KINGWORLD MEDICINES GROUP LIMITED
金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code：01110

ANNUAL REPORT 2015

Healthy Life with
KINGWORLD

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Li Sheng *(Chairman)*
Ms. Chan Lok San
Mr. Zhou Xuhua
Mr. Lin Yusheng *(resigned on 6 July 2015)*

Non-executive Director

Mr. Zhang Yi

Independent Non-executive Directors

Mr. Duan Jidong
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

COMPANY SECRETARY

Mr. Chan Hon Wan

LEGAL ADVISORS TO THE COMPANY

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AUDITOR

Crowe Horwath (HK) CPA Limited
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Leighton Centre
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Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Zhao Li Sheng *(appointed on 6 July 2015)*
Mr. Lin Yusheng *(resigned on 6 July 2015)*
Mr. Chan Hon Wan

REGISTERED OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
PO Box 1350
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Cayman Islands

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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AUDIT COMMITTEE

Mr. Wong Cheuk Lam *(Chairman)*
Mr. Duan Jidong
Mr. Zhang Jianbin

REMUNERATION COMMITTEE

Mr. Zhang Jianbin *(Chairman)*
Mr. Duan Jidong
Mr. Wong Cheuk Lam

NOMINATION COMMITTEE

Mr. Duan Jidong *(Chairman)*
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

STOCK CODE

01110

WEBSITE ADDRESS

www.kingworld.com.cn

Financial Highlights

	For the year ended 31 December		Changes in %
	2015	2014	Increase/
	RMB 000	RMB 000	(Decrease)
Financial Highlights			
Turnover	713,548	660,323	8.1%
Cost of sales	(486,771)	(504,013)	(3.4)%
Gross profit	226,777	156,310	45.1%
Profit before taxation	51,322	48,667	5.5%
Profit for the year	39,387	37,865	4.0%
Basic earnings per share (RMB cents)	4.74	6.07	(21.9)%
Proposed final dividends per share (HK cents)	1.53	1.92	(20.3)%
Liquidity and Asset-liability Ratio			
Current ratio (1)	1.7	1.8	(5.6)%
Quick ratio (2)	1.4	1.7	(17.6)%
Asset-liability ratio (3)	15.5%	22.4%	(30.8)%

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Asset-liability ratio is calculated as total bank borrowings divided by total assets and multiplied by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kingworld Medicines Group Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2015 (the "Year Under Review") to the shareholders (the "Shareholders") for your review.

YEAR UNDER REVIEW

In 2015, the pharmaceutical industry, medical industry and the healthcare industry in China have all undergone reform. With the official statement of the State Council underpinning the development of the "Internet + pharmaceuticals", the industry is endowed with huge growth potential. Efforts have been made to speed up the introduction of new Internet-based services, including medical treatment, healthcare, senior care and social security. The pharmaceutical industry has been encouraged to use e-commerce platforms to optimize procurement and distribution systems, so as to improve operation efficiency. The government has introduced more and stricter regulations on the quality and advertisement of medicines, the quality of China's medicines will be significantly improved while premium domestic and foreign healthcare products will still be the first choice of consumers.

2015 witnessed the booming of cross-broader e-commerce. The cross-border e-shopping was further boosted as the high-to-medium income class with personalized and differentiated consumption patterns has been growing in China. The Ministry of Commerce has regarded the promotion of cross-broader e-commerce as one of its major tasks in 2016.

Chairman's Statement

The two-child policy was officially adopted in China on 1 January 2016. With an estimation of additional 6 million newborn babies each year in China, industries related to maternity and babies will be the major beneficiaries of the national policy. In face of opportunities and challenges, the Group will capitalize the opportunities and actively overcome the challenges.

1 *Vigorously developing cross-broader e-commerce in response to the era of Internet +*

In 2015, the Group actively embraced the Internet by fully utilizing advanced online tools to expand its sales channels in response to the era of Internet +. In particular, according to the product features of the Group and the consumption pattern of target consumers, as well as the booming development of cross-broader e-commerce, the Group actively expanded cross-broader e-commerce business by opening official flagship stores on renowned cross-border e-commerce platforms or conducting business cooperation with them. During the year, we had opened stores on various integrated e-commerce platforms, including Tmall, JD.com, Suning.com, Vip.com and Yihaodian, we also conducted business on several specialized cross-border e-commerce platforms, including Baby-kingdom.com, Beibei.com, Muyingzhijia, Jumei.com, Shenba.com, and on new mobile e-commerce platforms, such as Weishanghui (微商會). The coverage of our products on the Internet was significantly expanded, resulting in remarkable monthly increase in online sales.

In addition, approval for the project of "Pharmaceutical and Wellbeing e-commerce platform of SZ Kingworld Medicine Company Limited" in Qianhai has been successfully granted. Under the privileged tax policy and other supporting policies, the project will be developed into a comprehensive B2B2C platform and a stronger driver for the development of new businesses of the Group. Although the Group has engaged in the cross-border e-commerce business just for one year, it has become one of the fastest growing business of the Group with value exceeding RMB100 million.

During the Year Under Review, the Group cooperated with leading companies in the intelligent mobile medical measuring healthcare industry. Advantages in the resources of both parties will be integrated through strategic cooperation. A data platform for the pharmaceutical industry will be built to provide one-stop treatment solutions for end consumers. This medical and healthcare ecology on the Internet jointly with "Internet + Healthcare + Venture Partners", providing the public with safe, healthy and quality products and services.

2. *Enriching product portfolios by accelerating product development*

The Group continued to explore new markets by keeping abreast of the market trend. New products were introduced to satisfy the market needs. During the Year Under Review, we accelerated the introduction of new products according to market trend and based on consumer needs. We have confidence in the prospect of maternity and childcare market in accordance with our market research and industry experience. As Chinese families place importance on children's health and the implementation of the "two-child policy" in the country will boost the birth rate in China, the market for childcare products will grow steadily and rapidly, in particular the middle class have more confidence in foreign premium products in terms of quality and effectiveness. On the other hand, as Post-80s and Post 90s, who are the only child in their families, enter the labour market, they will become a major sector of consumers. Their consumption pattern, behaviour and concern on the health of their families will create much market potential for natural health products with plant ingredients. In view of this, the Group speeded up the development of childcare products. In particular, the Group consolidated and expanded its market share in the child health products by introducing Cuturelle probiotic series, a leading probiotic brand in USA. During the Year Under Review, Cuturelle received numerous awards, including the Most Favourite Probiotic Brand of Parents (父母最愛益生菌品牌) by Baby Kingdom in Hong Kong, the Most Potential Award (最具潛力獎) by iyaya.com and mmbang.com, Excellent Probiotic for Children (優秀兒童益生菌獎) by Hong Kong Metro Info, the Most Popular Imported Dietary Supplement with Market Potential (摯愛口碑進口膳食補充劑潛力品牌) in 2015 Mannings HBA Awards and the Most Trusted Brand of Probiotics for Kids by Mothers (千萬辣媽信賴得兒童益生菌品牌) in 2015.

As young people nowadays is fond of having a slim figure and healthy skin and it is an objective of the Group to introduce more lines of products, Fatblaster slimming coconut water, a leading body weight management brand in Australia, and Fuyunhon series were introduced to explore new markets of body weight management and skin care products. In the meantime, the Group capitalized on the policies of Qianhai for the cross-border e-commerce platform and the establishment of logistic centers for Hong Kong products, the introduction of health food was speeded up by leveraging on the favourable resources of its own suppliers network.

During the Year Under Review, the Group also obtained the distribution rights for Hoe Hin White Flower Embrocation in certain regions in China. The product targets at young white-collar workers with mind-refreshing functions, further enriching our product portfolios of medicated oil for external use and forming a supplementary combination of medicines and medicated oil together with Hong Kong Flying Eagle Wood Lok Medicated Oil and Imada Red Flower Oil.

3. *Further enhancing the operation of the booths of "Kingworld Health Family" to promote sales*

During the Year Under Review, by setting up booths of "Kingworld Health Family" near the cashiers with high flow of patronages which were the target consumer groups of local drug stores. The booths were used to display local products with sales potential. The promotion of sales was successful. As at 31 December 2015, there were 4,419 "Kingworld Health Family" product booths in the PRC.

4. *Accelerating SAP informatization to improve the development and application of mega data*

In respect of information management, the Group cooperated with the international leading providers of SAP of corporate management software and technology solutions and upgraded the overall level of informatization in order to be on par with the advanced level of international peers and lay a foundation for the future development and application of mega data. The Group also established its own data centre to strengthen its management and keep abreast of market trend and consumption patterns which are useful in marketing strategies.

The objectives of the construction of the Group's SAP ERP system are to enhance control capacity, enhance the professional level of sales management platform, make decisions efficiently and build a management platform with SAP ERP as core, namely an integrated platform for financial audit and business management, mainly for the purposes of data management and HR management.

Through organizing, analysing, refining and consolidating the business flow, the Group established the stages of implementation and administrative measures from project preparation to business blueprint, system implementation, and finally getting the system to be ready on-line, with system support and continuous evolution. All preparation works for the launch of SAP ERP management system was completed during the year. The transfer and launch of ERP was completed in January 2016 and the transfer and launch of PMS was completed in February 2016. The Group has officially entered the era of SAP.

5. *Expanding the strategic operation of capital for more industrial equity investment*

During the Year Under Review, the Group boosted its efforts in investment and financing and completed the acquisition of 55% equity interests in Shenzhen Dong Di Xin Technology Company Limited (深圳市東迪欣科技有限公司) ("Dong Di Xin"). The acquisition marked the entrance of the Group into the global medical and healthcare electronic product market in to expand the coverage of its health business segment, and realized the diversification of products and profit models. It also part of our plan to build up a complete industrial chain to cover research and development, manufacturing, channels and end terminal. During the Year Under Review, the Group completed the acquisition of equity interests in Dong Di Xin, deployed management staff to the joint venture for the first time and established an operation model of the board of directors of the joint venture.

During the Year Under Review, the Group conducted in-depth integration with respect to products, channels and terminals with Sinopharm Capital Management Company Limited ("Sinopharm Capital") according to the strategic cooperation agreement dated 19 January 2015 and invested US$5,000,000 in subscribing approximately 3.33% total interests in Sinopharm Healthcare Fund L.P. ("Sinopharm Fund"). The primary objective of Sinopharm Fund was investing in the healthcare manufacturers established or operated in the PRC, Taiwan and Hong Kong ("Greater China") or with a significant relationship with Greater China.

During the Year Under Review, the Group subscribed 2,302,000 shares in Chuangmei Pharmaceutical Co., Ltd. (創美藥業股份有限公司) ("Chuangmei Pharmaceutical") (stock code: 2289 HK), a main distributor of the Group, at an offer price of HK$8.6 per share for a consideration of approximately HK$20 million. Chuangmei Pharmaceutical is the third largest private pharmaceutical distributor in Southern China. The cooperation between the Group and Chuangmei Pharmaceutical is prolonged and stable. The Group aims to increase income and to further consolidate its cooperation with such company to achieve sharing of resources, synergies and mutual benefits through the subscription of new shares.

In order to speed up the business expansion of the Company, the Group also proactively pursued overseas investment opportunities suitable for the business structure of the Company, especially overseas manufacturers or distributors possessing intellectual property rights of quality products within our targets of investment. During the Year Under Review, the Group acquired 15% equity interest of Dong Hua Tong Investments Limited (東華通投資有限公司) ("Dong Hua Tong") and provided a shareholder's loan with total amount of HK$54,929,000 to indirectly participate in the Miquel Alimentació Project of Spain (西班牙米蓋爾項目) and Manassen Foods Australia Project (澳大利亞瑪納森項目). Miquel Alimentació was a leading corporate in Spain engaging in food distribution and wholesale, brand operation and management of supply chain. Manassen Foods Australia was a diversified food company which owned or distributed more than 70 brands of local and world-renowned food retailers and gourmet suppliers. Its business channels covered retail business, catering services, industry and export. Such investment would provide the Group with business opportunities in the sale and distribution of food and healthcare products in the PRC or elsewhere and in turn, further extend the product offerings of the Group, with a view to broaden the Group's revenue base and to enhance its profitability.

6. *Strengthening corporate construction and brand building to boost brand image of the Group*

The enhancement of the Group's brand awareness will assist the Group in entering into in-depth cooperation with more outstanding enterprises in the world. This will further help to boost the sales of the Group's distributed products, and the competitiveness of the Group.

During the Year Under Review, the Group further enhanced its corporate construction and brand building, and contributed to the society and participated in charitable activities to promote brand image. During the Year Under Review, the Kingworld Million Dollars Club held its first session of zen wisdom activity, which further consolidated the cooperation relationship between the Group and the distributors and other partners and enhanced their recognition for the Group. The Group also enhanced the training coverage by increasing the number of participants and hours of staff training to promote work efficiency. We organized the Kingworld internship training courses with Guangzhou Vocational and Technical College (廣東食品藥品職業學院) and had cooperation with Guangzhou Medical University (廣州醫科大學) in order to nurture and develop professional talents to lay foundation for future development. In addition, the Group also initiated an internal incentive scheme by granting options of the Company to certain eligible participants in order to link the interest of key personnel and the performance of the Company.

During the Year Under Review, the Group established the Kingworld Care and Health Foundation which sponsored EMBA Lingnan School of Zhongshan University to participate in the Tenth Xuan Zang Road Gobi Challenge of School of Business (第十屆玄奘之路商學院戈壁挑戰賽). The Group also acted as the authorised sponsor of medicated oil for external use and service provider of medical stations for various activities, such as 2015 Shenzhen International Marathon (深圳國際馬拉松賽) and 2015 Shantou Marathon (2015汕頭半程馬拉松) to enhance the brand awareness and reputation of the Group. During the Year Under Review, the Group was listed in the "Credit Shenzhen Accredited Enterprises List" (誠信深圳 • 誠信企業榜) by ShenZhen Credi Association (深圳市信用協會) and received honorary titles, such as "2014 Guangdong Trustworthy Enterprise" (2014年度廣東省守合同重信用企業) by Guangdong Province Administration for Industry & Commerce (廣東省工商行政管理局) and "Most Investment Value Award" (最具投資價值獎) by 2015 Leading Entrepreneurs Annual Meeting (2015領軍企業家年會).

FUTURE OUTLOOK

1. *Full implementation of centralised marketing strategy*

Under the strategy of centralised management, the Group will further improved its marketing strategy to speed up market penetration, to develop new markets and products through intensive growth.

According to the development and marketing strategies of the Group, different important measures will be adopted for different regions to ensure their effective implementation. The Group will strive to realize stable growth of its mature products and their market shares. Regional product development plans will be formulated jointly by the sales and marketing departments. Product pipelines will be developed to optimise product mix.

2. *To enhance corporate governance by information technology*

In the future, the Group will complete the testing, commissioning and launch of the SAP ERP and PMS systems and ensure their normal operation. With the launch of the SAP system, the Group will have a SAP ERP-based digital management center to keep abreast of the market trend, to formulate more effective, concentrated and professional marketing strategies, and to enhance the operation management.

In addition, the Group will also develop order management systems to connect e-commerce platforms to gain access to their business and financial data on a rapid and accurate manner. CRM management will also be established for efficient provision of value-added services to the members and facilitated the development of customized marketing services in the future.

3. *To develop cross-border e-commerce platform by developing new products, new markets and new channels*

The high-to-medium income class has been growing in China and their consumption demands tend to be more personalized and differentiated. As overseas shopping is still increasing, the development of cross-border e-commerce has become one of the top priorities of the Ministry of Commerce in 2016. Meanwhile, the adoption of two-child policy will boost the market of maternity and baby products. The Group will strive to grasp the opportunities to develop new products, new markets and new channels.

On the one hand, the Group will be committed to introducing new products to enrich its product lines. With maternity and baby products being its major products, the Group will gradually diversify its product mix which highlights the Culturelle probiotics series products. In addition to maintaining the sales of top-performing FATBLASTER coconut water from Australia in last year, the Group also intends to introduce the world's top-notch healthcare and body weight management brands to strengthen Kingworld's competitiveness in body weight management industry through the provision of various products and to build China's first natural healthcare and body weight management product mix. Furthermore, it will also explore the cosmetics market by the introduction of cosmetics with high market potential. The Group continued to negotiate with popular cosmetics brands in Japan and Europe, such as Naris Up, Carmex, and Kneipp, for the introduction of their products with an aim to drive the development of the entire business line, successfully diversified its products and provide stronger growth momentum for the Group's new business. The Group will also introduce household medical products.

The Group will continue to explore new channels in Hong Kong and Macau and enhance the coverage of other channels while reinforcing the existing platforms. The Group will continuously focus on the cooperation with e-commerce platforms to support their rapid development, especially the expansion of e-commerce platform for pharmaceutical business. As for the well-developed e-commerce channels, such as Tmall, Suning.com and JD.com, the Group will further refine the management and boost the overall sales volume through effective marketing strategies and membership management.

In the future, the Group will endeavour to develop cross-border e-commerce to enable overseas suppliers to gain convenient and fast access to the market in China, to provide open and transparent online trading platform for domestic merchants, and to provide more choices of overseas health products, with an aim to achieve a breakthrough in its new business lines. The Group plans to establish new cooperation relationships with at least 80 e-commerce operators in 2016.

By taking advantages of the favourable policies in Qianhai, the B2B2C platform of "Kingworld Health Family" was launched and commenced operation.

4. *To further enhance the driving force of Kingworld Health Family on sales*

The Group will maintain the successful Kingworld Health Family product display booths and explore cooperation opportunities with potential pharmacies under the effective strategies of Kingworld Health Family. The Group will also boost sales of Kingworld Health Family by gift promotion, sales incentives and other methods. The number of Kingworld Health Family is expected to increase to 4,500 in 2016.

5. *To strengthen the investment and financing efforts to improve the efficiency of capital operation*

The Group will continue to propel the integration with Sinopharm Capital in respect of products, channels and terminals, so as to enhance the overall business development of the Group and fully leverage on the cooperation strategies and synergies. Moreover, it will continue the cooperation with Dong Di Xin in respect of corporate governance and operation management and optimization, in order to maximize the cooperation benefits.

By leveraging on the overseas investments, such as indirect participation of Spain Miguel Project (西班牙米蓋爾項目) and Australia Manassen Project (澳大利亞瑪納森項目), the Group will continue to broaden the its revenue sources, especially the channels of introducing overseas health food brands. It will also participate in cross-border investment projects in the industry to seek more opportunities. Mergers and acquisitions of cross-border investment projects will be done to enhance the Group's capital operation and to explore cooperation and investment opportunities with well-known health products operators, thus to promote the healthy and diversified business development of the Group.

6. *To improve brand image through Kingworld Care and Health Foundation and other public welfares*

In the future, the Group will explore new public welfare platforms and channels through Kingworld Care and Health Foundation to facilitate the integration and connection with various social resources from government, society, volunteers, experts and other parties. Through public welfare activities, the Group will further enhance its brand awareness and reputation. It plans to cooperate with China Charity Federation to launch donation projects for aged persons in poverty-stricken minority areas suffering from heart disease. Moreover, it provided great support for the Chinese medicine research and development center of an university in Hong Kong. As a result, the Group not only grasped the opportunity to contact and understand the world's latest development trend of Chinese medicine, but also enjoy the priority in selecting, developing and promoting the research results, which will lay technological foundation and momentum for the future research, development and production of Chinese medicines, and will provide favourable support for the Group's future expansion in the field of Chinese medicine. Community welfare activities were carried out in Shenzhen with joint efforts of various media, including Shenzhen Evening News and ZAKER, brand promotion activities were also carried out through all evening posts in the PRC with an aim to enhance the brand popularity and reputation of products manufactured or distributed by the Group.

On behalf of the Board of the Company, I hereby wish to extend my gratitude for the hard work contributed by all staffs and the Directors, as well as the support of the Company from all the Shareholders.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 30 March 2016

MARKET AND INDUSTRY REVIEW

1. *Transformation of pharmaceutical industry created challenges and opportunities*

In the past decade, the development of pharmaceutical industry in China went through several cycles. From 2004 to 2011, the general industry experienced rapid growth driven by the favourable government policies. From 2011 to 2013, the industry further divided as a result of policy changes. Since 2014, the further deepening of health care reform has caused in unprecedented changes in industrial policy. As a result, business scope of listed companies in the industry becomes more specific with numerous new business models and frequent mergers and acquisitions. The pharmaceutical industry entered a new era full of challenges and opportunities.

2015 was a year of transformation for the pharmaceutical industry. Various industry policies were promulgated with regard to the market reform of the medical market, reforms on tiered medical services, approval system for drugs and medical devices and drug prices, protection of Chinese medicines a well as Internet + pharmaceuticals. The industry experienced a wave of reforms. Numerous opportunities and challenges were exposed to the overall policy environment of the pharmaceutical industry and the development of enterprises, driving the upgrade of industrial innovation.

Since the National Health and Family Planning Commission laid out the key missions for the year on 12 January 2015, the medical and health care reform was implemented on a full scale. At the same time, the Third Plenary of the 18th Central Committee of the Party confirmed the importance of market reform of the medical market, which focused on the allocation of resources based on market demand and enhancing the operational efficiency of the pharmaceutical industry. Therefore, with rapid expansion of market scale and more intensified competition, China's pharmaceutical industry has entered a new era of rapid and significant division, adjustment and restructuring. Various outstanding pharmaceutical enterprises in the industry seek to build up distinctive operations and grasp development opportunities in the new round of medical and healthcare reforms.

