,000 shares in issue as at 31 December 2014 as if the shares were outstanding throughout the year.

|  | 2015<br>shares     | 2014<br>shares |
|--|--------------------|----------------|
| Effect of capitalisation issue (Note 23(c)(ii))  | 300,000,000        | 300,000,000    |
| Effect of shares issued upon certain new investors on<br>5 June 2015 (Note 23(c)(iii))       | 34,824,012         | –              |
| Effect of shares issued upon initial public offering on<br>29 December 2015 (Note 23(c)(iv)) | 740,811            | –              |
|  | <b>335,564,823</b> | 300,000,000    |

#### (b) Diluted earnings per share

There were no dilutive potential ordinary shares during the years ended 31 December 2015 and 2014, and therefore, diluted earnings per share is the same as the basic earnings per share.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 10 FIXED ASSETS

|  | Plant and<br>Buildings | Machinery | Office<br>equipment<br>and others | Motor<br>vehicles | Construction<br>in progress | Sub-total | Interest in<br>leasehold<br>land held<br>for own<br>use under<br>operating<br>leases | Total     |
|--|------------------------|-----------|-----------------------------------|-------------------|-----------------------------|-----------|--|-----------|
|  | RMB'000                | RMB'000   | RMB'000                           | RMB'000           | RMB'000                     | RMB'000   | RMB'000  | RMB'000   |
| <b>Cost:</b>                             |                        |           |                                   |                   |                             |           |  |           |
| At 1 January 2014                        | 359,987                | 211,933   | 69,773                            | 818               | 98,848                      | 741,359   | 126,364  | 867,723   |
| Additions                                | 3,433                  | 2,896     | 5,098                             | –                 | 39,670                      | 51,097    | –  | 51,097    |
| Transfer from construction in progress   | 6,970                  | 10,850    | 5,214                             | –                 | (23,034)                    | –         | –  | –         |
| Disposal                                 | –                      | (38)      | (52)                              | –                 | (34)                        | (124)     | –  | (124)     |
| Disposals of a subsidiary                | (131,054)              | (47,265)  | (27,373)                          | (171)             | (112,516)                   | (318,379) | (29,655)   | (348,034) |
| At 31 December 2014                      | 239,336                | 178,376   | 52,660                            | 647               | 2,934                       | 473,953   | 96,709   | 570,662   |
| Additions                                | 2,110                  | 5,183     | 3,943                             | –                 | 18,620                      | 29,856    | –  | 29,856    |
| Transfer from construction in progress   | 2,996                  | 4,286     | 1,406                             | –                 | (8,688)                     | –         | –  | –         |
| Disposal                                 | –                      | (4,184)   | (2,017)                           | –                 | –                           | (6,201)   | –  | (6,201)   |
| At 31 December 2015                      | 244,442                | 183,661   | 55,992                            | 647               | 12,866                      | 497,608   | 96,709   | 594,317   |
| <b>Accumulated depreciation:</b>         |                        |           |                                   |                   |                             |           |  |           |
| At 1 January 2014                        | (31,999)               | (31,994)  | (21,569)                          | (275)             | –                           | (85,837)  | (10,899)   | (96,736)  |
| Charge for the year                      | (9,964)                | (12,372)  | (7,087)                           | (70)              | –                           | (29,493)  | (2,452)  | (31,945)  |
| Written-off on disposals                 | –                      | 13        | 34                                | –                 | –                           | 47        | –  | 47        |
| Written-off on disposals of a subsidiary | 7,787                  | 5,040     | 6,464                             | 43                | –                           | 19,334    | 2,273  | 21,607    |
| At 31 December 2014                      | (34,176)               | (39,313)  | (22,158)                          | (302)             | –                           | (95,949)  | (11,078)   | (107,027) |
| Charge for the year                      | (7,557)                | (10,810)  | (5,390)                           | (58)              | –                           | (23,815)  | (1,932)  | (25,747)  |
| Written-off on disposals                 | –                      | 443       | 514                               | –                 | –                           | 957       | –  | 957       |
| At 31 December 2015                      | (41,733)               | (49,680)  | (27,034)                          | (360)             | –                           | (118,807) | (13,010)   | (131,817) |
| <b>Carrying amount:</b>                  |                        |           |                                   |                   |                             |           |  |           |
| At 31 December 2015                      | 202,709                | 133,981   | 28,958                            | 287               | 12,866                      | 378,801   | 83,699   | 462,500   |
| At 31 December 2014                      | 205,160                | 139,063   | 30,502                            | 345               | 2,934                       | 378,004   | 85,631   | 463,635   |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 10 FIXED ASSETS (continued)

- (i) All property, plant and equipment owned by the Group are located in the PRC.
- (ii) As at 31 December 2015 and 2014, the Group was applying for certificates of ownership for certain properties, with carrying value of RMB13,226,000 and RMB10,359,000 respectively. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.
- (iii) Certain of the Group's interest-bearing loans were secured by certain buildings, machinery and interests in leasehold land held for own use under operating leases, which had an aggregate net book value of RMB115,975,000 as of 31 December 2014 (Note 19).

### 11 INVESTMENTS IN SUBSIDIARIES

As at 31 December 2015, the Company has direct interests in the following subsidiary, which is a private company. The particulars of the subsidiary are set out below:

| Name of company  | Place of<br>incorporation<br>and business | Issued and<br>fully paid up/<br>registered<br>capital | Proportion<br>of direct<br>ownership<br>interest | Principal activities                   |
|--|---|---|--|--|
| Yichang HEC Pharmaceutical Co., Ltd.<br>("Yichang HEC Pharmaceutical")<br>(宜昌東陽光醫藥有限公司)(i) | the PRC                                   | RMB2,000,000  | 100%   | Sales of<br>pharmaceutical<br>products |

- (i) The official name of the entity is in Chinese. The English translation of the entity's name is for reference only.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 12 PREPAYMENTS

|                                      | As at 31 December |         |
|--------------------------------------|-------------------|---------|
|                                      | 2015              | 2014    |
|                                      | RMB'000           | RMB'000 |
| Prepayments for intangible assets(i) | 290,000           | –       |
| Others                               | 4,599             | 1,804   |
|                                      | 294,599           | 1,804   |

- (i) On 22 July 2015, the Group entered into an agreement with Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司, “Sunshine Lake Pharma”) which is a related party of the Group. Pursuant to the agreement, the Group have acquired the right to use all the relevant knowhow and patents relating to yimitasvir phosphate and follow-up direct anti-viral agent compounds (the “Compounds”) and, upon obtaining the necessary government approvals, the right to manufacture and sell worldwide for a consideration of RMB700,000,000. The consideration comprised a down payment of RMB250,000,000 and eight milestone payments totalling RMB450,000,000 payable upon each stage of development or approval of Yimitasvir phosphate or the Compounds. The agreement expires on 31 December 2030 or the date when the first patent mentioned above expires, whichever is earlier.