The implementation of these policies is conducive to the business development of the Group. In particular, the Group is able to price its products based on market condition after the implementation of drug price reform.

2. *Operation of the industry was further standardized with strengthened drug quality control*

In 2015, pursuant to the requirements of the Party Central Committee and the State Council to apply "the most stringent standards, the most rigorous regulation, the most severe punishment, and the most serious accountability to ensure food and drug safety for the people", the China Food and Drug Administration performed verification of clinical trial data and established a long-term effective mechanism to ensure authentic and reliable clinical trial data, which aimed to enhance the supervision and examination of drug production and ensure the safety and efficiency of drugs at the source in order to protect public health.

Since the implementation of self-examination and inspection of clinical trial data, plenty of applications for drug registration involving several hundred pharmaceutical enterprises have been withdrawn, indicating that the entry barrier of China's pharmaceutical market has become higher and the quality standards of drugs as well as the standardized operation of the industry further improve.

Products currently sold by the Group are premium products of high quality produced in various countries which have passed the examination by relevant state authorities when being imported. Therefore, the policy is favourable to the sale of the Group.

3. *Industry of Internet + pharmaceuticals rapidly expanded, forming the new trend of comprehensive online services*

Since the promulgation of the "Consultation Draft on the Administration over Internet Food and Drug Operation" (《互聯網食品藥品經營監督管理辦法 (徵求意見稿)》) by China Food and Drug Administration in May 2014, various national policies have been introduced to fully support the Internet-ization of pharmaceutical industry in China. As a result, pharmaceutical enterprises, internet enterprises and social capital actively participated in the development and expansion of pharmaceutical e-commerce, thus promoting the transformation of pharmaceutical distribution system in China.

Following the debut of Internet + pharmaceuticals in 2014, online medical services, such as purchasing medicines and seeking medical advice online, developed rapidly. Various online medical services and products were further integrated and distributed in 2015, forming the new trend of comprehensive internet medical services for the medical treatment and medication of the general public.

According to the statistics of iResearch, the market capitalization of B2C pharmaceutical e-commerce in China grew explosively from 2009 to RMB16.06 billion in 2015, representing an annual growth rate of 58.9%. Besides, the transaction amount of pharmaceutical e-commerce in China rose by about 60% in 2015, much higher than the overall growth rate of around 40% of the general e-commerce market. In future, the pharmaceutical e-commerce market in China will continue to experience exponential growth driven by various factors including the upgrade of Internet technologies, the transformation of business models of traditional pharmaceutical enterprises, the support of social capital and the change of consumption habits of the people. The Group has fully recognized the exponential growth of the Internet + pharmaceuticals and is mapping out the business on the Internet.

4. *Maternity and childcare market benefited from the universal two-child policy*

On 27 December, 2015, the Standing Committee of the National People's Congress approved the Amendments to the Law on Population and Family Planning (人口與計劃生育法修正案), which was formally implemented on 1 January 2016. According to the industry report of Huatai Securities, driven by this policy, new births in China may increase by around 1 to 2 million every year. The total number of newborn babies is expected to exceed 20 million in 2018, which may lead to consumption of approximately RMB120 billion to RMB160 billion.

The implementation of the "two-child policy" in 2013 boosted the rapid growth of China's maternity and childcare market. According to the E-commerce Report of China's Baby Trade Industry for 2014 (中國母嬰行業二零一四年線上數據洞察報告) of iResearch, the market capitalization of the children-babies-maternity industry in China was RMB1,430 billion in 2013 and exceeded RMB2,000 billion in 2015. Besides, the e-commerce for maternity and childcare also embraced robust growth. According to the monitoring data publicized by China e-Business Research Center, the market capitalization of maternity and childcare e-commerce business was about RMB65 billion in 2013, and then sharply increased to approximately RMB200 billion in 2014. Since significant capital flowed to the market and the industry expanded dramatically in 2014, China has become the second largest consumer of child, baby and maternity products in the world only to the United States.

In future, supported by the full implementation of two-child policy, we believe that the e e-commerce, medical and healthcare markets for mothers and babies and other relevant markets will experience explosive growth. The policy is favourable to the sales of various maternity and childcare products of the Group, such as Culturelle probiotic series of the USA.

5. *Increasing public awareness on healthcare provides promising prospect for medical device market*

In recent years, the growth potential of medical device market is increasingly apparent as the purchasing power of consumers around the world has been increasing and the demand for healthcare becomes higher due to aging population. According to the statistics of European Commission on Medical Devices (歐盟醫療器械委員會), the total sales of global medical device market increased rapidly from US$290 billion in 2006 to US$559.1 billion in 2014, representing a CAGR of 8.82%, which exceeded the GDP growth rate of the same period. With regard to the domestic industry, the statistics released by Askci on 5 August, 2015 showed that in the first half of 2015, the accumulated operating income of the medical device industry in China amounted to RMB108.092 billion and the accumulated total profit amounted to RMB9.244 billion, representing an increase of 12.05% and 4.71%, respectively, both of which were higher than the average growth rate of the overall pharmaceutical manufacturing industry.

With more intensified competition in the medical device industry, mergers and acquisitions and capital operation among large medical device enterprises have become more frequent. Excellent domestic medical device manufacturers have placed greater emphasis on the profound research of the general market and demand of customers, thus further advancing the research and development of medical device products, promoting the overall industrial development and presenting a promising prospect.

BUSINESS REVIEW

1. *Further enhancing coverage and management of terminals to improve profitability of the Group*

For the year ended 31 December 2015, with respect to the sales strategies, the Group further increased the market share of all core products of the Group by fully integrating terminals and product resources through optimizing the diversified sales structure of its products, expanding the coverage of the distribution network, introducing new products of high quality, improving pricing of and display of products in major terminals, and strengthening the cooperation with major chains. In the meantime, the Group successfully explored and developed market for its new products through effective marketing and promotion plans and deployment of distribution channels. Significant growth in market share of the new products was achieved and the overall profitability of the Group and its comparative advantage was further strengthened.

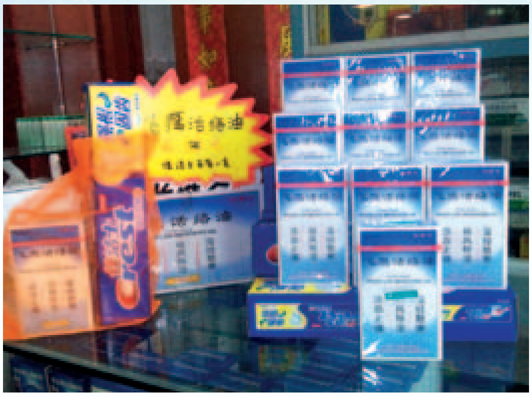
During the Year Under Review, the Group had a total of 300 primary distributors and 321 sub-distributors throughout China (including Hong Kong and Macau), covering over 200,000 retail stores and including more than 4,419 product display booths.

With respect to the core products of the Group, namely Nin Jiom (京都念慈菴) series of products, the Group further consolidated the channel control on that series of products during the Year Under Review. Focus was placed on the prices at terminals, cooperation with the top 100 chains and regional chains, maintenance of product display and the integrated marketing of the products. However, the expiration of the import registration licence for Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴川貝枇杷膏) on 14 March 2015 affected the supply of goods in the PRC market. As the Group had anticipated such effect, the sales structure of products was adjusted timely to increase the sales of Nin Jiom Chuan Bei Pei Pa Candies (念慈菴枇杷糖). Nin Jiom Chuan Bei

Pei Pa Koa was bundled with Nin Jiom Chuan Bei Pei Pa Candies for sales, which ensured the reasonable growth of the market share for Nin Jiom Chuan Bei Pei Pa Candies during the Year Under Review. For the year ended 31 December 2015, sales of Nin Jiom Chuan Bei Pei Pa Koa was approximately RMB299,143,000, representing a decrease by 41.1% when comparing to the same period in 2014. Sales of Nin Jiom Chuan Bei Pei Pa Candies was approximately RMB26,857,000, representing an increase by 30.3% when comparing to the same period in 2014.

With respect to Taiko Seirogan (喇叭牌正露丸), another popular product of the Group, the Group continued to stabilize the channel price of the product in Grade A markets (Fujian and Guangdong) and consolidate its channel control so as to enhance its market coverage in the second and third tier cities during the Year Under Review. The overall sales of the product for the year increased. Moreover, the Group also focused on the development of that product by launching them in chain stores and increasing the volume of products available for sales in non-Grade A markets. Staff training and promotion through e-commerce channels to consumers were strengthened so that the recognition and influence of the brand were further elevated. For the year ended 31 December 2015, the sales of Taiko Seirogan (喇叭牌正露丸) was approximately RMB49,644,000, a decrease of 21.9% as compared with the same period of 2014.

With respect to the third major category of the Group's products –"External Use Medication category", which includes Imada Red Flower Oil, Flying Eagle Wood Lok Medicated Oil and Mentholatum Menthol Cream, the Group strengthened the building of sales terminals for this category of products during the year. Market pricing and distribution strategies were enhanced. The coverage of terminal network in the second and third tier cities were further expanded upon the in-depth penetration at developed markets, so as to realize maximum market coverage of the products. In addition, the Group carried out various marketing campaigns for the targeted consumer groups to improve the brand reputation and image of Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil. However, the normal supply of Imada Red Flower Oil was affected as its manufacturers conducted GMP modification during the Year Under Review. For the year ended 31 December 2015, the sales of Imada Red Flower Oil reached RMB13,333,000, an increase of 99.9% as compared with the same period of 2014; the sales of Flying Eagle Wood Lok Medicated Oil reached RMB41,905,000, an increase of 590.5% as compared with the same period of 2014; the sales of Mentholatum Menthol Cream reached RMB31,048,000, an increase of 24.4% as compared with the same period of 2014.



The fourth major category of the Group's products –"Maternal and child product series", which includes Culturelle probiotic series product from USA (美國康萃樂益生菌), BRAINSTRONG Prenatal DHA (BRAINSTRONG孕婦DHA), FATBLASTER slimming coconut water from Australia (澳洲減肥瘦身品牌菲拉思德椰子水), BLACKMORES fish oil (澳佳寶魚油), FUYUNHON body care products and milk formula of WIOM (渥恩嬰兒奶粉), were benefited from the increasing interest in healthcare of the public and the implementation of the two-child policy of China. The Group noticed the tremendous potential of those types of products in the consumption market of China, and expanded its efforts in the introduction of those products, marketing and promotion, nurturing of targeted markets and terminal sales so as to effectively achieve higher market share during the year. With respect to the market terminal network of those types of products, the Group utilized the combination of online and offline channels, with coordination and interactions between Hong Kong, Macau and Mainland China and selective joint key terminal market strategies to create a multi-dimensional coverage of the terminal network of new products. As such, the annual sales income grew significantly and the overall sales income structure of the Group was optimized. For the year ended 31 December 2015, the sales of Culturelle probiotic series product from USA reached RMB92,775,000, an increase of 227.0% comparing to the same period of 2014; the sales of BLACKMORES fish oil (澳佳寶魚油) reached RMB1,190,000; the sales of BRAINSTRONG Prenatal DHA (BRAINSTRONG孕婦DHA), FATBLASTER coconut water (菲拉思德椰子水) and other new health products also recorded a remarkable growth.

2. *Introducing new quality brands to enrich the product profile of the Group*

In 2015, the Group continued to target quality health products from the global market suitable for its positioning in health segment and operating features. The successful introduction of various targeted products enriched the profile of products distributed by the Group. The Group was committed to import more overseas quality health products to China's market in order to satisfy the diversified needs of the public regarding health products.

During the Year Under Review, the Group successfully introduced products of excellent quality such as BRAINSTRONG Prenatal DHA (BRAINSTRONG孕婦DHA), FATBLASTER slimming coconut water from Australia (澳洲減肥瘦身品牌菲拉思德椰子水), BLACKMORES fish oil (澳佳寶魚油) and Fuyunhon body care products after the introduction of Culturelle probiotic (康萃樂益生菌) and milk formula of WIOM (渥恩嬰兒奶粉), and strategically established Hong Kong-Macau-Mainland China cross-border online platforms and offline retail terminals according to the market needs to promote the rapid development of new products in line with the healthcare concept of the Group.

As at 31 December 2015, the examination and introduction of new products and negotiation with manufacturers were in progress.

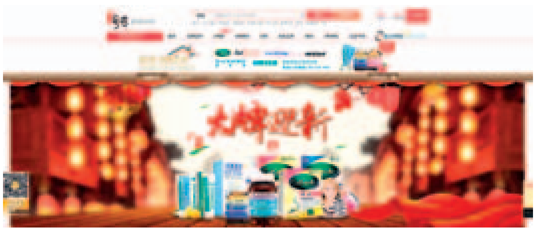
3. *Fully implemented Key Account ("KA") chain cooperation to enhance regional market management*

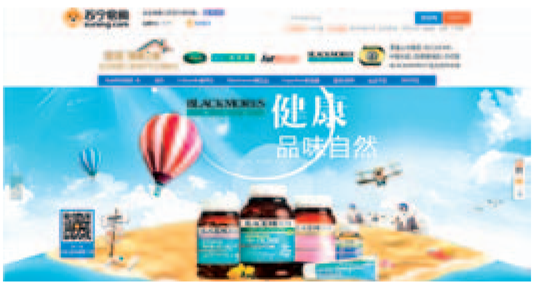
During the Year Under Review, the Group fully implemented the KA chain cooperation with key terminals, which mainly focused on the distribution through the first-class commercial platform as well as direct supply, in order to optimize resources allocation, strengthen the management of marketing process, effectively expand the penetration of products in end markets and increase the market coverage of products distributed by the Group.

In addition, the Group continued to enhance the management of 38 regional markets in the PRC and implement the strategies of refining market allocation during the year. Pursuant to the strategies, it continued to manage key regional markets, promoted the sound and steady growth of regional markets and accelerated the growth of emerging regional markets so as to increase the efficiency of regional sales of the Group and achieve good growth of sales.

4. *Proactively seized the opportunities of Internet + pharmaceuticals development and established e-commerce Internet platform*

For the year ended 31 December 2015, due to the ever-changing consumption habit of the public and the rapid development of Internet + pharmaceutical industry of the PRC, the Group actively grasped the business growth opportunities brought by e-commerce platforms. Leveraging on its diversified product profile, the Group exerted efforts to develop its the e-commerce platform, especially for the cross-border e-commerce business. During the year, the Group opened flagship stores on various comprehensive mainstream cross-border e-commerce platforms, including Tmall, JD.com, Suning.com, Vip.com and Yihaodian; and professional e-commerce platforms of beibei.com, muyingzhijia, jumei.com, and shenba.com. Meanwhile, the products of the Group gained access to new e-commerce platforms such as Shenzhen Qianhai Cross-boarder E-commerce Platform (深圳前海跨境電商平台) and GMCA which effectively facilitated the growth of online sales of the Group. In addition, the Cuturelle probiotic product portfolio for children successfully gained access to the Baby Kingdom, a large one-stop online shopping platform of maternity and childcare in Hong Kong, marking a breakthrough for the Hong Kong online platform with positive market feedbacks.





Leveraging on the expansion of the highly-effective e-commerce platform, targeted marketing and promotion strategies and effective e-commerce service system, for the year ended 31 December 2015, the sales of cross-border e-commerce of the Group recorded a remarkable growth.

In addition, during the Year Under Review, efforts were made to establish the mega health cross-border e-commerce platform of Kingworld Health Family. On 25 November 2015, the Group entered into a strategic cooperation agreement with Shenzhen SJET Technology Company Limited, according to which, B2B2C Platform of Kingworld Health Family shall be established on the SJET Technology Sunshine procurement website (創捷科技陽光採購網) to leverage on the competitive edges of Internet technology and pharmaceutical resources of both parties as well as the strategic advantages of Qianhai, and jointly build a comprehensive e-commerce platform integrating cross-border e-commerce of health products, mobile Internet, financial integrated application of supply chain and innovative marketing value-added service. As at the end of the year, the establishment of the platform and online preparation work was under sound progress.

During the Year Under Review, the Group joined the "Daily Health Alliance" founded by the cooperating party. Through Tianwei TV, multi-screen interaction will be formed occupying the TV channels and hence, the customers. This will create medical and healthcare ecology on the Internet jointly with "Internet + Healthcare + Venture Partners", providing the public with safe, healthy and quality products and services.

5. *Smooth progress of mergers and acquisitions and investment projects which diversified the sources of revenue*

In respect of mergers and acquisitions, the Group completed the change of its shareholding in Dong Di Xin on 13 February 2015. Pursuant to the agreement, the Group acquired 55% equity interest in such company at a consideration of RMB189,366,892. Through this acquisition, the Group officially entered into the global market of pharmaceutical health electronic products and further expanded the health segment in order to achieve diversified development of product profile and sources of revenue.

During the Year Under Review, the Group appointed management staff to station in Dong Di Xin to coordinate both parties for the work arrangements in respect of business operation and strategic planning; assist the management of such company in the development of China's market; and supervise and provide reasonable suggestions and opinions in respect of corporate governance, business operation, use of capital and financial conditions so as to maximize the strategic benefits of the partnership and ensure the fulfilment of profit targets for 2015 by the company for the Group as stated in the agreement.

In respect of investment projects, the Group entered into a partnership agreement with Sinopharm Capital Limited (as the general partner of Sinopharm Fund) during the Year Under Review. Pursuant to the agreement, the Group committed to invest US$5,000,000 (approximately HK$38,900,000) in subscribing approximately 3.33% total interests in Sinopharm Fund. Sinopharm Fund has been established in the Cayman Islands as an exempted limited partnership with the primary objective of investing in public and private companies in the healthcare industry, including but not limited to pharmaceutical manufacturing, medical equipment, medical research, healthcare service, medical service and healthcare, that are organized and/or operating in the Greater China, or with a significant nexus to Greater China. The Group broadened the investment portfolio and expanded the income base, enriched the resources of investment projects, and consolidated the close association between the Group and Sinopharm Fund through such investment.

In addition, the Group acquired 15% equity interest of Dong Hua Tong and provided a shareholder's loan with total amount of HK$54,929,000 to indirectly participate in the Miquel Alimentació Project of Spain (西班牙米蓋爾項目) and Manassen Foods Australia Project (澳大利亞瑪納森項目) during the Year Under Review. Miquel Alimentació was a leading corporate in Spain engaging in food distribution and wholesale, brand operation and management of supply chain. Manassen Foods Australia was a diversified food company which owned or distributed more than 70 brands of local and world-renowned food retailers and gourmet suppliers. Its business channels covered retail business, catering services, industry and export. Such investment would provide the Group with business opportunities in the sale and distribution of food and healthcare products in the PRC or elsewhere and in turn, further extend the product offerings of the Group, with a view to broaden the Group's revenue base and to enhance its profitability.

In respect of subscribing new shares, the Group subscribed 2,302,000 allocated shares of Chuangmei Pharmaceutical (stock code: 2289 HK) at the offer price of HK$8.6 per share at a consideration of approximately HK$20 million during the year ended 31 December 2015. Chuangmei Pharmaceutical was one of the main distributors of the Group. The partnership between both parties was lasting and stable. The company has engaged in the distribution of pharmaceutical products since 2000 and it is the third largest private pharmaceutical distributor in Southern China, distributing 5,756 types of products including Western medicine, prepared Chinese medicines, healthcare products, Chinese traditional medicinal materials, Chinese medicine crude slices, pharmaceutical equipments and cosmetics. The Group aimed to increase income and further consolidated its partnership with such company to achieve sharing of resources, synergies and mutual benefits through the subscription of the new shares.

6. *Full implementation of strategic cooperation to facilitate business development in diversified fields*

During the Year Under Review, the Group entered into a strategic cooperation agreement with Sinopharm Capital. In-depth integration was conducted with respect to products, channels and terminals according to the agreement. In addition, Sinopharm Capital provided support to the Group in terms of capital operation and marketing activities through recommending opportunities for merger and acquisition projects in the industry, and sharing resources of pharmaceutical conferences and exhibitions. By leveraging on the distribution capacity and advantages of Sinopharm Group, the Group strengthened and expanded the distribution channels in the pharmaceutical and health care industry of China during the year. Business development as a whole was facilitated and the strategic cooperation and synergy effect was fully capitalized.

7. *Focused on brand and public welfare promotion to increase its market influence*

To support its enriching product profile and fast expanding sales network in new markets, the Group carried out diversified marketing and promotion strategies during the Year Under Review. The promotion through public media platform such as television and radio broadcast, outdoor and print media was strengthened. The media platforms owned by the Group which included its official website and Weibo as well as the official WeChat accounts of the Group, Kingworld Health Family and Kingworld Business School were also used for promotion. The Group actively organized and participated in various exhibitions, pharmaceutical trade fairs and other large-scale industry-related exhibitions, and conducted cooperation with several influential and professional maternal and infant care online platforms such as Babytree, Ma Ma Bang and i123.com in order to realize synergetic promotion model between online and offline as well as domestic and overseas platforms of the Group, thus effectively increasing the reputation of its products and brand influence.