Should the forth or eighth stage of development or approval of Yimitasvir phosphate or the Compounds in the above agreement fail to be achieved before 31 December 2018 or 31 December 2025, the Group is entitled for a refund of RMB50,000,000 and RMB70,000,000, respectively. Should Sunshine Lake Pharma be unable to obtain the relevant government approvals or permits when the agreement expires, Sunshine Lake Pharma will fully refund the Group for the total amounts paid.

As at 31 December 2015, the Group had paid RMB290,000,000 to Sunshine Lake Pharma and currently targeting to obtain the necessary approvals and permits for yimitasvir phosphate on or before 2019 and begin commercial introduction of relevant products in 2019. The necessary approvals and permits for the Compounds are expected to be obtained in 2020 and onwards.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 13 INVENTORIES

|                  | As at 31 December |                 |
|------------------|-------------------|-----------------|
|                  | 2015<br>RMB'000   | 2014<br>RMB'000 |
| Raw materials    | 110,684           | 175,426         |
| Work in progress | 17,140            | 7,714           |
| Finished goods   | 26,804            | 17,136          |
|                  | 154,628           | 200,276         |

The analysis of the amount of inventories recognised as an expense and included in profit and loss is as follows:

|                                       | Note | Year ended 31 December |                 |
|---------------------------------------|------|------------------------|-----------------|
|                                       |      | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Carrying amount of inventories sold   |      | 127,773                | 98,909          |
| Write down of inventories             |      | 2,786                  | 74              |
| Reversal of write down of inventories |      | (13)                   | –               |
| Cost of inventories                   | 5(c) | 130,546                | 98,983          |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 14 TRADE AND OTHER RECEIVABLES

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2015<br>RMB'000        | 2014<br>RMB'000 |
| <b>Current</b>                                  |                        |                 |
| Trade receivables                               | 241,308                | 112,940         |
| Bills receivable                                | 22,133                 | 26,471          |
| Less: allowance for doubtful debts (Note 14(b)) | (13,347)               | (6,283)         |
|   | 250,094                | 133,128         |
| Amounts due from related parties                | —                      | 26,689          |
| Prepayments for inventories                     | 7,393                  | 3,558           |
| Other receivables                               | 3,081                  | 3,040           |
| Total   | 260,568                | 166,415         |

#### (a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net off allowance for doubtful debts, is as follows:

|                                      | As at 31 December |                 |
|--------------------------------------|-------------------|-----------------|
|                                      | 2015<br>RMB'000   | 2014<br>RMB'000 |
| Within 3 months                      | 193,214           | 100,505         |
| More than 3 months but within 1 year | 56,880            | 32,623          |
|                                      | 250,094           | 133,128         |

Trade debtors are generally due within 30-90 days from the date of billing. Bills receivable is due in 3 months or 6 months from the date of billing. The Group's credit policy is set out in Note 24(a). All of the trade and other receivables of the Group are expected to be recovered within one year.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 14 TRADE AND OTHER RECEIVABLES (continued)

#### (b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see Note 1(h)(i)).

The movement in the allowance for doubtful debts for the years ended 31 December 2015 and 2014 is as follows:

|                            | <b>As at 31 December</b> |         |
|----------------------------|--------------------------|---------|
|                            | <b>2015</b>              | 2014    |
|                            | <b>RMB'000</b>           | RMB'000 |
| At 1 January               | <b>6,283</b>             | 3,916   |
| Impairment loss recognised | <b>7,064</b>             | 2,367   |
| At 31 December             | <b>13,347</b>            | 6,283   |

At 31 December 2015 and 2014 respectively, trade debtors and bills receivable of RMB18,049,000 and RMB8,619,000 were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB13,347,000 and RMB6,283,000 were recognised as at 31 December 2015 and 2014, respectively.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 14 TRADE AND OTHER RECEIVABLES (continued)

- (c) The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

|   | Year ended 31 December |         |
|---|------------------------|---------|
|   | 2015                   | 2014    |
|   | RMB'000                | RMB'000 |
| Not past due                                  | 191,924                | 97,963  |
| Less than 3 months past due                   | 36,916                 | 23,821  |
| More than 3 months but within 1 year past due | 16,552                 | 9,008   |
|   | 245,392                | 130,792 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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, management believes that no impairment allowance 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.

### 15 TIME DEPOSITS

As at 31 December 2015, the time deposits represented bank deposits denominated in US dollars with original maturity of six months, carrying at an interest rate of 3.084% per annum.

### 16 PLEDGED DEPOSITS

The amount represented bank deposits pledged to secure certain bills payable as at 31 December 2015 and 2014 (see Note 18).



## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 17 CASH AND CASH EQUIVALENTS

#### (a) Cash and cash equivalents comprise:

|              | As at 31 December |                 |
|--------------|-------------------|-----------------|
|              | 2015<br>RMB'000   | 2014<br>RMB'000 |
| Cash in hand | 234               | 638             |
| Cash at bank | 1,353,417         | 85,916          |
|              | <b>1,353,651</b>  | <b>86,554</b>   |

#### (b) Reconciliation of profit before taxation to cash generated from operations:

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Profit before taxation                          | 314,706                | 163,115         |
| Adjustments for:                                |                        |                 |
| Depreciation                                    | 25,747                 | 31,945          |
| Interest income                                 | (2,172)                | (21,301)        |
| Impairment loss on trade and other receivables  | 8,058                  | 2,766           |
| Finance costs                                   | 24,899                 | 42,330          |
| (Gain)/loss on disposal of fixed assets         | (13)                   | 5               |
| Listing expenses                                | 23,815                 | –               |
| Changes in working capital                      |                        |                 |
| Decrease in inventories                         | 45,648                 | 13,941          |
| Increase in trade and other receivables         | (122,901)              | (84,756)        |
| Increase/(decrease) in trade and other payables | 26,211                 | (1,135)         |
| <b>Cash generated from operations</b>           | <b>343,998</b>         | <b>146,910</b>  |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 18 TRADE AND OTHER PAYABLES

|                               | As at 31 December |         |
|-------------------------------|-------------------|---------|
|                               | 2015              | 2014    |
|                               | RMB'000           | RMB'000 |
| Trade payables (ii)           | 31,258            | 28,081  |
| Bills payable (i)             | 2,153             | 25,000  |
| Trade and bills payables      | 33,411            | 53,081  |
| Amount due to related parties | —                 | 51,443  |
| Receipts in advance           | 5,934             | 8,194   |
| VAT and other taxes payable   | 16,357            | 7,077   |
| Accrued payroll and benefits  | 12,397            | 12,313  |
| Other payables and accruals   | 87,862            | 30,574  |
|                               | 155,961           | 162,682 |

(i) Certain bills payable of the Group as at 31 December 2015 and 2014 were secured by pledged deposits.