In addition, by adhering to the corporate mission of "serving the community and healing the souls", the Group established the "Kingworld Care and Health Foundation" and actively participated in various public welfare and charitable activities during the year in order to better contribute and serve the society, duly perform its social responsibilities and build up a positive healthcare brand image of Kingworld.

MANAGEMENT REVIEW

1. *Completed the building of data platform to enhance efficiency of operation and management*

During the Year Under Review, the building of the Group's BI system was completed and was successfully brought online. The further improvement and optimization of the system efficiently assisted the management centre of the Group to obtain sales figures of products timely from various regions. This provided us with in-depth understanding of the effectiveness of marketing activities on sales and adequate control over the deployment of network and its operations by the distributors. Operation quality was monitored based on the financial indicators from time to time. The formulation of such highly effective and precise operation and management strategies further facilitate the growth of business to the next level.

In addition, in order to adhere to the trend in the development and application of mega data in the future and improve efficiency in business operation and management, the Group replaced the existing ERP system with SAP ERP system during the year. SAP is the most advanced business management software and solutions in the world and provides comprehensive solutions for data processing and optimization of procedures for a variety of industries and companies of all sizes. The system includes an integrated and unified platform for financial accounting, business management, master data management and human resources management. During implementation of the project, the Group established a project team comprising senior management as leaders, mid-level key staff and key business personnel as group leaders and key users and the execution team as consultant. The team formulated project management regulations and organized regular meetings and conferences to promptly solve problems occurred during implementation of the project and continuously optimize corporate procedures. After the SAP system is fully brought online, the Group will establish a data processing management centre supported by SAP ERP so as to keep track of market changes, formulate more effective, centralised and professional sales management strategies, and upgrade management and supervision effectiveness.

2. *Improved the performance appraisal and granted share options to eligible participants*

For the year ended 31 December 2015, the Group conducted a performance appraisal for its sales staff based on the achievement of business targets including the expansion of distribution network, acceleration of proactive sales of the products, comprehensive management of major terminal stores and seamless link of flow from sales. The Group executed an award and incentive scheme for all sales staff in China based on the above criteria. An open and transparent allocation mechanism was formed to stimulate working enthusiasm and efficiency of the Group's staff, which significantly increased the market coverage and sales of all products of the Group. In addition, the Group officially granted share options to certain eligible participants pursuant to the share option scheme during the year. By providing rewards to qualified staff, the Group motivated all staff to contribute to the development of the Group and provided opportunities to staff to share the fruitful achievements so as to enhance the solidarity of the Group and further enhance its holistic development.

3. *Kingworld Business School achieved fruitful results by continuous recruitment and cultivation of talents*

During the Year Under Review, the Group continued to focus on recruiting talents, enhancing internal training and strengthening its human resources. In line with its strategic development framework comprising development through learning, school-enterprise cooperation and business services, Kingworld Business School enhanced the school-enterprise cooperation by establishing a school-enterprise cooperation system and provided diversified trainings on business services based on its corporate culture, brand and marketing system. It also established an integrated training system targeting all levels of staff.

During the Year Under Review, the Group furthered its cooperation with the Guangdong Food and Drug Vocational College to organise Kingwood order classes (2013/2014/2015) so as to recruit, cultivate and provide talents at the base level for the online and offline businesses of the Group. In addition, during the year, the Company achieved satisfactory result in its cooperation with Guangzhou Medical University. The two parties entered into an official school-enterprise cooperation agreement in October 2015 and opened Kingworld special training classes (2012/2013) at Guangzhou Medical University so as to recruit, cultivate and provide talents for the business and marketing development of the Group.

Furthermore, the Group also established the Kingworld "WeChat College" during the Year Under Review to provide training activities through learning, examination, social interaction and sharing via WeChat, allowing staff to have an in-depth study of the marketing advantage and development trend of the "WeChat Seller" in relation to e-commerce, so as to timely grasp the opportunities to develop business in such segment for sales growth of the Group.

In the future, the Group will continue to strengthen its cooperation with key customers by organizing the second phase of Twenty Million Dollars Zen Club to enhance their recognition for the Company.

HONOR

During the Year Under Review, the Group and its products had received the following honors:

– In January 2015, the Group was awarded as "2014 Credited Member" by Guangzhou Zhongshan University Lingnan Industry & Commerce Entrepreneur Society;

– In March 2015, according to the custom figures, the Group was elected as Top Hundred Import Enterprises of 2014 Chinese Medicines by China Chamber of Commerce for Import & Export of Medicines & Health Products;

– In May 2015, Kingworld Care and Health Foundation sponsored EMBA Lingnan School of Zhongshan University to participate in the Tenth Xuan Zang Road Gobi Challenge of School of Business;

– In May 2015, the Group was listed in the "Credit Shenzhen Accredited Enterprises List" by Shenzhen Credit Association;

– In June 2015, the Group received honorary title as "2014 Guangdong Trustworthy Enterprise" by Guangdong Province Administration for Industry & Commerce;

– In November 2015, was awarded "Most Investment Value Award" by 2015 Leading Entrepreneurs Annual Meeting;

– In December 2015, the Group acted as the authorised sponsor of medicated oil for external use and service provider of medical stations for 2015 Shenzhen International Marathon and 2015 Shantou Marathon.

FINANCIAL REVIEW

1. *Turnover*

Turnover of the Group for the Year Under Review was approximately RMB713,548,000, representing an increase of approximately RMB53,225,000, or 8.1% compared to approximately RMB660,323,000 for the year ended 31 December 2014. The increase was mainly as a result of the turnover consolidated from Dong Di Xin which was acquired on 13 February 2015 and the increase in sales of Culturelle which was partyly off-set by the decrease in sales of Nin Jiom Chuan Bei Pei Pa Koa.

2. *Cost of sales*

For the Year Under Review, cost of sales for the Group amounted to approximately RMB486,771,000, representing a decrease of approximately RMB17,242,000 or 3.4% when compared to that of approximately RMB504,013,000 for the year ended 31 December 2014. The decrease in cost of sales was due to the increase in gross profit margin. Gross profit margin increased substantially from 23.7% for the year ended 31 December 2014 to 31.8% for the year ended 31 December 2015 as a result of the increase in turnover of the higher margin products such as Culturelle and the higher gross profit margin from Dong Di Xin during the Year Under Review.

3. *Other revenue*

Other revenue mainly included promotional service income, rental income, commission income, government grant and interest income. For the Year Under Review, other revenue amounted to approximately RMB22,760,000, representing a decrease of approximately RMB6,186,000 or 21.4% when compared to that of approximately RMB28,946,000 for the year ended 31 December 2014. This decrease was mainly due to the decrease in promotional service income of approximately RMB9,100,000 which was partially off-set by the increase of bank interest income of approximately RMB6,246,000 respectively.

4. *Other net loss*

Other net loss was mainly comprised of net foreign exchange loss. For the Year Under Review, other net loss amounted to approximately RMB24,276,000, representing an increase of RMB18,335,000 or 308.6% when compared to that of approximately RMB5,941,000 for the year ended 31 December 2014. This increase in other net loss was mainly due to the increase in foreign exchange loss as a result of the depreciation of Renminbi during the Year Under Review.

5. *Selling and distribution costs*

For the Year Under Review, selling and distribution costs amounted to approximately RMB101,473,000, which had increased by approximately RMB13,739,000 or 15.7% when compared to that of approximately RMB87,734,000 for the year ended 31 December 2014. This increase was primarily attributable to an increase in bonus expenses of approximately RMB4,879,000, transportation cost of approximately RMB1,088,000, loading charges of approximately RMB2,436,000 and staff costs of approximately RMB3,272,000. The increase was mainly as a result of the fact that many post vacancies in 2014 were filled up during the Year Under Review and the selling and distribution costs consolidated from Dong Di Xin.

6. *Administrative expenses*

For the Year Under Review, administrative expenses amounted to approximately RMB69,273,000, which had increased by approximately RMB23,383,000 or 51.0% when compared to that of approximately RMB45,890,000 for the year ended 31 December 2014. For the Year Under Review, rental expenses was approximately RMB3,117,000, administrative staff costs was approximately RMB11,412,000 and legal and professional fees was approximately RMB4,018,000, which comprised mainly of financial reporting costs of the Company and legal advisory and consultancy fees (2014: rental expenses was approximately RMB2,584,000, administrative staff costs was approximately RMB17,531,000 and legal and professional fees was approximately RMB5,378,000). This increase was mainly due to the administrative expenses consolidated from Dong Di Xin.

7. *Profit from operations*

For the Year Under Review, profit from operations for the Group amounted to approximately RMB49,153,000, which had decreased by approximately RMB148,000 or 0.3% when compared to that of approximately RMB49,301,000 for the year ended 31 December 2014. Decrease in profit from operations was mainly due to the amortisation of intangible assets arising from acquisition of Dong Di Xin and the increase in the overall operating expenses which was partly off-set by the increase in gross profit for the Year Under Review.

8. *Finance costs*

For the Year Under Review, finance costs amounted to approximately RMB15,738,000, representing an increase in approximately RMB8,865,000 or 129.0% when compared to that of approximately RMB6,873,000 for the year ended 31 December 2014. The increase was mainly due to the increase in interest charged on bank loans and convertible bonds.

9. *Profit before taxation*

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB51,322,000, which had increased by approximately RMB2,655,000 or 5.5% when compared to that of approximately RMB48,667,000 for the year ended 31 December 2014. Increase in share of profit of a joint venture of approximately RMB17,907,000 which was partly off-set by the increase in finance costs for the Year Under Review.

10. Income tax

For the Year Under Review, profit tax expenses for the Group amounted to approximately RMB11,935,000, which had increased by approximately RMB1,133,000 or 10.5% when compared to that of approximately RMB10,802,000 for the year ended 31 December 2014. This increase was mainly due to the increase in profit before tax. The effective tax rate for the Year Under Review was 23.3% when compared to 22.2% for the year ended 31 December 2014.

11. Profit for the year

For the Year Under Review, profit for the year of the Group amounted to approximately RMB39,387,000, which increased by approximately RMB1,522,000 or 4.0% when compared to that of approximately RMB37,865,000 for the year ended 31 December 2014. Increase in profit for the year was mainly due to the increase in profit before tax of approximately RMB2,655,000 which was partly off-set by the increase in income tax expenses of approximately RMB1,133,000 for the Year Under Review.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. Trade and other receivables

Trade and bills receivables of the Group include credit sales that the Group's distributors should pay for the Group's products. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2015 amounted to RMB287,110,000, which had decreased by RMB130,664,000 when compared to trade and other receivables as at 31 December 2014 which amounted to approximately RMB417,774,000. As at 31 December 2015, trade receivables and bills receivables of the Group amounted to approximately RMB69,074,000 and RMB102,384,000 respectively, representing a decrease of RMB62,791,000 and decrease of RMB122,670,000 respectively when compared to trade receivables and bills receivables of approximately RMB131,865,000 and RMB225,054,000 as at 31 December 2014 respectively.

2. Inventories

As at 31 December 2015, inventories owned by the Group amounted to approximately RMB79,005,000, representing an increase of RMB8,989,000 when compared to that of RMB70,016,000 as at 31 December 2014. The main reason of increase in inventories was the increase in inventories consolidated from Dong Di Xin.

3. Properties, plants and equipment

Properties, plants and equipment owned by the Group include leasehold improvements, furniture, fixtures and office equipments, machinery and motor vehicles. As at 31 December 2015, the book value of properties, plants and equipment owned by the Group amounted to approximately RMB15,811,000, showing an increase of RMB10,690,000 when compared to that of approximately RMB5,121,000 as at 31 December 2014. Increase in properties, plants and equipment was mainly due to the addition of fixed assets of approximately RMB6,259,000, which was partially off-set by the depreciation of approximately RMB3,814,000 during the Year Under Review.

4. Trade and other payables

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2015, trade and other payables owned by the Group amounted to approximately RMB159,047,000, showing a decrease of RMB27,015,000 when compared to that of approximately RMB186,062,000 as at 31 December 2014 as a result of a decrease in trade payable of approximately RMB40,786,000.

CASH FLOW

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal of debts and providing funds for capital expenditures and growth of the Group's operations.

1. *Net cash generated from/(used in) operating activities*

The Group's cash inflow from operations primarily derives from receipts for the sale of the Group's products. For the Year Under Review, the Group's net cash inflow generted from operating activities amounted to approximately RMB102,790,000, while the net cash outflow used in operating activities for the year ended 31 December 2014 was approximately RMB5,230,000. The increase in net cash inflow was primarily due to an decrease in trade and other receivables of approximately RMB167,631,000.

2. *Net cash used in investing activities*

The Group's net cash outflow used in investing activities amounted to approximately RMB168,128,000 for the Year Under Review, while the net cash outflow used in investing activities was approximately RMB29,721,000 for the year ended 31 December 2014. The increase in net cash outflow was mainly due to the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries during the Year Under Review which amounted to approximately RMB147,821,000.

3. *Net cash generated from financing activities*

The Group's net cash outflow used in financing activities amounted to approximately RMB888,000 for the Year Under Review, while the net cash generated from financing activities was approximately RMB144,078,000 for the year ended 31 December 2014. The decrease in net cash inflow was mainly due to the decrease in proceeds from new bank loans during the Year Under Review.

CAPITAL STRUCTURE

1. *Indebtedness*

The total indebtedness of the Group as at 31 December 2015 was approximately RMB167,560,000 (as at 31 December 2014: approximately RMB228,677,000), which will be due within one year. During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with the lenders.

2. *Gearing ratio*

As at 31 December 2015, the Group's gearing ratio was approximately 15.5% (as at 31 December 2014: 22.4%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to an increase in bank borrowings.

3. *Pledge of assets*

As at 31 December 2015, the Group had pledged investment properties, bank deposits and bills receivables to the bank in the total amount of approximately RMB nil. As at 31 December 2014, the Group had pledged investment properties, bank deposits and bills receivable in total amount of approximately RMB218,133,000.

4. *Capital expenditures*

The capital expenditures of the Group primarily included purchases of plant and equipment and leasehold improvements. The Group's capital expenditures amounted to approximately RMB6,259,000 and RMB1,973,000 for the year ended 31 December 2015 and 2014 respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long-term and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was 4.2%. Taking into account the cash flow generated from operations and the long-term and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2015, the Group had cash and cash equivalents of approximately RMB132,478,000 (as at 31 December 2014: RMB230,028,000) which was mainly generated from operations of the Group, funds raised from the issue of convertible bond in September 2014 and the listing of the shares of the Company in November 2010.

CAPITAL COMMITMENT

As at 31 December 2015, the Group had capital commitment of approximately RMB23,800,000 (as at 31 December 2014: RMB191,097,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

On 8 May 2014, Kingworld (Hong Kong) Holdings Limited (金活(香港)控股有限公司), an indirect wholly-owned subsidiary of the Company ("Kingworld (HK)"), Zhao Zhigang and Zhao Wen entered into a cooperative agreement (as supplemented by supplemental agreements dated 31 July 2014, 30 September 2014 and 25 November 2014) (collectively, the "Cooperative Agreement"), pursuant to which, (among other things) Kingworld (HK) has agreed to acquire, and Zhao Zhigang has agreed to sell 55% equity interest in Dong Di Xing for a consideration of RMB189,366,892. The Cooperative Agreement and the transactions contemplated therein (including the said equity transfer) were approved by the shareholders of the Company at the EGM held on 23 January 2015. Completion of the equity transfer of Dong Di Xin took place on 13 February 2015. Upon completion of the equity transfer, Dong Di Xin has been owned as to 55% by Kingworld (HK), 15% by Zhao Zhigang and 30% by Zhao Wen, and Dong Di Xin has become a 55% indirectly owned subsidiary of the Company and its financial results have been consolidated into the financial statements of the Group as from the date of Completion of the acquisition.

LITIGATION

During the audit reviewing process for the year ended 31 December 2015, it was revealed that a claim was filed against (the former substantial shareholder of Dong Di Xing and Dong Di Xing by the former Chief Executive Officer (CEO) of Dong Di Xin, to the relevant PRC court in relation to his CEO service contract that claimed and demanded: , among other things, (1) to request the former substantial shareholder to transfer his 15% equity interest in Dong Di Xing to the former CEO; and (2) to request Dong Di Xing to assist in the said equity transfer.

The Company became aware of this claim and received some of the relevant documents in March 2016 and is currently gathering more information and seeking legal opinion on this claim to assess possible adverse effect (if any) against the Company. The judgment of claim is yet issued, and the Company will make further announcement(s) as and when appropriate according to the Listing Rules.

FUTURE OUTLOOK

1. Implementing an integrated operation strategy to achieve intensive growth in product sales

In the future, the Group will adopt integrated operation strategy to stimulate intensive growth in product sales through expanding market penetration, exploring new markets and developing new products.

Regarding the expansion of market penetration, the Group will strengthen its product penetration in the existing markets by fully capitalizing on its distribution resources and channels. According to the product distribution strategies of the mature core products such as Nin Jiom product series, Taiko Seirogan, Kingworld's Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil, the Group will strive to expand to second-tier and third-tier cities while maintaining the strong coverage in the first-tier cities in order to increase the general coverage of such products in China. Moreover, the Group will centralize the management of customer resources and sales with its effective data processing platforms, namely SAP ERP and PMS, and strengthen the management of coverage and penetration rates of customers and markets through a multi-dimensional analysis of market distribution so as to establish footholds in all markets. Regarding the new product series represented by Culturelle probiotic, the Group will put more efforts in marketing in new markets in order to expand to Hong Kong and Macau markets as well as different e-commerce platforms in addition to its existing markets.

Regarding the development of new markets, the Group will further identify and utilize new channels so to increase the coverage of its products in different markets and channels. The Group will be dedicated to promoting traditional products in new markets and through new e-commerce channels and new product series through offline retail channel and hospital channel. All products will be promoted both online and offline to achieve synergy through reallocation of resources in multiple channels and support rapid growth in product sales.

Regarding development of new products, the Group will further develop and introduce diversified quality health brand products to enrich and refine its product profile, and enhance the market share and influence of the Kingworld products in the health segment. Moreover, the Group will require all local sales teams to develop their own core products according to the needs of local markets in order to maintain effective resource allocation and balanced development.

2. *Reinforcing the classified management of regional markets to improve efficiency of sales*

In the future, the Group will require all regional marketing management teams to formulate their respective marketing plans and share the major tasks of regional marketing according to the overall marketing strategic needs of the Group so as to ensure clear administrative procedures and duty allocation, appropriate policy implementation and effective cost management and control.

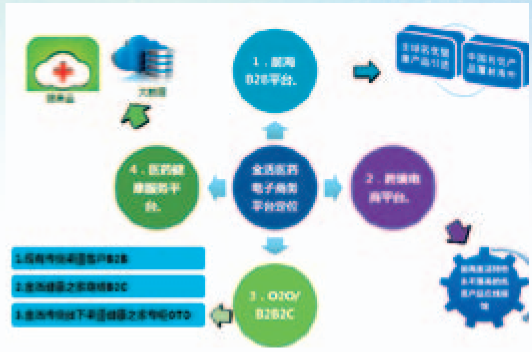
Moreover, apart from enhancing meticulous management and stability of the existing mature markets, the Group will implement new marketing strategies in markets with small sales volume but great potential. While ensuring to achieve the target of sales growth, the Group will conduct more effective incentive plans and stimulate greater growth in sales in such regions by taking advantage of its outstanding management teams led by the regional managers.

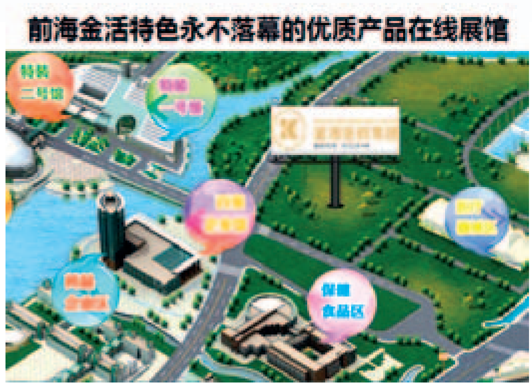
Looking forward, the Group will enhance cooperation with the major pharmaceutical chains and consolidate promotion resources through KA departments. The Company aims to establish cooperation with the top 100 enterprises in the industry and the head offices of chains ranking top 30 in regional markets, in order to increase the annual growth rate in KA sales to 30% or above.

3. *Expanding e-commerce business by promoting establishment of Kingworld e-commerce platform in Qianhai*

In view of the rapid development of e-commerce industry and remarkable results of the Group's cross-border e-commerce business, e-commerce business will continue to be the focus of the Group's development. The Group will optimise the meticulous management of mature e-commerce channels such as Tmall International, Suning.com and JD.com, and put greater efforts in classified channel management, product coverage, price management, promotion activities and other aspects to increase overall sales volume. In addition, the Group plans to cooperate with not less than 80 e-commerce customers in 2016.

Furthermore, benefited from the advantages and supporting policies set out in the Implementation Plan of Constructing Shekou District in Qianhai, as a trial point of Free Trade Zone in Guangdong China (《中國 (廣東) 自由貿易試驗區前海蛇口片區建設實施方案》), the Group will speed up the preparation for the launch and operation of the Kingworld e-commerce platform in Qianhai of Kingworld Health Family. Such platform will serve as a B2B2C platform to provide convenient access for overseas suppliers into China, and as an open and transparent online transaction platform for domestic enterprises. As such, customers will be provided with a wider range of overseas health products in a more convenient way.