(ii) An ageing analysis of the trade payables based on the invoice date is as follows:

|                                  | As at 31 December |         |
|----------------------------------|-------------------|---------|
|                                  | 2015              | 2014    |
|                                  | RMB'000           | RMB'000 |
| Within 1 month                   | 10,467            | 20,729  |
| Over 1 month but within 3 months | 8,123             | 2,939   |
| Over 3 months but within 1 year  | 10,600            | 2,151   |
| Over 1 year                      | 2,068             | 2,262   |
|                                  | 31,258            | 28,081  |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 19 BANK LOANS

As at 31 December 2015 and 2014, the bank loans were repayable as follows:

|                                  | <b>As at 31 December</b> |         |
|----------------------------------|--------------------------|---------|
|                                  | <b>2015</b>              | 2014    |
|                                  | <b>RMB'000</b>           | RMB'000 |
| Within 1 year or on demand       | <b>105,000</b>           | 270,000 |
| After 1 year but within 2 years  | <b>80,000</b>            | 55,000  |
| After 2 years but within 5 years | <b>10,000</b>            | 90,000  |
| Subtotal                         | <b>90,000</b>            | 145,000 |
| Total                            | <b>195,000</b>           | 415,000 |

At 31 December 2015 and 2014, the bank loans were secured as follows:

|             | <b>As at 31 December</b> |         |
|-------------|--------------------------|---------|
|             | <b>2015</b>              | 2014    |
|             | <b>RMB'000</b>           | RMB'000 |
| Bank loans  |                          |         |
| – Secured   | <b>145,000</b>           | 415,000 |
| – Unsecured | <b>50,000</b>            | –       |
|             | <b>195,000</b>           | 415,000 |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 19 BANK LOANS (continued)

At 31 December 2015, the bank loans of the Group of RMB145,000,000 were secured by certain buildings, machinery and interests in leasehold land owned by Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司, "Shenzhen HEC Industrial") and its subsidiaries.

At 31 December 2014, the bank loans of the Group were secured by certain buildings, machinery and interests in leasehold land with an aggregate carrying value of RMB115,975,000.

At 31 December 2015 and 2014, the bank loans of the Group were guaranteed by Mr. Zhang Zhongneng, who is the director of the Shenzhen HEC Industrial, and his spouse Mrs. Guo Meilan.

### 20 DEFERRED INCOME

|  | <b>As at 31 December</b> |         |
|--|--------------------------|---------|
|  | <b>2015</b>              | 2014    |
|  | <b>RMB'000</b>           | RMB'000 |
| At 1 January                           | <b>85,665</b>            | 90,044  |
| Credited to profit or loss (Note 4(a)) | <b>(7,886)</b>           | (4,379) |
| At 31 December                         | <b>77,779</b>            | 85,665  |
| Net carrying amounts representing:     |                          |         |
| Current portion                        | <b>4,379</b>             | 4,379   |
| Non-current portion                    | <b>73,400</b>            | 81,286  |
|  | <b>77,779</b>            | 85,665  |

As at 31 December 2015 and 2014, deferred income of the Group mainly included various conditional government grants for research and development projects of new or existing pharmaceutical products and subsidies relating to purchase of fixed assets.

Deferred income relating to purchase of fixed assets are recognised as income on a straight-line basis over the expected useful life of the relevant assets.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

#### (a) Current taxation in the consolidated statement of financial position represents:

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2015<br>RMB'000   | 2014<br>RMB'000 |
| Provision of PRC Corporate Income<br>Tax for the year (Note 6(a)) | 53,501            | 28,516          |
| PRC Corporate Income Tax paid for the current year                | (56,604)          | (17,032)        |
|   | (3,103)           | 11,484          |
| Balance of PRC Corporate Income<br>Tax at 1 January               | 8,929             | (2,555)         |
| Balance of PRC Corporate Income<br>Tax at 31 December             | 5,826             | 8,929           |

#### (b) Deferred tax assets recognised

The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the years ended 31 December 2015 and 2014 are as follows:

| Deferred tax arising from:           | Provisions<br>for<br>inventory<br>and<br>Accrued<br>expenses |                        |                       | Total  |
|--------------------------------------|--|------------------------|-----------------------|--------|
|                                      | Deferred<br>revenue<br>RMB'000                               | receivables<br>RMB'000 | and others<br>RMB'000 |        |
| At 1 January 2014                    | 1,049  | 3,129                  | 925                   | 5,103  |
| (Credited)/charged to profit or loss | (50)   | (1,725)                | 2,519                 | 744    |
| At 31 December and 1 January 2015    | 999  | 1,404                  | 3,444                 | 5,847  |
| (Credited)/charged to profit or loss | (576)  | 1,643                  | 3,478                 | 4,545  |
| At 31 December 2015                  | 423  | 3,047                  | 6,922                 | 10,392 |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 22 DISPOSAL OF A SUBSIDIARY TO IMMEDIATE HOLDING COMPANY

On 29 September 2014, 100% equity interests of Ruyuan HEC Pharma held by the Company were transferred at a consideration of RMB100,000,000 to HEC Pharm. The principal activities of Ruyuan HEC Pharma are manufacturing and sales of active pharmaceutical ingredient. The transaction has been accounted for as a disposal of entity under common control as both the Company and HEC Pharm are controlled by Shenzhen HEC Industrial. Accordingly, financial statement items of Ruyuan HEC Pharma were transferred to HEC Pharm by the Company based on their book value as of the date of disposal and the difference of RMB52,991,000 between the consideration of RMB100,000,000 and net assets transferred of RMB47,009,000 was recorded as an adjustment to the retained earnings of the Group.