4. *Continuing to proceed with strategic investment and merger and acquisition projects to enhance capital operation of the Group*

Adhering to its primary mission to develop in the health market and based on the current condition and development trend of the industry, the Group's actual operating condition and future development strategies, the Group will continue to identify and examine projects with values based on market conditions and push forward the progress of its merger and acquisition projects. Upon the completion of various investments, mergers and acquisitions during the year, the Group will focus on investment in cross-border investment projects and enterprises with internet resources or terminal resources in the industry, aiming to maximize the revenue, realize capital appreciation, achieve synergy effect with the existing businesses, enhance sales and profitability, expand the pool of industry resources and further improve the market influence of the Group.

HUMAN RESOURCES AND TRAINING

As of 31 December 2015, the Group had a total of 954 employees, of which 122 worked at the Group's headquarter in Shenzhen, and 379 stationed in 34 regions with main responsibility of sales and marketing; 453 worked at Dong Di Xin. Total staff cost for the Year Under Review amounted to approximately RMB66,547,000 (2014: RMB43,500,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). The management team is responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

During the Year Under Review, the Group adopted a "people-oriented" management concept to have its staffs closely involved in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and adopted a number of incentive mechanisms to enhance the productivity of its employees. The Group conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly. In addition, the Group has established a business college and has cooperated with higher education institutions for introducing teachers from EMBA and EDP courses from higher education institutions.

The Company also operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group, including eligible employees of the Group. Details of such share option scheme are set out under the paragraph headed "Share Option Scheme" in this report.

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend for the Year Under Review of HK$1.53 cents per share to shareholders whose names appear on the register of members of the Company on Wednesday, 8 June 2016, amounting to approximately HK$9,524,000, subject to the approval in the Company's forthcoming annual general meeting to be held on Monday, 30 May 2016. Total dividend payout ratio is 25.5% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Thursday, 30 June 2016.

Directors' and Senior Management's Biographies

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 57, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 20 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("SZ Industry") in 1994 and the general manager and chairman of Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao has been a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯)第五屆理事會) in 2005. In 2008, he was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organizations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) and in 2009, the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會). Currently he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San.

Ms. Chan Lok San (陳樂燊), aged 52, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 20 years of experience in the pharmaceutical industry as well as over 11 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006 respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Since 25 December 2012, she has served as the chairlady of the EMBA Alumni Association of Sun Yat-Sen University. Currently, she is also the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao Li Sheng.

Mr. Zhou Xuhua (周旭華), aged 49, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 18 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

Mr. Lin Yusheng (林玉生), aged 50, was appointed as an executive Director of the Company on 3 August 2009. Currently, he is also the authorised representative of the Company. He is primarily responsible for the operations, investment and capital management of the Group. He has approximately 15 years of experience in the pharmaceutical industry. In 1989, Mr. Lin obtained a bachelor degree in philosophy from Yanan University (延安大學). He received a master degree in business administration at the Hong Kong Polytechnic University in 2006. From 1999 to 2004, he worked as a senior management staff in Xi'an Lijun Pharmaceutical Company Limited, which is principally engaged in the manufacturing and sale of pharmaceutical products in the PRC, and a wholly owned subsidiary of Lijun International Pharmaceutical (Holding) Company Limited (stock code: 2005), a company listed on the Stock Exchange which, together with its subsidiaries, are engaged in the research, development, manufacturing and selling of finished medicines and bulk pharmaceutical products to hospitals and distributors. Mr. Lin was appointed as an executive vice president of Lijun International Pharmaceutical (Holding) Company Limited from 2004 to 2006. From 2005 to 2006, he was also appointed as the chairman of Xi'an Lijun Fangyuan Pharmaceutical Company Limited (西安利君方圓製藥有限責任公司). He was the deputy general manager of SZ Kingworld from June 2006 to December 2013. Mr. Lin resigned as an executive Director of the Company on 6 July 2015.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yi (張翼), aged 40, has 16 years of experience in the area of operational management, business development and equity investment in pharmaceutical and health industry. He is currently a founding partner and managing director of Sinopharm Capital Management Company Limited. Mr. Zhang completed a 7-year clinical professional graduate programme jointly organised by Fudan University and Shanghai University of Traditional Chinese Medicine, receiving a Master degree in clinical study in July 1999. Mr. Zhang previously worked in Sanofi-Aventis as a marketing manager from June 2003 to July 2007. He served as the senior investment manager in Greater China for Burrill & Company from August 2007 to February 2009. Mr. Zhang also worked for 建銀國際醫療產業股權投資有限公司(CCB International Medical Industry Equity Investment Limited Company) and served successively as deputy director, director and head of the Investment Department from March 2009 to March 2012. He was appointed as a non-executive Director of the Company on 17 December 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 50, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 25 years of experience in the pharmaceutical industry. Mr. Duan received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989, and was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. Mr. Duan served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司, stock code : 000607), a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. From April 2008 to April 2011, he was an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange. Since February 2013, he has been appointed as an independent non-executive Director of Yan He Medicines Company Limited (仁和药業股份有限公司, stock code : 000650), a company listed on the Shenzhen Stock Exchange. Currently, he is the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業管理諮詢有限公司).

Mr. Wong Cheuk Lam (黃焯琳), aged 47, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 20 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor degree in arts from the University of Hong Kong in 1992 and a master degree in business from Victoria University of Technology, Australia in 1997. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants, a member of CPA Australia and a Certified Taxpay Strategist (PRC). From 1994 to 2003, Mr. Wong worked in accounting positions for Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. From 2003 to January 2013, he worked as a company secretary at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange and worked as a chief financial officer from July 2005 to January 2013 and was also a financial controller during the period from October 2007 to July 2010 of the same company. Form February 2015 to May 2015, Mr. Wong worked for Genvon Group Limited (currently named Beijing Enterprises Medical and Health Industry Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 2389), as financial controller and deputy company secretary. Mr. Wong is currently the CFO and company secretary of ASR Logistics Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock code: 1803). He joined the Company in May 2015.

Mr. Zhang Jianbin (張建斌), aged 55, was appointed as an independent non-executive Director of the Company on 1 August 2013. Mr. Zhang has over 23 years of experience of teaching and researching in the management aspect of marketing, services marketing and brand marketing, and in project consultation work. Mr. Zhang obtained a bachelor degree in engineering (industrial management engineering profession) from Wuhan University of Technology (formerly known as Wuhan Institute of Technology) in June 1982. Mr. Zhang completed a USA MBA program (organized by the graduate school of Columbia University and other universities) of Beijing Information Science & Technology University (formerly known as Beijing Institute of Machinery) in September 1986, and obtained a doctor's degree of economics (industrial economics profession) from the College of Economics, Jinan University in July 1999. Mr. Zhang worked in the Management Engineering Faculty of Wuhan University of Technology (formerly known as Wuhan Institute of Technology) as a teaching assistant and a lecturer from July 1982 to March 1989. He worked in the Management Engineering Faculty of Guangdong University of Technology (formerly known as Guangdong Institute of Technology) as a teaching assistant, lecturer, associate professor and served as deputy director, director and deputy head of the Teaching and Research Department from March 1989 to June 1998. Mr. Zhang has been teaching at Jinan University since July 1998 and is an associate professor and a tutor to master's degree research students at the Management School of Jinan University. Mr. Zhang was also the director of the MBA Department and deputy director of the MBA education centre from 2003 to 2005. Mr. Zhang was a chief marketing consultant of the Fourth Shoe Factory (第四皮鞋廠) in Wuhan city from 1987 to 1989. He was a factory director of Zhongshan Precision Instrument Factory (中山先能精密儀器廠) from 1991 to 1992 and a manager of the Planning Department of Guangdong International Mass Advertising Media Company (廣東國際大眾廣告傳播公司) from 1992 to 1993. From 1993 to 1995, Mr. Zhang was a general manager of Guangdong Design and Planning Company (廣東創世紀設計策劃公司) and was a marketing consultant of Guangdong Construction Real Estate Company (廣東建業房地產公司) from 1995 to 1996. He was a marketing consultant of Guangdong Yihe Real Estate (Group) (廣東頤和地產(集團)有限公司) from 1997 to 2002 and a consultant of Guangdong Persian Technology Company Limited (廣東波斯科技股份有限公司) from 2002 to 2012.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 55, was appointed as the financial controller and company secretary of the Company on 25 June 2009. Currently, he is also the authorised representative of the Company. He is responsible for the management of the Group's financial matters. Mr. Chan has over 30 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008 respectively. Mr. Chan received a bachelor degree in economics from Macquarie University Australia in 1986. In 2005, he received a master degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 50, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. Ms. Fang has approximately 25 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. Ms. Fang completed a course in accounting from Wuhan University (武漢大學) in 1991.

Mr. Liu Yibing (劉亦兵), aged 57, is the assistant of the General Manager of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. Mr. Liu has approximately 13 years of experience in the administrative field. He worked in the cadre training center at the human resources department of Foxconn International Group between 1995 and 1998. Mr. Liu received a bachelor degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Mr. Ceng Yun (曾湏), aged 45, is the sales controller (commerce) of SZ Kingworld. He is primarily responsible for the customer and sales management. Mr. Ceng has approximately 17 years of experience as a sales manager in the pharmaceutical industry. Mr. Ceng completed a master degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Ms. Liang Caiyun (梁彩雲), aged 47, is the customer services manager of SZ Kingworld. Ms. Liang is primarily responsible for the implementation of SZ Kingworld's overall customer service strategies including but not limited to the delivery of the products and the review of purchase agreements. Ms. Liang has over 25 years of experience in the sales and strategic planning fields. Before joining SZ Kingworld in 1999, she worked in the Aviation Industry Corporation of China ZhongHang Electronic Measuring Instruments Co. Ltd. (中國航空工業總公司中航電測儀器股份有限公司) in 1988 and later worked as a planning and statistics officer of Chiaphua Appliance (Shenzhen) Company Limited in 1997. Ms. Liang completed her tertiary education in the area of industrial enterprises management at 012 Base Vocational School (012基地職工學院) in 1988, and received the qualification certificate of specialty and technology for the intermediate level in statistics from the National Bureau of Statistics of China (國家統計局) in 1996.

Ms. Zhang Dan (張丹), aged 51, is the marketing director of SZ Kingworld. Ms. Zhang is primarily responsible for the formulation and implementation of SZ Kingworld's overall marketing strategies for the Group's products, especially Nin Jiom Pei Pa Koa, Taiko Seirogan, Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil. Ms. Zhang has approximately 15 years of experience in the sales and marketing areas. She received a bachelor degree in medical treatment from Yunyang Medical College of Tongji Medical University (同濟醫科大學鄖陽醫學院) in 1986, and was a lecturer at the Hubei Province Wuhan Health School between 1986 and 1995. Ms. Zhang joined SZ Kingworld in 1996.

Ms. Tian Yongli (田永莉), aged 53, is the audit and control manager of SZ Kingworld. Ms. Tian is primarily responsible for the formulation, implementation and review of SZ Kingworld's accounting policies and internal control. Ms. Tian has approximately 22 years of experience in the auditing and accounting fields. She worked as an accounting officer for Electronic Industry Bureau of Wuhan City (武漢市電子工業局) in 1992. Ms. Tian received the junior accountant qualification from Finance Department of the PRC (中華人民共和國財政部) in 1999, and received a professional diploma in industrial enterprises' operation and management from Wu Han Radio and TV University (武漢市廣播電視大學) in 1986. Ms. Tian joined SZ Kingworld in 2005.

Mr. Huang Ruozhong (黃若忠), aged 53, is the corporate finance controller of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 20 years of experience in handling securities and finance related matters. Mr. Huang worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. Mr. Huang worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, Mr. Huang has been the executive directors of 21 subsidiaries and served as a director of Zhuhai Jinming since 2006. In 2001, Mr. Huang was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People's Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People's Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. Mr. Huang joined SZ Kingworld in 2003.

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Year Under Review, the Company complied with the code provisions as set out in the CG Code, other than code provision A.2.1 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Zhao Li Sheng is the Chairman of the Board and the chief executive officer. The Board is in the opinion that having Mr. Zhao to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his/her compliance with the Model Code during the Year Under Review. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished inside information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the Year Under Review.

BOARD OF DIRECTORS

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management. Since the day-to-day running of the Company has been delegated by the Board to the senior management, the senior management is responsible for the implementation of the policies resolved. In general, the responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed and final annual budgets of the Company, assessing the performance of the Company and overseeing the work of senior management.

As at 31 December 2015, the Board comprises a total of seven Directors, being three executive Directors, one non-executive Director (the "Non-executive Director") and three independent non-executive Directors (the "Independent Non-executive Directors"). Mr. Zhao Li Sheng, Ms. Chan Lok San and Mr. Zhou Xuhua served as executive Directors, Mr. Zhang Yi served as Non-executive Director and Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam served as Independent Non-executive Directors. These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its shareholders. Each Independent Non-executive Director has been appointed for a 3-years term of services. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' and Senior Management's Biographies" of this report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the Year Under Review, four Board meetings were held and attendance of each Director at the Board meetings is set out in the paragraph headed "Board/Committee Meetings and Individual Attendance" of this report.

All members of the Board fully understand their collective and individual responsibility for the Shareholders, and will try their best to carry out their duties to make contributions to the Group's results.

Throughout the Year Under Review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) and 3.10A of the Listing Rules and has appointed three Independent Non-executive Directors, representing more than one-third of the number of Directors at the Board, with at least one Independent Non-executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management.

Pursuant to the Articles of Association of the Company, one third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Ms. Chan Lok San , Mr. Zhang Yi and Mr. Duan Jidong shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All committees have been formed with specific written terms of reference in compliance with the Listing Rules which deal with their respective authorities and duties.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

Members, duties and responsibilities of the committees are as follows:

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Audit Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Wong has been appointed as the chairman of the Audit Committee.

The primary duties of the Audit Committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls and risk management systems of the Group and to ensure the external auditor are independent and the audit process is effective. The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The Audit Committee also serves as a channel of communication between the Board and the external auditor. External auditor and the Directors are invited to attend the committee meetings as and when necessary.

During the Year Under Review, the Audit Committee had held two meetings and all the members attended the meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2014, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2015 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

The Audit Committee also carried out corporate governance functions during the Year Under Review, including developing and reviewing the Company's policies and practices on corporate governance and other duties prescribed under code provision D.3.1 of the CG Code.

The Audit Committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the year of 2015, and agreed with the accounting treatment adopted by the Group.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee (the "Remuneration Committee") on 5 November 2010 and has formulated its written terms of reference, which have from time to time been modified in accordance with the prevailing provisions of the CG Code. The Remuneration Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam, who are Independent Non-executive Directors. Mr. Zhang has been appointed as the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are (among other things) to review and approve the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management.

During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meeting. The work performed by the Remuneration Committee during the Year Under Review included considering the policy for the remuneration of executive directors, the performance of executive directors, and the terms of executive directors' service contracts.

The Remuneration Committee adopted the approach under Code Provision B.1.2(c) (ii) of the CG Code to make recommendation to the Board on the remuneration packages of the individual executive Directors and senior management of the Company.

NOMINATION COMMITTEE

The Company established a Nomination Committee (the "Nomination Committee") on 5 November 2010 and has formulated its written terms of reference, which was amended and adopted by the Board on 26 August 2013 and the contents of which are in compliance with the provisions of the CG Code. The Nomination Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianbin and Mr. Wong Cheuk Lam. Mr. Duan has been appointed as the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are (among other things): reviewing the structure, size and diversity of the Board, making recommendations to the Board on appointment of Directors and succession planning for Directors and assessing the independence of Independent Non-executive Directors.

To comply with the new provisions in the CG Code on board diversity which became effective on 1 September 2013, the Nomination Committee has adopted a policy concerning diversity of Board members (the "Board Diversity Policy"), which is achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service in related business areas of the Board members and will make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee will review the Policy on a regular basis and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meetings. The work performed by the Nomination Committee during the Year Under Review included reviewing the established policy and procedure for the nomination and appointment of new Directors, reviewing the Board Diversity Policy and the measurable objectives that the Board has set for implementing such policy and assessing the independence of the Independent Non-executive Directors. The Nomination Committee, having reviewed the structure, size, composition and diversity of the Board including the gender, age, culture and educational background, professional experience and industry experience of each Director vis-a-vis the Group's business strategy as well as the structure for the rotation of Directors, considered that the existing arrangements were appropriate.

BOARD/COMMITTEE MEETINGS AND INDIVIDUAL ATTENDANCE

It is proposed to hold Board meetings at least four times a year regularly. Notice is given to Directors at least fourteen days before a regular Board meeting. Directors will be given reasonable and practicable notification under relevant circumstance for any special Board meeting called.

Before each Board meeting, the Directors are provided with a detailed agenda and sufficient relevant information, so as to enable the Directors to make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If any Director or any of his/her associates has material interests in any resolution of the Board meeting, such Director must abstain from voting and should not be counted in the quorum of the meeting.

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2015 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Zhao Li Sheng *(Chairman)*	4/4	—	—	—	1/1
Ms. Chan Lok San	4/4	—	—	—	1/1
Mr. Zhou Xuhua	4/4	—	—	—	1/1
Mr. Lin Yusheng *(resigned on 6 July 2015)*	2/4	—	—	—	1/1
Non-executive Directors					
Mr. Zhang Yi	4/4	—	—	—	1/1
Independent Non-executive Directors					
Mr. Duan Jidong	4/4	2/2	2/2	2/2	1/1
Mr. Wong Cheuk Lam	4/4	2/2	2/2	2/2	1/1
Mr. Zhang Jianbin	4/4	2/2	2/2	2/2	1/1

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. All Directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with Code Provision A.6.5 of the CG Code on Directors' training and have provided a record of the training they received to the Company. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

Name of Directors	Training received
Mr. Zhao Li Sheng	— Reading materials/attending external and in house seminars and programmes
Ms. Chan Lok San	— Reading materials/attending external and in house seminars and programmes
Mr. Zhou Xuhua	— Reading materials/attending external and in house seminars and programmes
Mr. Lin Yusheng *(resigned on 6 July 2015)*	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Yi	— Reading materials/attending external and in house seminars and programmes
Mr. Duan Jidong	— Reading materials/attending external and in house seminars and programmes
Mr. Wong Cheuk Lam	— Reading materials/attending external and in house seminars and programmes
Mr. Zhang Jianbin	— Reading materials/attending external and in house seminars and programmes

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the financial statements of the Group in accordance with the relevant laws and disclosure stipulations of the Listing Rules and ensuring that these financial statements give a true and fair view of the state of affairs of the Group, its results and cash flows for the relevant period. The Board also ensures the timely publication of the financial statements of the Group. The Board confirms that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern.

The responsibilities of the external auditors are to express an independent opinion on the financial statements prepared by the Directors based on their audit and to report their opinion solely to all the Shareholders, and for no other purpose. The statement of external auditor of the Company, Crowe Horwath (HK) CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the "Independent Auditor's Report" of this report.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2015, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB976,000 (equivalent to approximately HK$1,200,000).

For the year ended 31 December 2015, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB1,274,000 (equivalent to approximately HK$1,566,000).

INTERNAL CONTROL AND INTERNAL COMPLIANCE GUIDELINES

The Board has to be fully responsible for the stability and effectiveness of the systems of internal control and risk management of the Group. Such systems were set up by the Group to fulfill specific needs of the Group and the risks that its management faces. The Group has set up rigorous procedures to avoid unauthorised use or disposal of the Group's assets, ensure proper maintenance of accounting records, and provide reliable financial information for internal and external uses.

The Board has assigned internal audit department to conduct a review on the internal control system, work flow and management system of the Group. The result was satisfactory. Such systems and work flow are compliant to the internal compliance guidelines of the Group.

For the year ended 31 December 2015, through reviews conducted by the Audit Committee and study results from internal audit department, the Board has conducted a review on the compliance of internal control system and internal compliance guidelines, and has come to the conclusion that such system and guidelines have been effectively executed and followed.

CORPORATE GOVERNANCE MEASURES

During the Year Under Review, since no new opportunities relating to the Restricted Activity (as defined in the Company's prospectus dated 12 November 2010, the "Prospectus") were referred to the Group, the Independent Non-executive Directors had not reviewed any decision in relation to new opportunities referred to the Group.

The Independent Non-executive Directors had, however, reviewed the compliance with the non-competition undertaking entered into by Golden Land International Limited ("Golden Land"), Mr. Zhao Li Sheng ("Mr. Zhao"), Golden Morning International Limited ("Golden Morning") and Ms. Chan Lok San ("Ms. Chan"), the controlling shareholders of the Company (the "Controlling Shareholders"), in favour of the Company under the Deed of Non-Competition (as defined in the Prospectus), the options, pre-emptive rights or first rights of refusals, if any, provided by the Controlling Shareholders on its existing or future competing businesses. The Independent Non-executive Directors confirmed that the terms of the Deed of Non-Competition were complied with by the Controlling Shareholders during the Year Under Review. The Independent Non-executive Directors are not aware of any breach of the terms of the Deed of Non-Competition by the Controlling Shareholders and therefore, no enforcement action was taken against the Controlling Shareholders by the Company during the Year Under Review.