The disposal of Ruyuan HEC Pharma had the following effect on the Group's assets and liabilities:

|   | 2014<br>Carrying values<br>upon disposal<br>RMB'000 |
|---|---|
| Fixed assets  |   |
| – Property, plant and equipment   | 299,045   |
| – Interests in leasehold land held for own use under operating leases     | 27,382  |
|   | 326,427   |
| Inventories   | 11,105  |
| Trade and other receivables   | 109,893   |
| Cash and cash equivalents   | 3,186   |
| Trade and other payables  | (186,062)   |
| Bank loans  | (217,540)   |
| Net identifiable assets   | 47,009  |
| Analysis of the net cash outflow in respect of the disposal of subsidiary |   |
| Cash consideration received (i)   | –   |
| Cash and cash equivalent of the subsidiary disposed                       | (3,186)   |
| Net cash outflow in respect of disposal of a subsidiary                   | (3,186)   |

- (i) As at 31 December 2014, the consideration receivables of RMB100,000,000 in relation to disposal of Ruyuan HEC Pharma were offset with the amounts due from HEC Pharm, which included dividends payable of the Company of RMB390,000,000 (Note 23(b)).

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 23 CAPITAL, RESERVE AND DIVIDENDS

#### (a) Movements in components of equity of the Company

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

|  | Share<br>capital      | Capital<br>reserve       | Statutory<br>reserve      | Retained<br>earnings | Total<br>equity |
|--|-----------------------|--------------------------|---------------------------|----------------------|-----------------|
| Note   | RMB'000<br>Note 23(c) | RMB'000<br>Note 23(d)(i) | RMB'000<br>Note 23(d)(ii) | RMB'000              | RMB'000         |
| <b>At 1 January 2014</b>                               | 170,800               | 8,096                    | 97,722                    | 238,212              | 514,830         |
| Total comprehensive income<br>for the year             | -                     | -                        | -                         | 152,296              | 152,296         |
| Dividends approved                                     | -                     | -                        | -                         | (390,000)            | (390,000)       |
| <b>At 31 December 2014 and<br/>1 January 2015</b>      | 170,800               | 8,096                    | 97,722                    | 508                  | 277,126         |
| Total comprehensive income<br>for the year             | -                     | -                        | -                         | 265,664              | 265,664         |
| Conversion to joint stock limited<br>liability company | 129,200               | (635)                    | (97,722)                  | (30,843)             | -               |
| Capital injection                                      | 60,527                | 456,567                  | -                         | -                    | 517,094         |
| Shares issued upon initial<br>public offering          | 90,132                | 992,618                  | -                         | -                    | 1,082,750       |
| Appropriation to statutory reserve                     | -                     | -                        | 26,567                    | (26,567)             | -               |
| <b>At 31 December 2015</b>                             | 450,659               | 1,456,646                | 26,567                    | 208,762              | 2,142,634       |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 23 CAPITAL, RESERVE AND DIVIDENDS (continued)

#### (b) Dividends

- (i) Dividends payable to equity shareholders of the Company attributable to the year

|   | Year ended 31 December |         |
|---|------------------------|---------|
|   | 2015                   | 2014    |
|   | RMB'000                | RMB'000 |
| Final dividend proposed after the end of the reporting period of RMB0.15 per ordinary share | 67,599                 | –       |

Pursuant to the resolution passed at the directors' meeting on 27 March 2016, a cash dividend of RMB0.15 per share for the year ended 31 December 2015 were proposed for shareholders' approval at the annual general meeting.

The final dividend proposed after the end of the year has not been recognised as liabilities as at 31 December 2015.

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the year as follow:

|                    | As at 31 December |         |
|--------------------|-------------------|---------|
|                    | 2015              | 2014    |
|                    | RMB'000           | RMB'000 |
| Dividends approved | –                 | 390,000 |

Pursuant to a deed of debt assignment entered into between HEC Pharm, North & South Brothers Investment H.K. Co., Ltd. (former shareholder, "North & South Brothers Investment") and the Company on 31 December 2014, North & South Brothers Investment assigned its rights in respect of dividends receivable from the Company of RMB97,500,000 to the HEC Pharm in consideration of a same amount. As at 31 December 2014, dividends payable to HEC Pharm of RMB390,000,000 of the Company, which included the payables amount assigned by North & South Brothers Investment, were offset with the amounts due from HEC Pharm.



## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 23 CAPITAL, RESERVE AND DIVIDENDS (continued)

#### (c) Share capital

Ordinary shares, issued and fully paid

|   | 2015                |  |  |
|---|---------------------|--|--|
|   | Number<br>of shares | Nominal<br>value of<br>issued<br>shares<br>RMB'000 | Nominal<br>value of<br>fully paid<br>shares<br>RMB'000 |
| At 1 January (i)                                | —                   | —  | —  |
| Shares issued upon<br>Reorganisation (ii)       | 300,000,000         | 300,000  | 300,000  |
| Shares issued upon certain new investors (iii)  | 60,527,450          | 60,527   | 60,527   |
| Shares issued upon initial public offering (iv) | 90,132,000          | 90,132   | 90,132   |
| As at 31 December                               | 450,659,450         | 450,659  | 450,659  |

- (i) The Company was a limited liability company and the reorganisation was not completed as at 31 December 2014, hence the share capital of RMB170,800,000 as at 31 December 2014 represented the paid in capital of the Company.
- (ii) On 11 May 2015, the Company converted into a joint stock company and 300,000,000 shares of RMB1 each were issued. The retained profits and statutory reserve of the Company upon the conversion were transferred to share capital and capital reserve of the Company accordingly under rules and regulations in respect of conversion to a joint stock company in the PRC.
- (iii) On 5 June 2015, the Company entered into a capital injection agreement with certain new investors (the "Investors"). Pursuant to the capital injection agreement, the Company issued and allotted 60,527,450 shares to the Investors, at a price of RMB8.54 per share. Proceeds of RMB60,527,450, representing the nominal value of the shares, were credited to the Company's share capital and the excess of the proceeds over the nominal value of the total number of shares issued were credited to the capital reserve account of the Company.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 23 CAPITAL, RESERVE AND DIVIDENDS (continued)

#### (c) Share capital (continued)

##### Ordinary shares, issued and fully paid (continued)

(iv) On 29 December 2015, the shares of the Company was listed on the Stock Exchange of Hong Kong Limited following the completion of its initial public offering of 90,132,000 ordinary shares of RMB1.00 each issued at a price of HK\$15.00 per share. Proceeds of RMB90,132,000 representing the par value of these ordinary shares, were credited to the Company's share capital and the excess of the proceeds over the nominal value of the total number of ordinary shares issued after offsetting share issuance costs of RMB992,618,000 were credited to the share premium account of the Company.

#### (d) Reserves

##### (i) Capital reserve

Capital reserve of the Group and the Company mainly represented premium arising from capital injection from equity owners.