Each of the Controlling Shareholders has confirmed that he/she/it has, during the Year Under Review, complied with the non-competition undertaking under the Deed of Non-Competition.

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the company secretary of the Company on 25 June 2009. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant requirement under Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training. His biographical details are set out in the paragraph headed "Directors' and Senior Management's Biographies" in this report.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene and putting forward proposals at an extraordinary general meeting

Extraordinary general meetings shall be convened on the written requisition of any one or more Shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the company secretary by mail to Rooms 1906-1907, 19th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, or by e-mail to kingw@kingworld.com.cn.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investors is crucial so as to let them have a deeper understanding of the Company's business and its development. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the Company has formulated investor relations policies for the purpose of letting investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.kingworld.com.cn to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 30 March 2016

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in distribution of imported branded pharmaceutical and healthcare products in the PRC. As at 31 December 2015, the Group managed a portfolio of ten categories with more than sixty products including pharmaceutical products, healthcare products, general foodstuffs and medical products from fourteen suppliers and/or manufacturers in Japan, United States, Canada, Hong Kong, Taiwan, Thailand and the PRC. Many of the products distributed by the Group are established brand names including Nin Jiom Chuan Bei Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil, Kyushin Pill and Mentholatum Product Series. Amongst these brands, "Nin Jiom" has always been the best-seller of the Group. Nin Jiom Chuan Bei Pei Pa Koa is also the best-selling Chinese medical cough relieving product in the PRC, which is the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2015 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 69 to 163.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2015 of HK$1.53 cents per share to Shareholders whose names appear on the register of members of the Company on Wednesday, 8 June 2016, amounting to approximately HK$9,524,000, subject to the approval from the Company's forthcoming annual general meeting to be held on Monday, 30 May 2016. Total dividend payout ratio is 25.5% of the profit for the year attributable to owners of the Company. The above-mentioned final dividend is expected to be paid on or before Thursday, 30 June 2016.

CLOSURE OF THE REGISTER OF MEMBERS

To be eligible to attend and vote in the forthcoming annual general meeting

The register of members of the Company will be closed from Thursday, 26 May 2016 to Monday, 30 May 2016 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investors Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Wednesday, 25 May 2016.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Monday, 6 June 2016 to Wednesday, 8 June 2016 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investors Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Friday, 3 June 2016.

Report of the Directors

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 13 to 31. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the five-year "Financial Summary" on page 164. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus our Group provides competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Our Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between our Group and its business partners or bank enterprises.

KEY RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

The principal business of the Group has used RMB and HK$ as the functional and operational currencies. The Group faces foreign exchange risk arising from RMB and HK$. The Group has no major risks in changes in other currency exchange rates.

Liquidity Risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

LITIGATION

During the audit reviewing process for the year ended 31 December 2015, it was revealed that a claim was filed against (the former substantial shareholder of Dong Di Xing and Dong Di Xing by the former Chief Executive Officer (CEO) of Dong Di Xin, to the relevant PRC court in relation to his CEO service contract that claimed and demanded: , among other things, (1) to request the former substantial shareholder to transfer his 15% equity interest in Dong Di Xing to the former CEO; and (2) to request Dong Di Xing to assist in the said equity transfer.

The Company became aware of this claim and received some of the relevant documents in March 2016 and is currently gathering more information and seeking legal opinion on this claim to assess possible adverse effect (if any) against the Company. The judgment of claim is yet issued, and the Company will make further announcement(s) as and when appropriate according to the Listing Rules.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 31 December 2015, the Group had used net proceeds of approximately RMB134,920,000, of which RMB4,000,000 had been applied for upgrading the transportation and delivery services to customers, RMB15,760,000 had been applied for expanding the product display booth scheme, approximately RMB20,600,000 as working capital and approximately RMB94,560,000 has been applied for acquisition of Dong Di Xin. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The Share Option Scheme was conditionally approved by a written resolution of the shareholders of the Company dated 5 November 2010. Details of the Share Option Scheme are set out in the Prospectus.

The principal terms of the Share Option Scheme are summarised as follows:

(a) The maximum number of the Company's shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not exceed 10% of the nominal amount of all issued shares of the Company as at the Listing Date (i.e. 25 November 2010, the "Listing Date") (which were 600,000,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

    As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 60,000,000 shares, which represents 10% of the issued shares as at the Listing Date and approximately 9.64% of the issued shares of the Company as at the date of this report.

(b) The total number of shares issued and to be issued upon the exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

(c) The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to the relevant participant and shall be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's shares on the date of grant of the option.

(d) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

(e) An offer for the grant of options must be accepted within 7 days inclusive of the day on which such offer was made and must be accepted in its entirety and any number of shares which is less than what has been offered under any circumstances shall not be accepted. The amount payable by the grantee of an option to the Company on acceptance for the grant of an option is HK$1.

(f) Any grant of an option to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the option).

(g) The Share Option Scheme shall be valid and effective commencing on the date of adoption of the Share Option Scheme, (i.e. 5 November 2010), and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof.

A summary of share options granted under the Share Option Scheme of the Company during the year ended 31 December 2015 is as follows:

Grantees	Position held with the Group and/or relationship with the Group	Date of grant	Option Period (Note 4)	Exercise Price per Share (HK$) (Note 5)	Number of Share Options: Outstanding as at 1 January 2015	Granted during the Period	Cancelled during the Period	Lapsed during the Period	Outstanding as at 31 December 2015	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Chairman/Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	520,000	–	–	520,000	0.08%
Ms. Chan Lok San (Note 2)	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	468,000	–	–	468,000	0.08%
Lin Yusheng (Note 3)	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	468,000	–	–	468,000	0.08%
Zhou Xuhua	Executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	468,000	–	–	468,000	0.08%
DuanJidong	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	412,000	–	–	412,000	0.07%
Zhang Jianbin	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	412,000	–	–	412,000	0.07%
Wong Cheuk Lam	Independent non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	412,000	–	–	412,000	0.07%
Zhang Yi	Non-executive Director	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	412,000	–	–	412,000	0.07%
Sub-total of Share Options granted to Directors						3,572,000			3,572,000	0.57%
57 Employees	Employees of the Group	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	13,236,000	–	–	13,236,000	2.13%
Sub-total of Share Options granted to Directors and Employees						16,808,000			16,808,000	2.70%
5 Consultants	Consultants of the Group	1 June 2015	1 June 2015 to 31 May 2017	2.54	–	300,000	–	–	300,000	0.05%
Hong Kong Zhixin Financial News Agency Ltd. (香港智信財經通訊社有限公司) ("Hong Kong Zhixin") (Note 6)	Consultant of the Group	9 October 2015	9 October 2015 to 8 October 2018	2.54	–	6,200,000	–	–	6,200,000	0.99%
Total						**23,308,000**			**23,308,000**	**3.74%**

Note 1: Zhao Li Sheng is also a substantial shareholder of the Company through his beneficialinterest, interests of spouse and controlled corporation.

Note 2: Ms. Chan Lok San (being the spouse of Zhao Li Sheng) is also a substantial shareholderof the Company through interests of spouse and controlled corporation.

Note 3: Lin Yusheng resigned as executive director of the Company on 6 July 2015.

Note 4: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.The value of the Share Options granted during the period ended 31 December 2015 was zero as such performance target(s) and terms set for the Share Options had not been achieved by the end of the Year Under Review.

Note 5: The closing price of the Share on the date of grant of Share Options on 1 June 2015 was HK$2.45.

Note 6: On 9 October 2015, the Company entered into the Service Contract with Hong Kong Zhixin pursuant to which the Company has agreed to appoint Hong Kong Zhixin as a public relations consultant of the Company in Hong Kong and Mainland China for the provision of the services for a term of three years. In consideration of the provision of the services by Hong Kong Zhixin, the Company has agreed to (i) pay HK$30,000 per month to Hong Kong Zhixin during the term of the service, and (ii) grant Share Options to Hong Kong Zhixin or its nominees to subscribe for an aggregate of 6,200,000 new Shares under the Share Option Scheme at the exercise price of HK$2.54 per share.

BORROWINGS

Details of the Group's borrowings as at 31 December 2015 are set out in note 27 to the Financial Statements.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year Under Review or subsisted at the end of the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, the Company's subsidiaries or holding companies, or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the Year Under Review.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association of the Company, each Director or other officers of the Company shall be indemnified out of the assets and profits of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

GOING CONCERN

Based on the current financial position and the available financing facilities, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a "going concern" basis.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the Year Under Review and up to the date of this report, at least 25% of the issued shares of the Company was held by public shareholders.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 31 to the Financial Statements.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 73 of the Consolidated Statement of Changes in Equity and note 31 to the Financial Statements.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 December 2015, the aggregate amount of reserves available for distribution to owners of the Company was RMB198,281,000 (as at 31 December 2014: RMB226,804,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK$1.53 cents (equivalent to RMB1.28 cents) (2014: HK$1.92 cents, equivalent to RMB1.51 cents) per share amounting to RMB7,968,000 (2014: RMB9,400,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB875,000 (2014: RMB1,594,000).

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group are set out in note 13 to the Financial Statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2015. Increase in fair value of investment properties due to revaluation amounted to approximately RMB11,900,000 and from acquisition of subsidiaries of approximately RMB3,560,000, which has been included in the Consolidated Statement of Profit or Loss. Details of changes in the Group's investment properties for the year ended 31 December 2015 are set out in note 14 of the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the terms of the Company's Articles of Association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2015 are set out in note 16 to the Financial Statements.

Report of the Directors

DIRECTORS

The Directors of the Company during the year ended 31 December 2015 and up to the date of this report have been:

Executive Directors

Mr. Zhao Li Sheng *(Chairman)*
Ms. Chan Lok San
Mr. Zhou Xuhua
Mr. Lin Yusheng *(resigned on 6 July 2015)*

Non-executive Directors

Mr. Zhang Yi

Independent Non-executive Directors

Mr. Duan Jidong
Mr. Wong Cheuk Lam
Mr. Zhang Jianbin

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 32 to 36 under the paragraph headed "Directors' and Senior Management's Biographies" in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that it has received from each Independent Non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers, based on the confirmations received, the Independent Non-executive Directors remain independent.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions and positions held with the Company. Details of the remuneration of the Directors are set out in note 11 to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 4 (2014 : 4) Directors. Details of the five highest paid individuals are set out in note 12 to the Financial Statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the executive Directors (other than Mr. Lin Yusheng) has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the service contract had been renewed until being terminated pursuant to the terms of the service contract. Mr. Lin Yusheng entered into a service contract with the Company for the period from 5 November 2013 to 31 December 2014, which may be terminated by not less than three months' prior notice in writing served by either party on the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the service contract had been renewed until being terminated pursuant to the terms of the service contract. Mr. Lin resigned as an executive Director of the Company on 6 July 2015 in order to devote more time to his own endeavours.

For the Year Under Review, the annual remuneration payable to each of the executive Directors was as follows:

	RMB'000
Mr. Zhao Li Sheng	1,142
Ms. Chan Lok San	956
Mr. Zhou Xuhua	922
Mr. Lin Yusheng (resigned on 6 July 2015)	3,051

Under their respective service contracts, each of the executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Remuneration Committee and approved by the Board. Mr. Lin Yusheng will also be entitled to an additional bonus if he can procure the completion of acquisitions by the Company during his term of service under the new service contract, the amount of which will depend on the number of acquisitions conducted and completed by the Company and/or the decision of the Remuneration Committee.

Each of the executive Directors will also be entitled to reimbursement of reasonable expenses including traveling, hotel, entertainment and other expenses properly incurred in the performance of his or her duties under the relevant service contract.

Non-executive Directors

Mr. Zhang Yi has entered into a letter of appointment with the Company for a term of three years commencing from 17 December 2014, subject to the requirements for retirement by rotation and re-election in accordance with the Company's articles of association. The letter of appointment may be terminated by three months' prior notice in writing served by either party to the other. Under the letter of appointment, Mr. Zhang is currently entitled to an annual basic salary of HK$176,400 (which will be pro-rated to the period of services in the year of his appointment). Mr. Zhang will also be entitled to reimbursement of reasonable expenses including travelling, hotel and other expenses properly incurred in the performance of his duties under the letter of appointment.

For the Year Under Review, the annual remuneration payable to the Non-executive Director was as follows:

	RMB'000
Mr. Zhang Yi	—

Independent Non-executive Directors

Each of the Independent Non-executive Directors (other than Mr. Zhang Jianbin) has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the letter of appointment had been renewed until being terminated pursuant to the terms of the letter of appointment. Mr. Zhang Jianbin has signed a letter of appointment with the Company for a term of three years commencing from 1 August 2013, which may be terminated by giving three months' notice in writing by either party to the other. Subject to the retirement and re-election at the annual general meeting of the Company in accordance with (inter alia) the Memorandum and Articles, the letter of appointment can be renewed until being terminated pursuant to the terms of the letter of appointment.

For the Year Under Review, the annual remuneration payable to each of the Independent Non-executive Directors was as follows:

	RMB'000
Mr. Duan Jidong	130
Mr. Wong Cheuk Lam	148
Mr. Zhang Jianbin	130

Each of the Independent Non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his/her duties under the relevant appointment letter.

Save as disclosed above, none of the Directors has entered or is proposed to enter into any service agreements with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", during the year ended 31 December 2015, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2015, the interests and short positions held by the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Beneficial owner	9,392,000	1.51%
	Interest of spouse	90,000,000	14.46%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Interest of spouse	307,204,250	49.35%
	Interest of a controlled corporation	90,000,000	14.46%
Zhou Xuhua (Note 3)	Interest of spouse	3,800,000	0.61%
Zhang Yi (Note 4)	Interest of a controlled corporation	62,250,000	10.00%

Notes:

1. In addition to 9,392,000 shares which are beneficially owned by Mr. Zhao Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 387,812,250 shares in the Company. These shares are held in the following capacities:

   (a) 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

   (b) 90,000,000 shares are held by Golden Morning. Ms. Chan Lok San, the spouse of Mr. Zhao, is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 90,000,000 shares held by Golden Morning.

2. Ms. Chan Lok San is deemed (by virtue of the SFO) to be interested in 397,204,250 shares in the Company. These shares are held in the following capacities:

   (a) 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms.Chan is also the sole director of Golden Morning.

   (b) 9,392,000 shares are held by Mr. Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 9,392,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

3. Mr. Zhou is deemed (by virtue of the SFO) to be interested in 3,800,000 shares in the Company held by his spouse, Huang Xiaoli.

4. Pursuant to the subscription agreement dated 15 September 2014 (as supplemented by the supplemental agreements dated 9 October 2014 and 15 December 2014), Sinopharm Capital designated Shine Light Investment Fund and Legend Times Corporation Limited as its nominees to hold the convertible bonds in the principal amount of HK$93,686,250 and HK$40,151,250, respectively. The long position represents the interests in the 62,250,000 shares to be allotted and issued upon the full exercise of the conversion rights attached to the convertible bond in the aggregate principal amount of HK$133,837,500 at an initial conversion price of HK$2.15 issued by the Company on 17 December 2014.

   Shine Light Investment Fund is deemed to be interested in 62,250,000 shares/underlying shares of the Company within the meaning of Part XV of the SFO, representing 10% of the issued share capital of the Company, by virtue of a concert party agreement with Legend Times Corporation Limited. Hwabao Trust Co. Ltd* (華寶信託有限責任公司) holds 95,000 non-voting shares in Shine Light Investment Fund, representing approximately 99.89% of the issued share capital of Shine Light Investment Fund, as the trustee of a fixed trust which the beneficiary is Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership)* (上海聖眾投資管理合夥企業). Mr. Zhang Yi controls one-third of the voting power at matters of Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership). Hence, Mr. Zhang Yi is deemed to be interested in 62,250,000 shares/underlying shares of the Company within the meaning of Part XV of the SFO.

(II) Long positions in the underlying shares – share options under share option scheme

Name of Directors	Date of grant	Option Period (Note 4)	Exercise Price per Share (HK$) (Note 5)	Number of Share Options: Outstanding as at 1 January 2015	Granted during the Period	Cancelled during the Period	Lapsed during the Period	Outstanding as at 31 December 2015	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	520,000	–	–	520,000	0.08%
Ms. Chan Lok San (Note 2)	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	468,000	–	–	468,000	0.08%
Lin Yusheng (Note 3)	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	468,000	–	–	468,000	0.08%
Zhou Xuhua	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	468,000	–	–	468,000	0.08%
DuanJidong	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	412,000	–	–	412,000	0.07%
Zhang Jianbin	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	412,000	–	–	412,000	0.07%
Wong Cheuk Lam	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	412,000	–	–	412,000	0.07%
Zhang Yi	1 June 2015	1 June 2015 to 31 May 2019	2.54	–	412,000	–	–	412,000	0.07%
Total					**3,572,000**			**3,572,000**	0.57%

Note 1: Zhao Li Sheng is also a substantial shareholder of the Company through his beneficial interest, interests of spouse and controlled corporation.

Note 2: Ms. Chan Lok San (being the spouse of Zhao Li Sheng) is also a substantial shareholder of the Company through interests of spouse and controlled corporation.

Note 3: Lin Yusheng resigned as executive director of the Company on 6 July 2015.

Note 4: The vesting and exercise of certain Share Options are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant. The value of the Share Options granted during the year ended 31 December 2015 was zero as such performance target(s) and terms set for the Share Options had not been achieved by the end of the Period under review.

Note 5: The closing price of the Share on the date of grant of Share Options on 1 June 2015 was HK$2.45.

(III) Interests in the shares of the associated corporations of the Company

Name of Directors	Name of associated corporations	Capacity/Nature of Interest	Percentage of shareholding
Zhao Li Sheng	Golden Land	Beneficial owner	100%
Chan Lok San	Golden Morning	Beneficial owner	100%
Zhang Yi	Shine Light Investment Fund	Beneficial owner	33.33%

As at 31 December 2015, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2015, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2015, so far as was known to the Directors, the interests or short positions held by the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Interests in the Shares

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Golden Land	Beneficial owner	297,812,250	47.84%
Golden Morning	Beneficial owner	90,000,000	14.46%
Zhao Li Sheng (Note 1)	Beneficial owner	9,392,000	1.51%
	Interest of spouse	90,000,000	14.46%
	Interest of a controlled corporation	297,812,250	47.84%
Chan Lok San (Note 2)	Interest of spouse	307,204,250	49.35%
	Interest of a controlled corporation	90,000,000	14.46%
Sinopharm Healthcare Fund L.P. (Note 3)	Beneficial owner	62,187,750	9.99%
Sinopharm Capital Limited (Note 4)	Interest of a controlled corporation	62,187,750	9.99%
Shine Light Investment Fund (Note 5)	Interest of a party to an agreement to acquire interests	62,250,000	10.00%
Shine Light Fund Management Limited (Note 6)	Interest of a controlled corporation	62,250,000	10.00%
Hwabao Trust Co. Ltd. (Note 7)	Trustee of a trust	62,250,000	10.00%
上海聖眾投資管理合伙企業(有限合伙) Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership) (Note 8)	Beneficiary of a trust (other than a discretionary trust)	62,250,000	10.00%
Zhang Yi (Note 9)	Interest of a controlled corporation	62,250,000	10.00%
Legend Times Corporation Limited (Note 5)	Interest of a party to an agreement to acquire interests	62,250,000	10.00%

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Chief Marine Limited (Note 10)	Interest of a controlled corporation	62,250,000	10.00%
CDBI Parnters Fund I, L.P. (Note 11)	Interest of a controlled corporation	62,250,000	10.00%
CDBI Parnters GP, Ltd (Note 12)	Interest of a controlled corporation	62,250,000	10.00%
Tan Ching (Note 13)	Interest of a controlled corporation	62,250,000	10.00%
Sun Hill Capital Investments Limited (Note 14)	Interest of a controlled corporation	124,437,750	19.99%
Wu Aimin (Note 15)	Interest of a controlled corporation	124,437,750	19.99%

Notes:

1. In addition to 9,392,000 shares which are beneficially owned by Mr. Zhao Li Sheng, Mr. Zhao is deemed (by virtue of the SFO) to be interested in 387,812,250 shares in the Company. These shares are held in the following capacities:

    (a) 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 297,812,250 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

    (b) 90,000,000 shares are held by Golden Morning. Ms. Chan Lok San, the spouse of Mr. Zhao, is the beneficial owner of the entire Issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 397,204,250 shares in the Company. These shares are held in the following capacities:

    (a) 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.

    (b) 9,392,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 297,812,250 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 9,392,000 shares held by Mr. Zhao and the 297,812,250 shares held by Golden Land.

3. Pursuant to the share purchase agreement entered into between Golden Land and Sinopharm Capital dated 16 September 2014 (as supplemented by the supplemental agreements dated 7 November 2014 and 15 December 2014), Sinopharm Capital designated Sinopharm Healthcare Fund L.P. as its nominee to acquire 62,187,750 shares of the Company from Golden Land for a consideration of HK$133,703,662.5.