##### (ii) Statutory reserve

According to the Company's Articles of Association, the Company is required to transfer at least 10% of its net profit as determined in accordance with the Company Law of the PRC to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owner. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

#### (e) Distributability of reserves

At 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Company Law of the PRC, was RMB208,762,000.

#### (f) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of bank loans and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 23 CAPITAL, RESERVE AND DIVIDENDS (continued)

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing bank loans), less cash and cash equivalents. Adjusted capital comprises all components of equity.

During 2015, the Group's strategy was to maintain the capital in order to cover any debt position, which was unchanged from 2014.

The adjusted debt-to-equity ratios at 31 December 2015 and 2014 are as follows:

|  | <b>As at 31 December</b> |          |
|--|--------------------------|----------|
|  | <b>2015</b>              | 2014     |
|  | <b>RMB'000</b>           | RMB'000  |
| Bank loans-current                       | <b>105,000</b>           | 270,000  |
| Bank loans-non-current                   | <b>90,000</b>            | 145,000  |
| Total debt                               | <b>195,000</b>           | 415,000  |
| Less: Cash and cash equivalents          | <b>(1,353,651)</b>       | (86,554) |
| <b>Adjusted net debt</b>                 | <b>(1,158,651)</b>       | 328,446  |
| Total equity                             | <b>2,142,849</b>         | 277,255  |
| <b>Adjusted net debt-to-equity ratio</b> | <b>N/A</b>               | 1.18     |

Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit limit is established for each distributor which represents the maximum open amount or credit term without requiring approval from the Board of Directors. The Group chases the customers to settle the due balances and monitors the settlement progress on an ongoing basis. The Group usually granted credit term to distributors which was generally due within 30 – 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

The Group has a concentration of credit risk of the total trade receivables due from the Group's largest debtor and the five largest debtors as follows:

|                              | <b>As at 31 December</b> |      |
|------------------------------|--------------------------|------|
|                              | <b>2015</b>              | 2014 |
| Due from                     |                          |      |
| – largest trade debtor       | <b>8%</b>                | 15%  |
| – five largest trade debtors | <b>23%</b>               | 29%  |

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 14.

The maximum exposure of credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. The Group does not provide any other guarantees which would expose the Group to credit risk.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (b) Liquidity risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Company and its individual subsidiaries are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the bank loans exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each report periods of the Group's financial liabilities (excluding advances from customers and provision for sales return), which are based on contractual undiscounted cash flows (including interest payments computed at contracted rates) and the earliest date the Group can be required to repay:

|                          | 31 December 2015                               |  |                  | Carrying amount<br>RMB'000 |
|--------------------------|--|--|------------------|----------------------------|
|                          | Contractual undiscounted cash outflow          |  |                  |                            |
|                          | Within<br>1 year<br>or on<br>demand<br>RMB'000 | More than<br>1 year<br>but less<br>than 5 years<br>RMB'000 | Total<br>RMB'000 |                            |
| Bank loans               | 112,781  | 96,676   | 209,457          | 195,000                    |
| Trade and other payables | 155,961  | –  | 155,961          | 155,961                    |
| <b>Total</b>             | <b>268,742</b>                                 | <b>96,676</b>  | <b>365,418</b>   | <b>350,961</b>             |

|                          | 31 December 2014                               |  |                  | Carrying amount<br>RMB'000 |
|--------------------------|--|--|------------------|----------------------------|
|                          | Contractual undiscounted cash outflow          |  |                  |                            |
|                          | Within<br>1 year<br>or on<br>demand<br>RMB'000 | More than<br>1 year<br>but less<br>than 5 years<br>RMB'000 | Total<br>RMB'000 |                            |
| Bank loans               | 292,268  | 162,096  | 454,364          | 415,000                    |
| Trade and other payables | 162,682  | –  | 162,682          | 162,682                    |
| <b>Total</b>             | <b>454,950</b>                                 | <b>162,096</b>   | <b>617,046</b>   | <b>577,682</b>             |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

#### (c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Bank loans that are at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profiles as monitored by management is set out in (i) below.

#### (i) Interest rate profile

The following table details the interest rate profile of the Group's bank loans at the end of the reporting period:

|                                   | As at 31 December          |                   |                            |                   |
|-----------------------------------|----------------------------|-------------------|----------------------------|-------------------|
|                                   | 2015                       | 2014              |                            |                   |
|                                   | Effective<br>interest rate | Amount<br>RMB'000 | Effective<br>interest rate | Amount<br>RMB'000 |
| <b>Fixed rate instruments:</b>    |                            |                   |                            |                   |
| Bank loans                        | 6.55%                      | 90,000            | 6.39%                      | 250,000           |
| <b>Floating rate instruments:</b> |                            |                   |                            |                   |
| Bank loans                        | 4.90%                      | 105,000           | 6.15%                      | 165,000           |
| Total instruments                 |                            | 195,000           |                            | 415,000           |

#### (ii) Sensitivity analysis

At 31 December 2015 and 2014, it is estimated that a general increase/decrease of 25 basis points in bank loans interest rates, with all other variables held constant, would have decrease/increase the Group's profit after tax and retained profits by approximately RMB223,000 and RMB351,000 respectively. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the impact on the Group's profit for the year and retained profits that would arise assuming that there is an annualised impact on interest expense by a change in interest rates. The analysis has been performed on the same basis as 2014.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 25 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2015 and 2014 not provided for in the financial statements were as follows:

|  | <b>As at 31 December</b> |         |
|--|--------------------------|---------|
|  | <b>2015</b>              | 2014    |
|  | <b>RMB'000</b>           | RMB'000 |
| Contracted for                               |                          |         |
| – Acquisition of fixed assets                | <b>13,266</b>            | 16,403  |
| – Acquisition of intangible assets (Note 12) | <b>410,000</b>           | –       |

### 26 MATERIAL RELATED PARTY TRANSACTIONS

During 2015 and 2014, the directors are of the view that related parties of the Group include the following:

| <b>Name of related party</b>   | <b>Relationship with the Group</b>                        |
|--|---|
| Shenzhen HEC Industrial  | the intermediate controlling shareholder                  |
| HEC Pharm  | the immediate controlling shareholder                     |
| Sunshine Lake Pharma   | effectively owned by the ultimate controlling shareholder |
| Dongguan Chang'an HEC Medicine Development and Research Co., Ltd. ( 東莞市長安東陽光藥物研發有限公司 ) (“Dongguan HEC Research”) | effectively owned by the ultimate controlling shareholder |
| Shaoguan HEC Packaging and Printing Co., Ltd. ( 韶關東陽光包裝印刷有限公司 ) (“Shaoguan HEC Printing”)                        | effectively owned by the ultimate controlling shareholder |
| Yichang HEC Power Plant Co., Ltd. ( 宜昌東陽光火力發電有限公司 ) (“HEC Power Plant”)  | effectively owned by the ultimate controlling shareholder |
| Yidu Hongshuo Trading Co., Ltd. ( 宜都市宏碩貿易有限公司 ) (“Yidu Hongshuo”)  | effectively owned by the ultimate controlling shareholder |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

| Name of related party   | Relationship with the Group                                  |
|---|--|
| Yidu Changjiang Mechanism Equipment Co., Ltd.<br>(宜都長江機械設備有限公司) (“Changjiang Mechanism”)          | effectively owned by the<br>ultimate controlling shareholder |
| Yichang Shancheng Cordyceps Sinensis Co., Ltd.<br>(宜昌山城水都冬蟲夏草有限公司) (“Yichang Shancheng”)          | effectively owned by the<br>ultimate controlling shareholder |
| Ruyuan Yaozu HEC Formed Foil Co., Ltd.<br>(乳源瑤族自治縣東陽光化成箔有限公司) (“HEC Formed Foil”)                 | effectively owned by the<br>ultimate controlling shareholder |
| HEC Medicine Retail Chain (Dongguan) Co., Ltd.<br>(東陽光藥零售連鎖(東莞)有限公司)<br>(“HEC Medicine Retail”)   | effectively owned by the<br>ultimate controlling shareholder |
| Ruyuan HEC Medical Instruments Co., Ltd.<br>(乳源東陽光醫療器械有限公司)<br>(“HEC Medical Instruments”)        | effectively owned by the<br>ultimate controlling shareholder |
| Nanling Forest Resort & Thermal Hotel<br>(乳源避暑林莊溫泉大飯店有限公司)<br>(“Nanling Forest Resort”)           | effectively owned by the<br>ultimate controlling shareholder |
| Yidu Shangchengshuidu Project Construction Co., Ltd.<br>(宜都山城水都建築工程有限公司)<br>(“Yidu Construction”) | effectively owned by the<br>ultimate controlling shareholder |

\* *The English translation of the above companies' names is for reference only. The official names of these companies are in Chinese.*



## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

#### (a) Transactions with related parties

During 2015 and 2014, the Group entered into the following material related party transactions:

##### Recurring transactions

|                         | For the year ended 31 December |                 |
|-------------------------|--------------------------------|-----------------|
|                         | 2015<br>RMB'000                | 2014<br>RMB'000 |
| Purchase of goods from: |                                |                 |
| HEC Pharm               | 17,254                         | 21,573          |
| Shaoguan HEC Printing   | 10,578                         | 8,020           |
| HEC Power Plant         | 4,283                          | 3,528           |
| HEC Formed Foil         | —                              | 660             |
|                         | <b>32,115</b>                  | <b>33,781</b>   |

##### Non-recurring transactions

|   | For the year ended 31 December |                 |
|---|--------------------------------|-----------------|
|   | 2015<br>RMB'000                | 2014<br>RMB'000 |
| (i) Sales of goods to<br>Sunshine Lake Pharma | 1,002                          | 2,842           |
| (ii) Sales of fixed assets to:                |                                |                 |
| HEC Medical Instruments                       | —                              | 1,747           |
| Dongguan HEC Research                         | 5,189                          | —               |
|   | <b>5,189</b>                   | <b>1,747</b>    |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

#### (a) Transactions with related parties (continued)

##### Non-recurring transactions (continued)

|   | For the year ended 31 December |                 |
|---|--------------------------------|-----------------|
|   | 2015<br>RMB'000                | 2014<br>RMB'000 |
| (iii) Purchase of fixed assets from:<br>Changjiang Mechanism                  | –                              | 1,245           |
| (iv) Interest income/(expenses):  |                                |                 |
| HEC Pharm   | 737                            | 11,925          |
| Sunshine Lake Pharma  | –                              | 68              |
| Dongguan HEC Research   | (10)                           | (356)           |
| Yidu Hongshuo   | (466)                          | (1,000)         |
| Shenzhen HEC Industrial   | (23)                           | (851)           |
|   | <b>238</b>                     | <b>9,786</b>    |
| (v) Processing service received from<br>Sunshine Lake Pharma                  | 1,982                          | 780             |
| (vi) Research and development services received from:                         |                                |                 |
| Sunshine Lake Pharma  | 298                            | 5,114           |
| Dongguan HEC Research   | 128                            | 1,342           |
|   | <b>426</b>                     | <b>6,456</b>    |
| (vii) Research and development services provided to:<br>Dongguan HEC Research | 1,129                          | 28,707          |
| (viii) Other services received from:  |                                |                 |
| Nanling Forest Resort   | 123                            | 1,192           |
| Yidu Construction   | 8,317                          | –               |
|   | <b>8,440</b>                   | <b>1,192</b>    |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

#### (b) Balances with related parties

##### (i) Amounts due from related parties

|                                       | As at 31 December |                 |
|---------------------------------------|-------------------|-----------------|
|                                       | 2015<br>RMB'000   | 2014<br>RMB'000 |
| Prepayment and trade receivable from: |                   |                 |
| Sunshine Lake Pharma                  | 290,000           | —               |
| Shaoguan HEC Printing                 | —                 | 6,000           |
|                                       | <b>290,000</b>    | 6,000           |
| Other receivable from:                |                   |                 |
| HEC Pharm                             | —                 | 868             |
| Dongguan HEC Research                 | —                 | 15,086          |
| YiChang Shancheng                     | —                 | 1,124           |
| HEC Medicine Retail                   | —                 | 3,611           |
|                                       | —                 | 20,689          |

##### (ii) Amounts due to related parties

|                         | As at 31 December |                 |
|-------------------------|-------------------|-----------------|
|                         | 2015<br>RMB'000   | 2014<br>RMB'000 |
| Trade payables to:      |                   |                 |
| HEC Power Plant         | —                 | 663             |
|                         | —                 | 663             |
| Other payables to:      |                   |                 |
| HEC Pharm               | —                 | 49,928          |
| Shenzhen HEC Industrial | —                 | 852             |
| Total                   | —                 | 50,780          |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

#### (c) Key management personnel compensation

Key management personnel compensation comprised:

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2015<br>RMB'000        | 2014<br>RMB'000 |
| Salaries and other benefits              | 1,576                  | 949             |
| Contribution to defined retirement plans | 95                     | 63              |
|  | 1,671                  | 1,012           |

#### (d) Applicability of the Listing Rules relating to connected transactions

The recurring transactions with related parties in respect of Note 26(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in paragraph headed "Continuing Connected Transactions" of the Directors' Report.