4. The corporate substantial shareholder notice filed by Sinopharm Capital Limited indicated that it controlled 1.91% interest in Sinopharm Healthcare Fund L.P.

5. Pursuant to the subscription agreement dated 15 September 2014 (as supplemented by the supplemental agreements dated 9 October 2014 and 15 December 2014), Sinopharm Capital designated Shine Light Investment Fund and Legend Times Corporation Limited as its nominees to hold the convertible bond in the principal amount of HK$93,686,250 and HK$40,151,250, respectively. The long position represents the interests in the 62,250,000 shares to be allotted and issued upon the full exercise of the conversion rights attached to the convertible bond in the aggregate principal amount of HK$133,837,500 at an initial conversion price of HK$2.15 issued by the Company on 17 December 2014.

   Shine Light Investment Fund is deemed to be interested in 62,250,000 shares/underlying shares of the Company within the meaning of Part XV of the SFO, representing 10% of the issued share capital of the Company, by virtue of a concert party agreement with Legend Times Corporation Limited.

6. The corporate substantial shareholder notice filed by Shine Light Fund Management Limited indicated that it controlled 0.11% interest in Shine Light Investment Fund.

7. The corporate substantial shareholder notice filed by Hwabao Trust Co. Ltd. indicated that it controlled 99.89% interest in Shine Light Investment Fund and is a trustee of a trust namely 華寶-境外市場投資1號系列2期QDII單一資金信託合同(HwaBao QDII Investment in Overseas Market Contract).

8. The corporate substantial shareholder notice filed by 上海聖眾投資管理合伙企業(有限合伙) Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership) indicated that it is a beneficiary of a trust namely 華寶-境外市場投資1號系列2期QDII單一資金信託合同 (HwaBao QDII Investment in Overseas Market Contract).

9. The director's notice filed by Zhang Yi indicated that he controlled 33.33% interest in Shanghai Shengzhong Investments Management Partnership Enterprise (Limited Partnership).

10. The corporate substantial shareholder notice filed by Chief Marine Limited indicated that it controlled 100% interest in Legend Times Corporation Limited.

11. The corporate substantial shareholder notice filed by CDBI Parnters Fund I, L.P. indicated that it controlled 100% interest in Chief Marine Limited and indirectly controlled 100% interest in Legend Times Corporation Limited.

12. The corporate substantial shareholder notice filed by CDBI Parnters GP, Ltd indicated that it, through CDBI Parnters Fund I, L.P., indirectly controlled 100% interest in Chief Marine Limited and Legend Times Corporation Limited.

13. The individual substantial shareholder notice filed by Tan Ching indicated that he controlled 99% interest in CDBI Parnters GP, Ltd and, indirectly through CDBI Parnters Fund I, L.P., controlled 100% interest in Chief Marine Limited and Legend Times Corporation Limited.

14. The corporate substantial shareholder notice filed by Sun Hill Capital Investments Limited indicated that it controlled 100% interest in Sinopharm Capital Limited and indirectly controlled 1.91% interest in Sinopharm Healthcare Fund L.P., 100% interest in Shine Light Fund Management Limited and 0.11% interest in Shine Light Investment Fund.

15. The individual substantial shareholder notice filed by Wu Aimin indicated that he controlled 70% interest in Sun Hill Capital Investments Limited and, indirectly controlled 100% interest in Sinopharm Capital Limited, 1.91% interest in Sinopharm Healthcare Fund L.P., 100% interest in Shine Light Fund Management Limited and 0.11% interest in Shine Light Investment Fund.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2015, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

Save as disclosed in the paragraph headed "Share Option Scheme" in this report, at no time during the Year Under Review, the Company or any of its subsidiaries had no arrangements to enable the Directors or executives (including their spouse and children under 18 years of age) of the Company to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2015 and during any time for the year ended 31 December 2015, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2015 and during any time for the year ended 31 December 2015, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "Continuing Connected Transactions", as at 31 December 2015 and during any time for the year ended 31 December 2015, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance entered into or proposed to be entered into with the Company in relation to the Company's business.

CONNECTED TRANSACTION

On 24 June 2015, the Company through Kingworld Medicines Health Management Limited (金活醫藥健康管理有限公司), a wholly-owned subsidiary of the Company, entered into the Partnership Agreement with Sinopharm Capital Limited (as a general partner of Sinopharm Fund).

Pursuant to the Partnership Agreement, the Group has committed to invest US$5 million(equivalent to approximately HK$38.9 million) to subscribe approximately 3.89% of the aggregate initial limited partners' interest of Sinopharm Fund.

Sinopharm Fund has been established in the Cayman Islands as an exempted limited partnership with the primary objective of investing in public and private companies in the healthcare industry, including but not limited to pharmaceutical manufacturing, medical equipment, medical research, healthcare service, medical service and healthcare, that are organized and/or operating in Greater China, or with a significant nexus to Greater China.

As at the date of this report, Sinopharm Fund holds approximately 9.99% of the total issued share capital of the Company. Although Sinopharm Fund is not a substantial shareholder of the Company under the Listing Rules, given its relationship with the Company, the Company is willing to follow the relevant connected transaction requirements pursuant to Chapter 14A of the Listing Rules.

For details, please refer to the announcement of the Company dated 24 June 2015.

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year Under Review.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2015, the Group had entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in note 36 to the Financial Statements.

The recurring related party transactions set out in note 36 to the Financial Statements fall within the definition of "continuing connected transaction" under Chapter 14A of the Listing Rules while the key management remuneration set out in Note 11 to the Financial Statements do not fall within the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules. The Company has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

As disclosed in the announcement of the Company dated 16 November 2012 and the circular of the Company dated 7 December 2012 (the "Circular"), on 16 November 2012, the Company entered into two new master distribution agreements with Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited (深圳市金活利生藥業有限公司) ("SZ Kingworld Lifeshine") and Yuen Tai Pharmaceuticals Limited (遠大製藥廠有限公司) ("Yuen Tai") respectively (collectively, the "New Master Distribution Agreements").

Unless otherwise defined herein, terms used in this section headed "New master distribution agreements for the three years ending 31 December 2015" shall have the same meanings as defined in the Circular.

New Master Distribution Agreements for the three years ending 31 December 2015

Transaction	Member of the Group	Connected person	Actual transaction amounts for the year ended 31 December 2015 RMB'000	Approximate annual cap for the year ended 31 December 2015 RMB'000
Purchase and distribution of Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	2,449	81,270
Purchase and distribution of Pharmaceutical and Healthcare Products from Yuen Tai	SZ Kingworld	Yuen Tai	—	33,520

Principal terms of the New Master Distribution Agreements are as follows:

SZ Kingworld Lifeshine Master Distribution Agreement

SZ Kingworld Lifeshine is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San (both being the executive Directors of the Company).

On 16 November 2012, SZ Kingworld Lifeshine and the Company entered into the SZ Kingworld Lifeshine Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advanced by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

Yuen Tai Master Distribution Agreement

Yuen Tai is a wholly-owned subsidiary of Morning Gold Medicine Company Limited, which is owned as to 51% by Mr. Zhao Li Sheng and 49% by Ms. Chan Lok San.

On 16 November 2012, Yuen Tai and the Company entered into the Yuen Tai Master Distribution Agreement, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the PRC for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (both days inclusive).

The terms and conditions (including but not limited to the prices) on which the pharmaceutical and healthcare products are to be purchased by members of the Group should be on normal commercial terms and no less favourable than those obtained from independent third parties by such member of the Group.

40% of the purchase price shall be paid in advanced by the relevant member of the Group within three days after such member of the Group has placed an order for each batch of products and the remaining purchase price shall be paid upon delivery of the products and the passing of the product examination.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditor of the Company has issued a letter to the Board confirming that the above continuing connected transactions:

(i) have received the approval of the Board;

(ii) did not involve the provision of goods or services by the Group;

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) did not exceed the respective annual caps as disclosed in the Circular.

2016 MASTER DISTRIBUTION AGREEMENTS

On 20 November 2015, (1) Kingworld Medicine Healthcare Limited (金活藥業健康發展有限公司), a wholly-owned subsidiary of the Company, entered into the 2016 Yuen Tai Master Distribution Agreement with Yuen Tai, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from Yuen Tai and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the Greater China a term of a year with effect from 1 January 2016 and ending on 31 December 2016 (both days inclusive); and (2) 深圳市金活醫藥有限公司 (Shenzhen Kingworld Medicine Company Limited), a wholly-owned subsidiary of the Company, entered into the 2016 SZ Kingworld Lifeshine Master Distribution Agreement with SZ Kingworld Lifeshine, pursuant to which the Group will purchase certain pharmaceutical and healthcare products from SZ Kingworld Lifeshine and act as the exclusive distributor for distribution of such pharmaceutical and healthcare products in the Greater China a term of a year with effect from 1 January 2016 and ending on 31 December 2016 (both days inclusive). For details, please refer to the announcement of the Company dated 20 November 2015.

PLEDGE OF ASSETS

As at 31 December 2015, the Group's bank loans were guaranteed by Mr. Zhao Li Sheng, the ultimate controlling party and Director of the Company, Ms. Chau Lok San, the Director of the Company and SZ Kingworld. As at 31 December 2014, the Group had pledged investment property, bank deposits and bills receivable in total amount of approximately RMB218,133,000.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the Year Under Review, the effective interest rate for fixed rate loans was 4.2%. Taking into account the cash flow generated from operations and the long and short-term bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2015, the Group had cash and cash equivalents of RMB132,478,000 (as at 31 December 2014: RMB230,028,000) which was mainly generated from operations of the Group, funds raised from the issue of convertible bond in September 2014 and the listing of the shares of the Company in November 2010.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year Under Review, the total turnover of the Group's five largest customers accounted for approximately 18.5% of the Group's revenue, in which turnover from the largest customer of the Group accounted for approximately 7.6% of the total revenue of the Group. During the same period, total purchases of the Group's five largest suppliers accounted for approximately 99.6% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 78.2% of the total purchase of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital, to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holdings of such securities.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2015 are set out in Note 2(w) to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

AUDITOR

The consolidated financial statements for the year ended 31 December 2015 have been audited by Crowe Horwath (HK) CPA Limited, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 30 March, 2016

Independent Auditor's Report

Crowe Horwath™

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF KINGWORLD MEDICINES GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kingworld Medicines Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 69 to 163, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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 judgment, 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 consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

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

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 30 March 2016

Betty P.C. Tse
Practising Certificate Number P03024

Consolidated Statement of Profit or Loss

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

	Note	2015 RMB'000	2014 RMB'000
Revenue	4	**713,548**	660,323
Cost of sales		**(486,771)**	(504,013)
Gross profit		**226,777**	156,310
Valuation gain on investment properties	14	**11,900**	3,610
Other revenue and other net loss	6	**(1,516)**	23,005
Selling and distribution costs		**(101,473)**	(87,734)
Administrative expenses		**(69,273)**	(45,890)
Amortisation of intangible assets	19	**(17,262)**	—
Profit from operations		**49,153**	49,301
Finance costs	7 (a)	**(15,738)**	(6,873)
Share of profit of a joint venture		**17,907**	6,239
Profit before taxation	7	**51,322**	48,667
Income tax	8	**(11,935)**	(10,802)
Profit for the year		**39,387**	37,865
Attributable to:			
Owners of the Company		**31,205**	37,865
Non-controlling interests		**8,182**	—
Profit for the year		**39,387**	37,865
Earnings per share	10		
Basic (RMB cents)		**4.74**	6.07
Diluted (RMB cents)		**4.74**	6.07

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	2015 RMB'000	2014 RMB'000
Profit for the year	**39,387**	37,865
Other comprehensive income/(loss) for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**(2,039)**	(357)
Available-for-sale investments: Change in fair value	**1,513**	—
	(526)	(357)
Total comprehensive income for the year (net of tax)	**38,861**	37,508
Attributable to:		
Owners of the Company	**29,601**	37,508
Non-controlling interests	**9,260**	—
Total comprehensive income for the year	**38,861**	37,508

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2015
(Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	13	**15,811**	5,121
Investment properties	14	**107,880**	92,420
Interest in a joint venture	18	**62,940**	45,033
Deposit paid for property, plant and equipment	15	**75,000**	75,000
Goodwill	17	**90,693**	—
Intangible assets	19	**116,165**	—
Available-for-sale financial assets	20	**9,609**	—
		478,098	217,574
Current assets			
Inventories	21	**79,005**	70,016
Trade and other receivables	22	**287,110**	417,774
Available-for-sale financial assets	20	**86,296**	—
Other financial asset	30	**4,604**	—
Financial assets at fair value through profit or loss	23	**14,040**	—
Pledged bank deposits	24	**—**	84,097
Cash and bank balances	25	**132,478**	230,028
		603,533	801,915
Current liabilities			
Trade and other payables	26	**159,047**	186,062
Other financial liability	30	**16,362**	—
Bank loans	27	**167,560**	228,677
Liability component of mandatorily convertible bonds	28	**4,155**	7,277
Current taxation	29(a)	**17,059**	12,868
		364,183	434,884
Net current assets		**239,350**	367,031
Total assets less current liabilities		**717,448**	584,605
Non-current liabilities			
Liability component of mandatorily convertible bonds	28	**—**	3,326
Deferred tax liabilities	29(b)	**30,182**	10,304
		30,182	13,630
NET ASSETS		**687,266**	570,975

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2015
(Expressed in Renminbi)

	Note	**2015** **RMB'000**	2014 RMB'000
CAPITAL AND RESERVES	31		
Share capital		**53,468**	53,468
Reserves		**537,918**	517,507
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**591,386**	570,975
NON-CONTROLLING INTERESTS		**95,880**	—
TOTAL EQUITY		**687,266**	570,975

Approved and authorised for issue by the board of directors on 30 March 2016.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statement of Changes in Equity

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

	Attributable to owners of the Company												
	Share capital RMB'000 (note 31(a))	Share premium RMB'000 (note 31(b))	Statutory and discretionary reserves RMB'000 (note 31(c))	Contributed surplus RMB'000 (note 31(d))	Property revaluation reserve RMB'000 (note 31(e))	Convertible bonds equity reserve RMB'000 (note 31(f))	Fair value reserve RMB'000 (note 31(g))	Exchange reserve RMB'000 (note 31(h))	Capital reserve RMB'000 (note 31(i))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2015	**53,468**	**152,700**	**33,936**	**29,068**	**5,003**	**94,905**	**–**	**(14,040)**	**–**	**215,935**	**570,975**	**–**	**570,975**
Changes in equity:													
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31,205**	**31,205**	**8,182**	**39,387**
Other comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**435**	**(2,039)**	**–**	**–**	**(1,604)**	**1,078**	**(526)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**435**	**(2,039)**	**–**	**31,205**	**29,601**	**9,260**	**38,861**
Appropriation of statutory and discretionary reserves	**–**	**–**	**221**	**–**	**–**	**–**	**–**	**–**	**–**	**(221)**	**–**	**–**	**–**
Dividends (note 9(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,400)**	**(9,400)**	**(143)**	**(9,543)**
Equity settled share-based transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**210**	**–**	**210**	**–**	**210**
Non-controlling interests arising from acquisition of subsidiaries (note 38)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**86,763**	**86,763**
At 31 December 2015	**53,468**	**152,700**	**34,157**	**29,068**	**5,003**	**94,905**	**435**	**(16,079)**	**210**	**237,519**	**591,386**	**95,880**	**687,266**
At 1 January 2014	53,468	152,700	32,681	29,068	5,003	–	–	(13,683)	–	198,187	457,424	–	457,424
Changes in equity:													
Profit for the year	–	–	–	–	–	–	–	–	–	37,865	37,865	–	37,865
Other comprehensive loss for the year	–	–	–	–	–	–	–	(357)	–	–	(357)	–	(357)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	–	(357)	–	37,865	37,508	–	37,508
Issuance of mandatorily convertible bonds	–	–	–	–	–	94,905	–	–	–	–	94,905	–	94,905
Appropriation of statutory and discretionary reserves	–	–	1,255	–	–	–	–	–	–	(1,255)	–	–	–
Dividends (note 9(b))	–	–	–	–	–	–	–	–	–	(18,862)	(18,862)	–	(18,862)
At 31 December 2014	53,468	152,700	33,936	29,068	5,003	94,905	–	(14,040)	–	215,935	570,975	–	570,975

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statement of Cash Flows

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

	Note	2015 RMB'000	2014 RMB'000
Operating activities			
Profit before taxation		**51,322**	48,667
Adjustments for:			
Depreciation	7(c)	**3,814**	1,724
Finance costs	7(a)	**15,738**	6,873
Interest income	6	**(4,313)**	(2,100)
Interest from available-for-sale financial investments	6	**(4,033)**	—
Loss on disposal of property, plant and equipment	7(c)	**40**	21
Write-off of other receivables	7(c)	**10**	—
Impairment losses of trade receivables	7(c)	**145**	—
Change in fair value of financial assets at fair value through profit or loss	6	**2,634**	—
Change in fair value of other financial asset	6	**2,573**	—
Change in fair value of other financial liability	6	**1,814**	—
Amortisation of intangible assets	7(c)	**17,262**	—
Share of profit of a joint venture		**(17,907)**	(6,239)
Valuation gain on investment properties	14	**(11,900)**	(3,610)
Write-down of inventories	21	**—**	1,102
Changes in working capital			
Decrease/(Increase) in inventories		**479**	(31,201)
Decrease/(Increase) in trade and other receivables		**167,631**	(44,618)
(Decrease)/Increase in trade and other payables		**(106,907)**	31,692
Cash generated from operations		**118,402**	2,311
Income tax paid		**(15,612)**	(7,541)
Net cash generated from/(used in) operating activities		**102,790**	(5,230)

The notes on pages 76 to 163 form part of these financial statements.

Consolidated Statement of Cash Flows

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

	Note	2015 RMB'000	2014 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(6,259)**	(1,973)
Proceeds from sale of property, plant and equipment		**—**	2
Payment for the available-for-sale financial assets		**(35,491)**	—
Payment for the financial assets at fair value through profit or loss		**(16,753)**	—
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries		**(147,821)**	—
Decrease/(increase) in bank deposits with maturity over three months		**29,850**	(29,850)
Interest received from available-for-sale financial investments		**4,033**	—
Interest received		**4,313**	2,100
Net cash used in investing activities		**(168,128)**	(29,721)
Financing activities			
Decrease /(increase) in pledged bank deposits		**84,097**	(65,994)
Proceeds from new bank loans		**167,560**	437,081
Repayment of bank loans		**(228,677)**	(306,782)
Proceeds from issuance of mandatorily convertible bonds		**—**	105,448
Finance costs paid		**(14,468)**	(6,813)
Dividend paid		**(9,400)**	(18,862)
Net cash (used in)/generated from financing activities		**(888)**	144,078
Net (decrease)/increase in cash and cash equivalents		**(66,226)**	109,127
Cash and cash equivalents at beginning of year		**200,178**	91,416
Effect of foreign exchange rate changes		**(1,474)**	(365)
Cash and cash equivalents at end of year	25	**132,478**	200,178

The notes on pages 76 to 163 form part of these financial statements.

1. GENERAL INFORMATION

Kingworld Medicines Group Limited (the "Company") was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 10 July 2008. The address of the Company's registered office and the principal place of business are disclosed in the corporate information in the annual report.

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in (i) distribution sale of branded imported pharmaceutical and healthcare products, and (ii) manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the People's Republic of China (the "PRC") and Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong 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 ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting year of the Group and the Company. Note 3 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 years reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except when otherwise indicated. The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have adopted Hong Kong dollars ("HK$") as their functional currency. The functional currency of the PRC subsidiaries is RMB. As the Group mainly operates in the Mainland China, RMB is used as the presentation currency of the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair values:

— investment properties (see note 2(f)); and

— financial instruments classified as available-for-sale or as trading securities (see note 2(e)).

— financial assets at fair value through profit or loss (see note 2(aa)).

The preparation of financial statements in conformity with HKFRSs 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 believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities 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 HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 33.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) *Subsidiaries and non-controlling interests*

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 and 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses (see note 2(j)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) *Joint ventures*

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) *Other investments in equity securities*

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(s) (v) and (iv).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(j)). Dividend income from equity securities is recognised in profit or loss in accordance with the policy set out in note 2(s) (v).

When the investments are derecognised or impaired, the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) *Investment properties*

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the consolidated statement of financial position at fair value, unless they are still in course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(s) (ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(h).

g) *Property, plant and equipment*

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less any accumulated depreciation and any accumulated impairment losses (see note 2(j) (ii)).

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:

—	leasehold improvements	5 years or over the remaining term of the lease, if shorter
—	furniture, fixtures and office equipment	5 to 10 years
—	machinery	10 years
—	motor vehicles	5 years

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

(i) when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

(ii) when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) *Property, plant and equipment (Continued)*

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.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Properties, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties, plant and equipment are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

h) *Leased assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Leased assets (Continued)*

i) *Classification of assets leased to the Group*

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(f)); and

— Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

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, cost 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets*

i) *Impairment of investments in equity securities and trade and other receivables*

Investments in equity securities and trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities 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;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For interest in a joint venture accounted for under the equity method in the consolidated financial statements (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j) (ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j) (ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Impairment of assets *(Continued)*

i) Impairment of investments in equity securities and trade and other receivables (Continued)

— For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the 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.

— For available-for-sale securities which are stated at fair value, when a decline in the fair value has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets (Continued)*

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;

— intangible assets;

— goodwill;

— deposit paid for property, plant and equipment; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 whenever 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) *Impairment of assets (Continued)*

ii) *Impairment of other assets (Continued)*

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses 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.

iii) *Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j) (i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

k) *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, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(j) (i)).

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) *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.

n) *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 three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

o) *Income tax*

Income tax for the year 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 items recognised in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity, respectively.

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

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 differences 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) *Income tax (Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, 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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 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 Company or 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group 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.

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) 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.

r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations outside Mainland China are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) *Translation of foreign currencies (Continued)*

On the disposal of an operation outside Mainland China, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

s) *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) *Sales 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 and other sales taxes and is stated after deduction of returns and discounts.

ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iii) *Promotional service income*

Promotional service income is recognised when the services are rendered.

iv) *Interest income*

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

v) *Dividends*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Segment reporting*

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's directors, i.e., the chief operating decision-makers, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

u) *Mandatorily convertible bonds*

Mandatorily convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. An instrument that is mandatorily convertible into a fixed number of the Company's ordinary shares and the Company does not have contractual obligation to redeem the principal amount is, in substance, a prepaid forward purchase of the Company's equity shares. This component shall be classified as equity of the Group. When the instrument carries an obligation for the Company to make fixed interest payments during the life of the mandatorily convertible bonds, the instrument includes a financial liability component. On initial recognition, the fair value of the liability component is determined using prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the instrument and the fair value assigned to the liability component was included in equity (convertible bonds equity reserve).

In subsequent periods, the liability component of the instrument is carried at amortised cost using the effective interest method. The equity component, representing the mandatory conversion option to convert into a fixed number of ordinary shares of the Company, will remain in reserve as convertible bonds equity reserve until the instrument is mandatorily converted into shares at maturity date or the mandatory conversion option is exercised by the holders, in which case the balance stated in convertible bonds equity reserve will be transferred to share capital and share premium accounts.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Incomes Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) i) *Business combinations (Continued)*

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 Financial Instruments: Recognition and Measurement, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

ii) *Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units that is expected to benefit from the synergies of the combination.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) ii) Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

w) Employee benefits

i) Short term employee benefits and contribution to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contribution 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.

ii) Defined contribution retirement plan obligation

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) *Employee benefits* *(Continued)*

iv) Share-based payments

Where equity instruments such as share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 39 to the financial statements. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

At the time when the share options are exercised, the amount previously recognised in Capital reserve will be transferred to share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in Capital reserve will be transferred to accumulated losses.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

x) *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.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

y) Intangible assets (other than goodwill)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Customer relationship	8 years
– Patents	5 years

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

z) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets as a reduction in the depreciation charge of the assets. Grants related to expense items are recognised in the same period as those expenses are charged to the profit or loss and are reported separately as other revenue and other net income in profit or loss.

aa) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" (see note 2(s)).

(Expressed in Renminbi unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

aa) *Financial assets at fair value through profit or loss* (Continued)

Financial assets designated upon initial recognition as at fair value through profit or loss are designated as at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKAS 19, Employee benefits: Defined benefit plans: Employee contributions

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the Group does not have any defined benefit plans.

Annual Improvements to HKFRSs 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, HKAS 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.

4. REVENUE

Revenue represents sales of branded imported pharmaceutical and healthcare products, electrotherapeutic and physiotherapeutic devices, and general medical examination devices at net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the year.

	2015 **RMB'000**	2014 RMB'000
Sales of		
– pharmaceutical products	**444,023**	611,200
– healthcare products	**128,389**	49,123
– medical devices	**141,136**	—
	713,548	660,323

5. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's director for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

1. Distribution sales of pharmaceutical and healthcare products: this segment distributes and sells branded imported pharmaceutical and healthcare products primarily in Hong Kong and the PRC.

2. Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices: this segment manufactures and sells electrotherapeutic and physiotherapeutic devices and general medical examination devices. Currently, the Group's activities in this regard are primarily carried out in the PRC.

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's director monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments, trading securities, deferred tax assets and other corporate assets. Segment liabilities include provisions and trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, director is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

5. SEGMENT REPORTING *(Continued)*

a) *Segment results, assets and liabilities (Continued)*

Information regarding the Group's reportable segments as provided to the Group's director for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below.

Continuing operations

	Distribution sales of pharmaceutical and healthcare products				Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices			
	Hong Kong		PRC		PRC		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**99,815**	28,250	**544,670**	708,378	**141,136**	—	**785,621**	736,628
Inter-segment revenue	**489**	1,355	**302**	—	**—**	—	**791**	1,355
Reportable segment revenue	**100,304**	29,605	**544,972**	708,378	**141,136**	—	**786,412**	737,983
Reportable segment profit (adjusted EBITDA)	**24,688**	2,248	**41,231**	40,162	**34,822**	—	**100,741**	42,410
Interest income from bank deposits	**5**	387	**1,752**	682	**31**	—	**1,788**	1,069
Interest expense	**1**	—	**8,146**	6,813	**—**	—	**8,147**	6,813
Depreciation and amortisation for the year	**690**	695	**1,109**	1,029	**19,277**	—	**21,076**	1,724
Reportable segment assets	**178,598**	65,229	**569,161**	853,814	**278,054**	—	**1,025,813**	919,043
(including investment in joint venture)	**—**	—	**62,940**	45,033	**—**	—	**62,940**	45,033
Additions to non-current segment assets during the year	**90,693**	—	**2,567**	1,973	**153,542**	—	**246,802**	1,973
Reportable segment liabilities	**32,685**	38,792	**117,677**	414,120	**52,817**	—	**203,179**	452,912

5. SEGMENT REPORTING *(Continued)*

b) *Reconciliations of reportable segment revenues, profit or loss, assets and liabilities*

Continuing operations

	2015 RMB'000	2014 RMB'000
Revenue		
Reportable segment revenue	**786,412**	737,983
Elimination of inter-segment revenue	**(791)**	(1,355)
Elimination of group's share of revenue of joint venture	**(72,073)**	(76,305)
Consolidated revenue (note 4)	**713,548**	660,323

	2015 RMB'000	2014 RMB'000
Profit		
Reportable segment profit derived from group's external customers and joint venture	**100,741**	42,410
Other revenue and other net loss	**(1,516)**	23,005
Depreciation and amortisation	**(21,076)**	(1,724)
Finance costs	**(15,738)**	(6,873)
Unallocated head office and corporate expenses	**(11,089)**	(8,151)
Consolidated profit from continuing operations before taxation	**51,322**	48,667

5. SEGMENT REPORTING *(Continued)*

b) *Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (Continued)*

Continuing operations (Continued)

	2015 RMB'000	2014 RMB'000
Assets		
Reportable segment assets	**1,025,813**	919,043
Elimination of inter-segment receivables	**(33,004)**	(38,790)
	992,809	880,253
Non-current financial assets	**9,609**	—
Trading securities	**14,040**	—
Unallocated head office and corporate assets	**65,173**	139,236
Consolidated total assets	**1,081,631**	1,019,489

	2015 RMB'000	2014 RMB'000
Liabilities		
Reportable segment liabilities	**203,179**	452,912
Elimination of inter-segment payables	**(33,004)**	(38,790)
	170,175	414,122
Current tax liabilities	**17,059**	12,868
Deferred tax liabilities	**30,182**	10,304
Unallocated head office and corporate liabilities	**176,949**	11,220
Consolidated total liabilities	**394,365**	448,514

5. SEGMENT REPORTING *(Continued)*

c) *Geographic Information*

The following is an analysis of geographical location of (i) the Group's revenue from continuing operations from external customers and (ii) the Group's property, plant and equipment, investment properties, deposit paid for property, plant and equipment, intangible assets, goodwill and interest in a joint venture. The geographical location of customers is based on to the location at which the goods delivered. The geographical locations of property, plant and equipment and investment properties are based on the physical location of the asset under consideration. In the case of intangible assets and goodwill, it is based on the location of the operation to which they are allocated. In the case of interests in joint venture, it is the location of operations of such joint venture.

	Revenues from external customers		Specified non-current assets	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**613,733**	632,073	**377,630**	216,750
Hong Kong	**99,815**	28,250	**90,859**	824
	713,548	660,323	**468,489**	217,574

d) *Information about major customers*

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

6. OTHER REVENUE AND OTHER NET LOSS

Other revenue

	2015 RMB'000	2014 RMB'000
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**4,313**	2,100
Interest from available-for-sale financial investments	**4,033**	—
Gross rental income from investment properties	**2,740**	2,302
Promotional service income	**10,630**	19,730
Government grant (note)	**466**	4,800
Others	**578**	14
	22,760	28,946

Other net loss

	2015 RMB'000	2014 RMB'000
Exchange loss	**(17,255)**	(5,941)
Change in fair value of other financial asset	**(2,573)**	—
Change in fair value of other financial liability	**(1,814)**	—
Change in fair value of financial assets at fair value through profit or loss	**(2,634)**	—
	(24,276)	(5,941)
	(1,516)	23,005

Note: Government grant is awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the following:

	2015 RMB'000	2014 RMB'000
a) Finance costs		
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans	**14,468**	6,813
Interest imputed on the liability component of mandatorily convertible bonds	**1,270**	60
	15,738	6,873
b) Staff costs (including directors' and chief executive's remuneration)		
Salaries and other benefits	**58,974**	37,837
Contributions to defined contribution retirement plan	**7,573**	5,663
	66,547	43,500
c) Other items		
Amorisation for intangible assets (note 19)	**17,262**	—
Auditor's remuneration		
– audit service	**976**	691
– non-audit services	**1,274**	894
Cost of inventories (note 21)	**486,771**	504,013
Depreciation (note 13)	**3,814**	1,724
Impairment losses on trade receivables (note 22(c))	**145**	—
Reversal of impairment loss on trade receivables (note 22(c))	**—**	(45)
Write-off of other receivables	**10**	—
Loss on disposal of property, plant and equipment	**40**	21
Operating lease charges in respect of land and buildings	**5,355**	5,575
Rental income from investment properties less direct outgoings of RMB139,000 (2014: RMB129,000)	**(2,740)**	(2,173)
Research and development cost	**7,415**	—

Note:

(i) Cost of inventories includes approximately RMB19,915,000 (2014: Nil) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

a) *Income tax in the consolidated statement of profit or loss represents:*

	2015 RMB'000	2014 RMB'000
Hong Kong Profits tax		
– Current year	**5,600**	642
PRC Income tax		
– Current year	**6,201**	9,228
– Under-provision in respect of prior years	**—**	30
	6,201	9,258
Deferred tax (note 29(b))		
– Origination and reversal of temporary differences	**134**	902
	11,935	10,802

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

ii) The provision for Hong Kong Profits Tax for the years ended 31 December 2015 and 31 December 2014 is calculated at 16.5% of the estimated assessable profits for the year.

iii) The PRC income tax charge of the Group during the year ended 31 December 2015 represented mainly the PRC income tax charge from the Group's subsidiary, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") and is based on a statutory rate of 25% (2014: 25%), except for a newly acquired PRC subsidiary, Shenzhen Dong Di Xin Technology Company Limited ("Dong Di Xin"), which is based on a preferential income tax rate of 15%.

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

b) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2015 RMB'000	2014 RMB'000
Profit before taxation	**51,322**	48,667
Notional tax on profit before taxation, calculated at the rates applicable in the countries concerned	**10,437**	10,000
Tax effect of non-deductible expenses	**5,234**	2,352
Tax effect of non-taxable income	**(4,509)**	(282)
Tax effect of utilised tax losses	**—**	(2,027)
Tax effect of unrecognised temporary differences	**510**	729
Tax effect of unused tax losses not recognised	**263**	—
Under-provision in previous years	**—**	30
Actual tax expense	**11,935**	10,802

c) As at 31 December 2015, the undistributed profits of the Group's PRC subsidiaries amounted to RMB258,200,000 (2014: RMB221,316,000) for which the potential deferred tax liabilities of RMB12,910,000 (2014: RMB11,066,000) have not been recognised in these financial statements because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. DIVIDENDS

a) Dividends payable to owners of the Company attributable to the year

	2015 RMB'000	2014 RMB'000
Final dividend proposed after the end of the reporting period of HK1.53 cents (equivalent to RMB1.28 cents) (2014: HK1.92 cents (equivalent to RMB1.51 cents)) per ordinary share	**7,968**	9,400
	7,968	9,400

The final dividend for the year ended 31 December 2015 proposed after the end of the reporting period is subject to approval by the Company's shareholders in the forthcoming annual general meeting. It has not been recognised as a liability at the end of the reporting period.

b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year

	2015 RMB'000	2014 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.92 cents (equivalent to approximately RMB1.51 cents) (2014: HK3.86 cents (equivalent to approximately RMB3.03 cents))	**9,400**	18,862

10. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	2015 RMB'000	2014 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**31,205**	37,865
Interest imputed on the liability component of mandatorily convertible bonds	**1,270**	60
Earnings for the purpose of basic earnings per share	**32,475**	37,925

	2015 '000	2014 '000
Number of shares		
Weighted average number of ordinary shares in issue	**622,500**	622,500
Effect of weighted average number of ordinary shares to be issued upon the conversion of mandatorily convertible bonds*	**62,250**	2,558
Weighted average number of ordinary shares for the purpose of basic earnings per share	**684,750**	625,058

* As disclosed in note 28 the convertible bonds are mandatorily convertible into ordinary shares of the Company on the maturity date. Shares that are issuable solely after the passage of time are not contingently issuable shares and are included in the calculation of basic earnings per share.

b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2015 was the same as the basic earnings per share because the exercise price of the share options granted was higher than the weighted average market price of the Company's shares during the period from the date of grant of share options to 31 December 2015.

Diluted earnings per share for the year ended 31 December 2014 was the same as the basic earnings per share because there were no dilutive potential ordinary shares outstanding during the year.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and the chief executive's emoluments are as follows:

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary contributions RMB'000	Retirement bonuses scheme RMB'000	Total RMB'000
2015					
Executive directors:					
Zhao Li Sheng (chief executive officer)	**—**	**1,142**	**—**	**—**	**1,142**
Chan Lok San	**—**	**956**	**—**	**—**	**956**
Lin Yusheng (resigned on 6 July 2015)	**—**	**3,046**	**—**	**5**	**3,051**
Zhou Xuhua	**—**	**870**	**—**	**52**	**922**
Independent non-executive directors:					
Duan Jidong	**130**	**—**	**—**	**—**	**130**
Wong Cheuk Lam	**148**	**—**	**—**	**—**	**148**
Zhang Jianbin	**130**	**—**	**—**	**—**	**130**
Non-executive director:					
Zhang Yi	**—**	**—**	**—**	**—**	**—**
	408	**6,014**	**—**	**57**	**6,479**
2014					
Executive directors:					
Zhao Li Sheng (chief executive officer)	—	1,110	—	26	1,136
Chan Lok San	—	924	—	26	950
Lin Yusheng	—	829	—	7	836
Zhou Xuhua	—	758	—	52	810
Independent non-executive directors:					
Duan Jidong	140	—	—	—	140
Wong Cheuk Lam	139	—	—	—	139
Zhang Jianbin	140	—	—	—	140
Non-executive director:					
Zhang Yi (appointed on 17 December 2014)	—	—	—	—	—
	419	3,621	—	111	4,151

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

During the years ended 31 December 2015 and 2014, no amount was paid or payable to the directors or chief executive or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director or chief executive waived or agreed to waive any remuneration during both years.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 4 (2014: 4) directors during the year, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the remaining individual are as follows:

	2015 **RMB'000**	2014 RMB'000
Salaries and other emoluments	**911**	760
Retirement scheme contributions	**7**	21
	918	781

The emoluments of individuals other than directors with the highest emoluments are within the following band:

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

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
At 1 January 2014	1,368	4,723	—	7,498	13,589
Exchange adjustments	1	1	—	12	14
Additions	228	1,745	—	—	1,973
Disposals	—	(175)	—	—	(175)
At 31 December 2014	1,597	6,294	—	7,510	15,401
At 1 January 2015	1,597	6,294	—	7,510	15,401
Exchange adjustments	6	5	—	211	222
Acquisition of subsidiaries (note 38)	2,235	3,807	9,566	815	16,423
Additions	—	2,927	3,145	187	6,259
Disposals	—	(413)	(10)	(112)	(535)
At 31 December 2015	3,838	12,620	12,701	8,611	37,770
Accumulated depreciation					
At 1 January 2014	611	2,927	—	5,163	8,701
Exchange adjustments	(2)	(1)	—	10	7
Charge for the year	218	661	—	845	1,724
Disposals	—	(152)	—	—	(152)
At 31 December 2014	827	3,435	—	6,018	10,280
At 1 January 2015	827	3,435	—	6,018	10,280
Exchange adjustments	7	4	—	180	191
Acquisition of subsidiaries (note 38)	1,557	2,328	4,066	218	8,169
Charge for the year	769	1,244	888	913	3,814
Disposals	—	(368)	(26)	(101)	(495)
At 31 December 2015	3,160	6,643	4,928	7,228	21,959
Carrying amount					
At 31 December 2015	678	5,977	7,773	1,383	15,811
At 31 December 2014	770	2,859	—	1,492	5,121

14. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2014	88,810
Fair value adjustment	3,610
At 31 December 2014 and 1 January 2015	92,420
Acquisition of subsidiaries (note 38)	3,560
Fair value adjustment	11,900
At 31 December 2015	107,880

a) The Group's investment properties were revalued as at 31 December 2015 and 2014 respectively on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The valuations were carried out by independent firms of valuers, DTZ Debenham Tie Leung Limited and ROMA Appraisals Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

b) The Group's investment properties are held under medium-term lease in the PRC.

c) At 31 December 2015, no investment properties (2014: RMB86,920,000) were pledged to secure bank loans and banking facilities granted to the Group (note 27(c)).

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties*

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2015 RMB'000	**Fair value measurements as at 31 December 2015 categorised into**		
		Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**107,880**	**—**	**—**	**107,880**

	Fair value at 31 December 2014 RMB'000	Fair value measurements as at 31 December 2014 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	92,420	—	—	92,420

14. INVESTMENT PROPERTIES *(Continued)*

d) *Fair value measurement of properties (Continued)*

(i) *Fair value hierarchy (Continued)*

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) *Information about Level 3 fair value measurements*

		Valuation techniques	Unobservable input	Range
Investment properties – Commercial – Mainland China	(i)	Direct comparison method	Sales evidence of comparable properties (adjusted for the difference in the quality and location of the properties)	RMB34,653-RMB37,837 per square meter (2014: Nil)
	(ii)	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	4.5% (2014: 3.5% - 4.5%)
			Expected market rental growth	6% (2014: 2% - 5%)
			Expected occupancy rate	100% (2014: 100%)

The fair value of investment properties located in Mainland China is determined by (i) direct comparison method with reference to the sales evidence of comparable properties (adjusted for difference in the quality and location of the properties) or where appropriate, (ii) discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rate used has been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the sales price of comparable properties, the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	The Group	
	2015 RMB'000	2014 RMB'000
Investment properties – Commercial – Mainland China		
At 1 January	**92,420**	88,810
Acquisition of subsidiaries (note 38)	**3,560**	—
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	**11,900**	3,610
At 31 December	**107,880**	92,420

14. INVESTMENT PROPERTIES *(Continued)*

e) The Group leases out investment properties under operating leases. The leases run for a period for two to four years (2014: two to four years). None of the leases include contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2015	2014
	RMB'000	RMB'000
Within 1 year	**1,575**	2,709
After 1 year but within 5 years	**1,725**	3,300
	3,300	6,009

f) All properties held under operating lease that would otherwise meet the definition of investment property are classified as investment property.

15. DEPOSIT PAID FOR PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2011, the Group and an independent third party ("the Vendor") entered into an agreement and a supplementary agreement ("the Agreements"), pursuant to which the Group agreed to acquire, and the Vendor agreed to sell certain properties ("the Properties") in Shenzhen, in the PRC. The Properties are to be constructed by the Vendor and will be delivered to the Group before the end of 2016 and used as the Group's office. The proposed consideration is RMB75,000,000 which is subject to adjustment when the details of the Properties are fixed. As at 31 December 2015, the Group paid an aggregate deposit of RMB75,000,000 (2014: RMB75,000,000).

(Expressed in Renminbi unless otherwise indicated)

16. SUBSIDIARIES

The following is a list of principal subsidiaries at 31 December 2015.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Class of shares held	Particulars of issued and paid up capital	Principal activities
Kingworld Medicine and Healthcare Group Limited ("BVI Kingworld")	BVI/Hong Kong	100%	Ordinary	111 shares of US$1 each	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100%	Ordinary	195,546,680 shares	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
金活(香港)控股有限公司 Kingworld (Hong Kong) Holdings Limited	Hong Kong	100%	Ordinary	1 share	Investment holding
深圳市金活醫藥有限公司 SZ Kingworld Medicine Company Limited (note (b)) ("SZ Kingworld")	The PRC	100%	Registered	RMB180,900,000	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC
深圳市東迪欣科技有限公司 Shenzhen Dong Di Xin Technology Company Limited (note (c)) ("Dong Di Xin")	The PRC	55%	Registered	RMB2,000,000	Manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices in the PRC

16. SUBSIDIARIES *(Continued)*

Notes:

a) Except for BVI Kingworld which is directly owned by the Company, all other subsidiaries are indirectly owned by the Company.

b) Wholly-foreign owned enterprise established in the PRC.

c) Limited liability company established in the mainland China.

d) The English name of the above PRC subsidiary is for identification purpose only.