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2015<br>RMB'000   | 2014<br>RMB'000 |
| <b>Non-current assets</b>   |                   |                 |
| Fixed assets  |                   |                 |
| – Property, plant and equipment                                       | 378,728           | 378,003         |
| – Interests in leasehold land held for own use under operating leases | 83,699            | 85,631          |
|   | 462,427           | 463,634         |
| Investments in subsidiaries   | 2,032             | 2,032           |
| Prepayments   | 294,599           | 1,804           |
| Deferred tax assets   | 10,372            | 5,839           |
| <b>Total non-current assets</b>                                       | <b>769,430</b>    | 473,309         |
| <b>Current assets</b>   |                   |                 |
| Inventories   | 154,628           | 200,142         |
| Trade and other receivables   | 270,055           | 169,043         |
| Time deposits   | 33,000            | –               |
| Pledged deposits  | 2,153             | 25,000          |
| Cash and cash equivalents   | 1,347,666         | 81,597          |
| <b>Total current assets</b>   | <b>1,807,502</b>  | 475,782         |
| <b>Current liabilities</b>  |                   |                 |
| Trade and other payables  | 155,704           | 162,367         |
| Bank loans  | 105,000           | 270,000         |
| Deferred income   | 4,379             | 4,379           |
| Current tax payable   | 5,815             | 8,933           |
| <b>Total current liabilities</b>                                      | <b>270,898</b>    | 445,679         |
| <b>Net current assets</b>   | <b>1,536,604</b>  | 30,103          |
| <b>Total assets less current liabilities</b>                          | <b>2,306,034</b>  | 503,412         |

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (continued)

|                                      | Note  | As at 31 December |                 |
|--------------------------------------|-------|-------------------|-----------------|
|                                      |       | 2015<br>RMB'000   | 2014<br>RMB'000 |
| <b>Non-current liabilities</b>       |       |                   |                 |
| Bank loans                           |       | 90,000            | 145,000         |
| Deferred income                      |       | 73,400            | 81,286          |
| <b>Total non-current liabilities</b> |       | <b>163,400</b>    | 226,286         |
| <b>Net assets</b>                    |       | <b>2,142,634</b>  | 277,126         |
| <b>Capital and reserves</b>          |       |                   |                 |
| Share capital                        | 23(c) | 450,659           | 170,800         |
| Reserves                             | 23(d) | 1,691,975         | 106,326         |
| <b>Total equity</b>                  |       | <b>2,142,634</b>  | 277,126         |

### 28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) On 17 January 2016, the Company announced that the over-allotment option as defined in the prospectus of the Company dated 15 December 2015 had been partially exercised and 163,400 additional ordinary shares were issued by the Company at HK\$15.00 per share on 20 January 2016. The gross proceeds received by the Company on 20 January 2016 in connection with the over-allotment issue were HK\$2,365,000 (approximately RMB1,983,000), which were credited to the capital and share premium accounts. After the completion of the over-allotment, a total number of 90,295,400 shares of the Company were issued and fully paid.
- (b) After the end of the reporting period, the board of directors of the Company approved a distribution of dividends. Further details are disclosed in Note 23(b).

## Notes to Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 29 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate controlling party as at 31 December 2015 and 2014 to be HEC Pharm, while the ultimate controlling party of the Company as at 31 December 2015 and 2014 to be Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. (乳源瑤族自治縣寓能電子實業有限公司), which are incorporated in the PRC.

### 30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

|  | Effective for<br>accounting periods<br>beginning on or after |
|--|--|
| <i>Annual Improvements to IFRSs 2012-2014 Cycle</i>  | 1 January 2016   |
| <i>Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture</i> | 1 January 2016   |
| <i>Amendments to IAS 1, Disclosure initiative</i>  | 1 January 2016   |
| <i>Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation</i>                   | 1 January 2016   |
| <i>IFRS 15, Revenue from contracts with customers</i>  | 1 January 2018   |
| <i>IFRS 9, Financial instruments</i>   | 1 January 2018   |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

## Definitions

|   |   |
|---|---|
| “Annual Report”                                     | the annual report of the year 2015 of the Company   |
| “Articles of Association”                           | Articles of association of the Company  |
| “Board of Directors” or “Board”                     | board of directors of the Company   |
| “Board of Supervisors”                              | board of supervisors of the Company   |
| “China” or “PRC”                                    | the People’s Republic of China, but for the purposes of this annual report and for geographical reference only (unless otherwise indicated), excluding Taiwan, Macau and Hong Kong  |
| “Company Law”                                       | the Company Law of the PRC ( 中華人民共和國公司法 ), as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time   |
| “Company,” “our Company,” “we”, “us” or “HEC Pharm” | 宜昌東陽光長江藥業股份有限公司 (YiChang HEC ChangJiang Pharmaceutical Co., Ltd.)   |
| “Controlling Shareholder”                           | has the meaning given to it under the Listing Rules and, unless the context requires otherwise, refers to Parent Company, Linzhi HEC Pharmaceutical, Dongguan HEC Industrial, Shenzhen HEC Industrial, Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. ( 乳源瑤族自治縣新京科技發展有限公司 ), Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. ( 乳源瑤族自治縣新京科技發展有限公司 ), Mr. ZHANG Zhongneng ( 張中能 ) and Ms. GUO Meilan ( 郭梅蘭 ) |
| “CSRC”  | 中國證券監督管理委員會 (China Securities Regulatory Commission)  |
| “Director(s)”                                       | director(s) of the Company  |
| “Domestic Shares”                                   | ordinary shares issued by the Company in the PRC, with a nominal value of RMB1.00 each, which are subscribed for and paid for in RMB  |
| “Dongguan HEC Industrial”                           | Dongguan HEC Industrial Development Co., Ltd. ( 東莞市東陽光實業發展有限公司 ), a company incorporated in the PRC on 17 December 2004   |



## Definitions

|  |  |
|--|--|
| “Group”  | the Company and its subsidiaries   |
| “Guangdong HEC Technology”                             | Guangdong HEC Technology Holding Co. Ltd. (廣東東陽光科技控股股份有限公司), a company incorporated in the PRC on 24 October 1996, whose shares are listed on the Shanghai Stock Exchange (stock code: 600673)   |
| “HEC Group”  | Shenzhen HEC Industrial and its subsidiaries   |
| “HEC Research Group”                                   | YiChang Research Co., Ltd. (宜昌東陽光藥研發有限公司). Linzhi HEC pharmaceutical Investment and their respective subsidiaries  |
| “HKSCC”  | Hong Kong Securities Clearing Company Limited  |
| “HK\$” or “Hong Kong dollars” or “HK dollars” or “HKD” | Hong Kong dollars, the lawful currency for the time being of Hong Kong   |
| “Hong Kong” or “HK”                                    | the Hong Kong Special Administrative Region of the PRC   |
| “H Shares”   | overseas listed foreign invested ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange   |
| “IFRSs”  | the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC) |
| “Latest Practicable Date”                              | 15 April 2016, being the latest practicable date of this annual report for ascertaining certain information contained herein   |
| “Linzhi HEC Pharmaceutical Investment”                 | Linzhi HEC Pharmaceutical Investment Co., Ltd. (林芝東陽光藥業投資有限公司), a company incorporated in the PRC on 15 September 2009   |
| “Listing Date”   | the Company’s H Shares are listed on the Main Board of the Stock Exchange on 29 December 2015  |
| “Listing Rules”  | the Rules Governing the Listing Securities on the Stock Exchange   |

## Definitions

|  |   |
|--|---|
| “North & South Brother Pharma”                 | North & South Brother Pharmacy Investment Company Limited ( 南北兄弟藥業投資有限公司 ), a company incorporated in Hong Kong on 31 October 2006  |
| “Parent Company”                               | HEC Pharm Co., Ltd. ( 宜昌東陽光藥業股份有限公司 ), a company incorporated in the PRC on 12 January 2004   |
| “PBOC”   | 中國人民銀行 (People’s Bank of China)   |
| “Pre-IPO Investment”                           | the subscription of Shares of the Company by certain investors prior to the initial public offering of the Company as described in “History, Reorganisation and Corporate Structure – Pre-IPO Investment” of the prospectus of the Company dated 15 December 2015 |
| “Renminbi” or “RMB”                            | the lawful currency of the PRC  |
| “Securities and Futures Ordinance” or “SFO”    | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time  |
| “SFC”  | the Securities and Futures Commission of Hong Kong  |
| “Shareholder(s)”                               | holder(s) of our Shares, including holders of H Shares and holders of Domestic Shares of the Company  |
| “Shares”                                       | shares in the share capital of the Company, with a nominal value of RMB1.00 each  |
| “Shenzhen HEC Industrial”                      | Shenzhen HEC Industrial Development Co., Ltd. ( 深圳市東陽光實業發展有限公司 ), a company incorporated in the PRC on 27 January 1997  |
| “Sunshine Lake Pharma”                         | Sunshine Lake Pharma Co., Ltd. ( 廣東東陽光藥業有限公司 ), a company incorporated in the PRC on 29 December 2003 which ceased to be a subsidiary of our Parent Company on 23 March 2016  |
| “Hong Kong Stock Exchange” or “Stock Exchange” | The Stock Exchange of Hong Kong Limited   |
| “Supervisor(s)”                                | the supervisor(s) of the Company  |
| “USD”  | United States dollars, the lawful currency of the United States   |
| “Yichang HEC Pharmaceutical”                   | Yichang HEC Pharmaceutical Co., Ltd. ( 宜昌東陽光醫藥有限公司 ), a company incorporated in the PRC on 8 July 2005  |

# Corporate Information

|                                      |   |
|--------------------------------------|---|
| Registered Name                      | YiChang HEC ChangJiang Pharmaceutical Co., Ltd.                             |
| Directors                            |   |
| Executive Director                   | Mr. JIANG Juncai<br>Mr. WANG Danjin<br>Mr. CHEN Yangui                      |
| Non-executive Directors              | Mr. TANG Xinfu ( <i>Chairman</i> )<br>Mr. ZHU Yingwei<br>Mr. MO Kit         |
| Independent Non-executive Directors  | Mr. TANG Jianxin<br>Mr. FU Hailiang<br>Mr. LEE Chi Ming                     |
| Remuneration and Appraisal Committee | Mr. FU Hailiang ( <i>Chairman</i> )<br>Mr. JIANG Juncai<br>Mr. TANG Jianxin |
| Audit Committee                      | Mr. TANG Jianxin ( <i>Chairman</i> )<br>Mr. LEE Chi Ming<br>Mr. TANG Xinfu  |
| Nomination Committee                 | Mr. LEE Chi Ming ( <i>Chairman</i> )<br>Mr. ZHU Yingwei<br>Mr. FU Hailiang  |
| Supervisors                          | Ms. HUANG Fangfang ( <i>Chairman</i> )<br>Ms. XUE Lian<br>Mr. LIN Jian      |
| Company Secretaries                  | Mr. PAN Sanxiong<br>Ms. NG Wing Shan (FCS, FCIS)                            |

**Corporate  
Information**

|   |   |
|---|---|
| Authorized Representatives                  | Mr. TANG Xinfu<br>West Fourth Floor, Building 106<br>Huafa North Road, Futian District, Shenzhen<br>Guangdong Province, the PRC |
|   | Ms. NG Wing Shan<br>18/F, Tesbury Centre<br>28 Queen's Road East<br>Wanchai, Hong Kong  |
| Registered Office                           | No. 38 Binjiang Road<br>Yidu, Yichang<br>Hubei Province<br>the PRC  |
| Principal Place of Business<br>in the PRC   | No. 38 Binjiang Road<br>Yidu, Yichang<br>Hubei Province<br>the PRC  |
| Principal Place of Business<br>in Hong Kong | 18/F, Tesbury Centre<br>28 Queen's Road East<br>Wanchai,<br>Hong Kong   |
| Principal Banker                            | China Construction Bank Co., Ltd.<br>Qingjiang Branch<br>56 Changjiang Avenue<br>Yidu, Hubei Province, PRC                      |
| Auditors                                    | KPMG<br>Certified Public Accountants<br>8/F, Prince's Building, 10 Chater Road<br>Central, Hong Kong                            |

## Corporate Information

|                          |  |
|--------------------------|--|
| Hong Kong Legal Advisors | Freshfields Bruckhaus Deringer<br>11/F, Two Exchange Square<br>Central, Hong Kong  |
| PRC Legal Advisors       | Jia Yuan Law Offices<br>F408 Ocean Plaza<br>158 Fuxingmennei Avenue<br>Xicheng District<br>Beijing<br>PRC  |
| H Share Registrar        | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716, 17th Floor<br>Hopewell Centre, 183 Queen's Road East<br>Wanchai, Hong Kong |
| Stock Code               | 1558   |
| Company's Website        | <a href="http://www.hec-changjiang.com">www.hec-changjiang.com</a>   |
| Listing Place            | The Stock Exchange of Hong Kong Limited  |