The following table lists out the information relating to Dong Di Xin, the only subsidiary of the group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Dong Di Xin	
	2015	2014
	RMB'000	RMB'000
NCI percentage	**45%**	—
Current assets	**141,268**	—
Non-current assets	**132,183**	—
Current liabilities	**(43,820)**	—
Non-current liabilities	**(17,533)**	—
Net assets	**212,098**	—
Carrying amount of NCI	**95,444**	—
Revenue	**141,136**	—
Profit for the year	**17,081**	—
Total comprehensive income	**16,860**	—
Profit allocated to NCI	**7,587**	—
Dividend paid to NCI	**143**	—
Cash flows from operating activities	**2,911**	—
Cash flows from investing activities	**(27,420)**	—
Cash flows from financing activities	**—**	—

17. GOODWILL

	RMB'000
Cost	
At 1 January 2014, 31 December 2014 and 1 January 2015	—
Acquisition of subsidiaries (note 38)	90,693
As at 31 December 2015	90,693
Accumulated impairment	
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	—
Carrying amount	
At 31 December 2015	90,693
At 31 December 2014	—

The goodwill arose on acquisition of Dong Di Xin during the year ended 31 December 2015.

The recoverable amount of the cash-generating units ("CGU") has been determined based on a value in use calculation. At 31 December 2015, the recoverable amount of the CGU of goodwill is determined taking into account the valuation performed by ROMA Appraisals Limited, independent professional valuer not connected to the Group, based on the cash flows forecasts derived from the most recent financial budgets for the next 5 years (2014: Nil) approved by the management using the discounted rate of 14.83% per annum (2014: Nil) which reflects current market assessments of the time value of money and the risks specific to the CGU. Other key assumptions for the value in use calculations are the budgeted growth rate of 3% and budgeted gross margin of 42%, which are determined based on past performance, management's expectations for the market development and market growth forecasts.

Based on the results of the valuation, the recoverable amount has been assessed as being higher than the carrying amount. Accordingly, no impairment loss (2014: Nil) has been recognised for the year.

The management believes that any reasonably possible change in the key assumptions would not cause the revised carrying amount of the goodwill to exceed its recoverable amount.

18. INTEREST IN A JOINT VENTURE

	2015 RMB'000	2014 RMB'000
Share of net assets	**62,940**	45,033

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of entity	Form of business structure	Place of incorporation and operation	Class of shares held	Particulars of issued and paid up capital	Proportion of ownership interest held by a subsidiary of the Group at effective interest	Principal activities
珠海市金明醫藥有限公司 Zhuhai City Jinming Medicine Company Limited ("Zhuhai Jinming")	Limited liability company	The PRC	Registered	RMB5,000,000	50%	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

Notes:

a) Zhuhai Jinming was established by a subsidiary of the Company with a pharmaceutical and healthcare products distributor in Mainland China, the other investor to this joint venture, to carry out the Group's distribution sales of pharmaceutical and healthcare products in Guangdong province in the PRC.

b) The English name of the above PRC joint venture is for identification purpose only.

Zhuhai Jinming, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

18. INTEREST IN A JOINT VENTURE *(Continued)*

Summarised financial information of Zhuhai Jinming and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2015 RMB'000	2014 RMB'000
Gross amounts of Zhuhai Jinming		
Current assets	**54,177**	53,185
Non-current assets	**119,575**	81,496
Current liabilities	**(32,670)**	(37,708)
Non-current liabilities	**(15,202)**	(6,908)
Equity	**125,880**	90,065
Included in the above assets and liabilities:		
Cash and cash equivalents	**3,234**	4,454
Current financial liabilities (excluding trade and other payables)	**(4,193)**	(6,853)
Non-current financial liabilities	**(15,202)**	(6,908)
Revenue	**144,146**	152,610
Profit from continuing operations	**35,815**	12,479
Other comprehensive income	**—**	—
Total comprehensive income	**35,815**	12,479
Included in the above profit:		
Depreciation	**(268)**	(233)
Interest income	**26**	19
Income tax expense	**(12,645)**	(4,180)
Reconciled to the Group's interest in Zhuhai Jinming		
Gross amounts of Zhuhai Jinming's net assets	**125,880**	90,065
Group's effective interest	**50%**	50%
Carrying amount in the consolidated financial statements	**62,940**	45,033

	2015 RMB'000	2014 RMB'000
Share of the joint venture's capital commitments at the end of the reporting period (note 34(b)):		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**—**	1,730

(Expressed in Renminbi unless otherwise indicated)

18. INTEREST IN A JOINT VENTURE *(Continued)*

The fair value of Zhuhai Jinming's investment properties as at 31 December 2015 and 31 December 2014 were determined on an open market value basis calculated by reference to net rental income allowing for reversionary income potential, which is categorized under Level 3 fair value measurements. The valuations at 31 December 2015 and 31 December 2014 were carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued.

Information about Level 3 fair value measurements is as follows:

	Valuation techniques	Unobservable input	Range
Investment properties	Discounted cash flow	Risk-adjusted discount rate (i.e. market rental yield)	6% (2014: 6.5%)
Commercial – PRC		Expected market rental growth	6% (2014: 2%-5%)
		Expected occupancy rate	100% (2014: 70%-80%)

The fair value of investment properties of Zhuhai Jinming is determined by discounting a projected cash flow forecast associated with the properties using risk-adjusted discount rate which is the market rental yield for the properties. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rate.

19. INTANGIBLE ASSETS

	Customer relationship (note a) RMB'000	Patents (note b) RMB'000	Total RMB'000
Cost			
At 1 January 2014, 31 December 2014 and 1 January 2015	—	—	—
Acquisition of subsidiaries (note 38)	104,727	28,700	133,427
At 31 December 2015	104,727	28,700	133,427
Accumulated amortisation and impairment			
At 1 January 2014, 31 December 2014 and 1 January 2015	—	—	—
Charge for the year	12,000	5,262	17,262
At 31 December 2015	12,000	5,262	17,262
Carrying amount			
At 31 December 2015	92,727	23,438	116,165
At 31 December 2014	—	—	—

(a) The customer relationship has a finite useful life and is amortised on a straight-line basis over 8 years.

(b) The patents represent the patent rights and know-how of the Group in relation to the manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices which is amortised on a straight-line basis over 5 years.

The directors of the Company conducted an impairment review of the Group's customer relationship and the patents. The recoverable amount of the customer relationship and patents have been determined taking into account the valuation performed by ROMA Appraisals Limited, independent professional valuer not connected to the Group, based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year to 10-year period according to the remaining contractual lives for the customer relationship and patents, and at a discount rate of 15.83% and 16.83% per annum respectively (2014: Nil). Other key assumptions for the value in use calculations are budgeted growth rate of 3% and budgeted gross margin of 42%, which are determined based on past performance, management's expectations for the market development and market growth forecasts.

As a result of the impairment review, the recoverable amounts of the customer relationship and the patents have been assessed to be higher than their carrying amounts and accordingly no impairment loss is recogaized for the year (2014: Nil).

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	2015 RMB'000	2014 RMB'000
Non-current			
Unlisted Equity Investment, at cost	(a)	**300**	—
Unlisted Equity Investments, at fair value	(b)	**9,309**	—
		9,609	—
Current			
Bank Wealth Management Products, at fair value	(c)	**86,296**	—

Notes:

(a) This available-for-sale investment represents investment in unlisted equity securities which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. As at 31 December 2015, the Group's unlisted equity securities were stated at cost less impairment, if any, because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose it in the near future.

(b) Included in unlisted equity investments at 31 December 2015 are:

(i) investment in 3.89% interest in the Sinopharm Healthcare Fund L. P. (the "Fund") which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. Pursuant to the Partnership Agreement signed on 24 June 2015, the Group has committed to invest US$5 million (equivalent to approximately RMB33.93 million) to subscribe approximately 3.89% of the aggregate initial Limited Partners' interest of the Fund. During 2015, the Group has contributed US$1.5 million (equivalent to approximately RMB10.18 million) into the Fund. The fair value is determined taken into account the valuation performed by Brilliant Appraisal Limited, independent professional valuer not connected to the Group, based on the quoted prices of equity instruments on which the Fund invested in. As at 31 December 2015, the fair value of the investment is approximately RMB8.2 million. The Group does not intend to dispose it in the near future.

(ii) investment in 15% interest in the Dong Hua Tong Investments Limited which are designated as available-for-sale financial assets and has no fixed maturity date or coupon rate. The fair value of the investment was also determined with reference to valuation performed by Brilliant Appraisal Limited based on the median of the market multiples of market comparable companies after adjusting for lack of marketability and control discount. As at 31 December 2015, the fair value of the investment is approximately RMB1.1 million. The Group does not intend to dispose it in the near future.

(c) The amount represents investments in bank wealth management products issued by banks with expected return range from 3.95% to 5.25% per annum and will mature within one year. The carrying amount approximated the fair value. The fair values are approximate to their costs plus expected return by reference to valuation performed by ROMA Appraisal Limited, independent professional valuers not connected to the Group.

21. INVENTORIES

	2015 **RMB'000**	2014 RMB'000
Raw materials	**3,382**	—
Work in progress	**3,370**	—
Finished goods	**71,394**	70,016
Goods in transit	**859**	—
	79,005	70,016

The analysis of the amount of inventories recognised as an expense is as follows:

	2015 **RMB'000**	2014 RMB'000
Carrying amount of inventories sold	**486,771**	502,911
Write-down of inventories	**—**	1,102
	486,771	504,013

22. TRADE AND OTHER RECEIVABLES

	2015 **RMB'000**	2014 RMB'000
Trade and bills receivables (notes (b) to (e))	**176,184**	361,510
Less: Allowance for doubtful debts (note (c))	**(4,726)**	(4,591)
	171,458	356,919
Other receivables	**27,271**	12,733
Other loan	**45,446**	—
Amount due from a director (note (f))	**2,914**	2,853
Loans and receivables	**247,089**	372,505
Prepayments	**23,275**	22,548
Trade and other deposits	**964**	15,812
Trade deposits to related parties (note 36(b))	**15,782**	6,909
	287,110	417,774

a) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

b) *Ageing analysis*

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis based on invoice date, as of the end of the reporting period:

	2015 **RMB'000**	2014 RMB'000
0-90 days	**132,703**	326,940
91-180 days	**23,094**	20,167
181-365 days	**15,412**	9,321
More than 1 year	**249**	491
	171,458	356,919

The Group generally granted credit terms ranging from 30 days to 90 days to its customers. Further details on the Group's credit policy are set out in note 32(a).

c) *Impairment of trade and bills receivables*

Impairment losses in respect of trade and bills receivables 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 and bills receivables directly.

Movements in the allowance for doubtful debts:

	2015 **RMB'000**	2014 RMB'000
At 1 January	**4,591**	4,636
Impairment losses recognised (note 7(c))	**145**	—
Uncollectible amount written off	**(10)**	—
Impairment losses reversed (note 7(c))	**—**	(45)
At 31 December	**4,726**	4,591

As at 31 December 2015, the Group's trade and bills receivables of RMB4,726,000 (2014: RMB4,591,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding over a long period and management assessed that receivables are expected to be irrecoverable. Accordingly, specific allowances for doubtful debts of RMB4,726,000 (2014: RMB4,591,000) were recognised as at 31 December 2015. The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

d) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired is as follows:

	2015 **RMB'000**	2014 RMB'000
Neither past due nor impaired	**132,703**	326,940
Past due but not impaired		
– 91-180 days	**23,094**	20,167
– 181-365 days	**15,412**	9,321
– More than 1 year	**249**	491
	38,755	29,979
	171,458	356,919

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

Receivables that were past due but not impaired relate to a number of individual 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. The Group does not hold any collateral over these balances.

e) As at 31 December 2015, no bills receivables (2014: RMB47,116,000) were pledged for bank loans and banking facilities granted to the Group (note 27(c)).

(Expressed in Renminbi unless otherwise indicated)

22. TRADE AND OTHER RECEIVABLES *(Continued)*

f)

Name of director	Zhao Li Sheng
Position	Executive director and chief executive officer
Terms of the amount due	
– duration and repayment terms	Repayable on demand
– interest rate	Interest free
– security	None
Balance of the amount due	
– at 1 January 2014	Nil
– at 31 December 2014, and 1 January 2015	RMB2,853,000
– at 31 December 2015	RMB2,914,000
Maximum balance outstanding	
– during 2015	RMB2,914,000
– during 2014	RMB2,853,000

There was no amount due but unpaid, or any provision made against the amount due from a director at 31 December 2015.

g) Transfer of financial assets

At 31 December 2015, the Group discounted a bill receivable with a carrying amount of approximately RMB18,447,000 (2014: Nil) to a bank in the PRC (the "Derecognised Bill") for cash. The Derecognised Bill has a remaining maturity of one month at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC and relevant discounting arrangement with the bank, the holder of the Derecognised Bill has a right of recourse against the Group if the PRC bank and/or the issuers of bills receivables default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bill. Accordingly, it has derecognised the full carrying amount of the Derecognised Bill. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bill and the undiscounted cash flows to repurchase the Derecognised Bill equal to their carrying amount. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bill is not significant since the likelihood that the Bank will default is remote.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bill (2014: Nil). No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 **RMB'000**	2014 RMB'000
Listed securities		
– Chuangmei Pharmaceutical Co., Ltd. ("Chuangmei")	**14,040**	—

The above financial assets at 31 December 2015 were upon initial recognition, designated by the Company as at fair value through profit or loss.

Chuangmei was incorporated in the PRC and the share of which are listed on Main Board of the Hong Kong Stock Exchange. As of 31 December 2015, a total of 2,302,000 ordinary share of Chuangmei are held by the Company, representing 2.13% of Chuangmei's total issued ordinary shares.

As at 31 December 2015, the value of Chuangmei ordinary shares was recorded at the closing price on the date of the financial position.

24. PLEDGED BANK DEPOSITS

No bank deposits are pledged to banks as security for bank loans and banking facilities (2014: RMB84,097,000) granted to the Group (see note 27(c)). Pledged banks deposits carry effective interest rate of Nil (2014: 0.35%-3.95%) per annum as at 31 December 2015.

25. CASH AND BANK BALANCES

	2015 **RMB'000**	2014 RMB'000
Bank balances	**132,093**	199,995
Cash on hand	**385**	183
Cash and cash equivalents in the consolidated statement of cash flows	**132,478**	200,178
Bank deposits with maturity over three months	**—**	29,850
Cash and bank balances in the consolidated statements of financial position	**132,478**	230,028

Deposits with banks carry effective interest rates ranging from 0.01% to 0.35% (2014: 0.01% to 2.9%) per annum as at 31 December 2015.

26. TRADE AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Trade payables (note (b))	**116,386**	157,172
Accruals	**10,314**	4,818
Other payables	**22,087**	21,848
Financial liabilities measured at amortised cost	**148,787**	183,838
Trade deposits received	**10,260**	2,224
	159,047	186,062

a) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

b) Ageing analysis

Included in trade and other payables are trade payables with the following ageing analysis (presented based on invoice date) as of the end of the reporting period. The credit terms granted by the suppliers were generally ranging from 45 days to 90 days.

	2015 RMB'000	2014 RMB'000
0-90 days	**116,386**	148,676
91-180 days	**—**	8,496
	116,386	157,172

27. BANK LOANS

The bank loans are secured and repayable as follows:

	2015	2014
	RMB'000	RMB'000
Within 1 year or on demand	**167,560**	228,677

a) All of the bank loans are carried at amortised cost.

b) The range of effective interest rates on the Group's bank loans are as follows:

	2015	2014
Effective interest rates:		
Fixed rate loans	**4.2%**	2.0% - 5.0%

c) The bank loans were secured by the following assets of the Group.

	2015	2014
	RMB'000	RMB'000
Investment property (note 14(c))	—	86,920
Bills receivables (note 22(e))	—	47,116
Pledged bank deposits (note 24)	—	84,097
	—	218,133

The Group's bank loans amounted to RMB167,560,000 as at 31 December 2015 were guaranteed by Mr. Zhao Li Sheng, the ultimate controlling party and director of the Group, Ms. Chan Lok San, the director of the Group, and SZ Kingworld.

28. MANDATORILY CONVERTIBLE BONDS

	2015 RMB'000	2014 RMB'000
Liability component:		
Fair value of interest payments up to 16 June 2016 (maturity date)	**4,155**	10,603
At 31 December	**4,155**	10,603
Representing:		
Current portion	**4,155**	7,277
Non-current portion	**—**	3,326

On 15 September 2014, the Company and 國藥集團資本管理有限公司 (Sinopharm Capital Management Company Limited*) (the "Subscriber"), an independent third party, entered into a subscription agreement (as supplemented by a supplemental agreement and second supplemental agreement dated 9 October 2014 and 15 December 2014 respectively), pursuant to which the Subscriber agreed to subscribe and pay for the Company's mandatorily convertible bonds with an aggregate principal amount of HK$133,837,500 (equivalent to RMB105,584,000). On 17 December 2014, the mandatorily convertible bonds were issued to Shine Light Investment Fund and Legend Times Corporation Limited (the "Holders"), as designated by the Subscriber, with net proceeds of RMB105,448,000 after deducting issue expenses. The mandatorily convertible bonds bear interest at 7.4% per annum and will mature on 16 June 2016. The mandatorily convertible bonds entitle the Holders to convert the mandatorily convertible bonds into 62,250,000 ordinary shares of the Company at a conversion price of HK$2.15 at any time on or after 17 December 2014 up to the maturity date, provided that each conversion must be in respect of a minimum aggregate principle amount of HK$13,383,750 (equivalent to RMB10,558,000). Any mandatorily convertible bonds not converted up to the maturity date are mandatory to be converted into ordinary shares of the Company at the maturity date.

* The English name of the above PRC incorporated entity is for identification purpose only.

28. MANDATORILY CONVERTIBLE BONDS *(Continued)*

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2014	—	—	—
Mandatorily convertible bonds issued	10,543	94,905	105,448
Imputed interest charged to consolidated statement of profit or loss	60	—	60
31 December 2014 and 1 January 2015	10,603	94,905	105,508
Imputed interest charged to consolidated statement of profit or loss	1,270	—	1,270
Interest paid	(8,168)	—	(8,168)
Exchange adjustments	450	—	450
At 31 December 2015	**4,155**	**94,905**	**99,060**

At the date of issue of the mandatorily convertible bonds, the fair value of the liability component of the mandatorily convertible bonds was determined based on a valuation performed by ROMA Appraisals Limited, an independent firm of professional valuers with recognised qualifications and experiences using discounted cash flow model. The effective interest rate of the liability component is 12.9% per annum. The liability component represents the fair value of the future interest payable to the Holders up to its maturity date on 16 June 2016. The residual amount was assigned as the equity component of the mandatorily convertible bonds.

No new shares of the Company were issued upon exercise of the mandatorily convertible bonds during the year ended 31 December 2015.

29. CURRENT AND DEFERRED TAX

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

	2015 RMB'000	2014 RMB'000
At 1 January	**12,868**	10,509
Acquisition of subsidiaries (note 38)	**8,002**	—
Provision for the year		
– Hong Kong Profits Tax	**5,600**	642
– PRC Income Tax	**6,201**	9,258
	11,801	9,900
Paid during the year	**(15,612)**	(7,541)
At 31 December	**17,059**	12,868
Representing		
– Hong Kong Profits Tax	**6,452**	642
– PRC Income Tax	**10,607**	12,226

b) Deferred tax liabilities recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Amortisation of intangible assets RMB'000	Revaluation of investment properties RMB'000	Revaluation of other property RMB'000	Total RMB'000
At 1 January 2014	—	9,230	172	9,402
Charged to consolidated statement of profit or loss (note 8(a))	—	902	—	902
At 31 December 2014	—	10,132	172	10,304
At 1 January 2015	**—**	**10,132**	**172**	**10,304**
Acquisition of subsidiaries (note 38)	**20,014**	**(270)**	**—**	**19,744**
(Credited)/charged to consolidated statement of profit or loss (note 8(a))	**(2,589)**	**2,723**	**—**	**134**
At 31 December 2015	**17,425**	**12,585**	**172**	**30,182**

c) Deferred tax assets and liabilities not recognised

Save as disclosed in note 8(c), there were no significant unrecognised deferred tax assets and liabilities of the Group and the Company as at 31 December 2015 and 2014.

30. DERIVATIVE FINANCIAL INSTRUMENTS

Other financial asset

The other financial asset of the Group as at 31 December 2015 represented the profit guarantee (the "Profit Guarantee") provided by the vendors to the Group in respect of the acquisition of Dong Di Xin. The vendors undertake that the consolidated profit of Dong Di Xin shall not be less than RMB32,047,000, RMB35,252,000 and RMB38,777,000 for the years ended 31 December 2015, and ending 31 December 2016 and 31 December 2017, respectively, and will compensate the Group for any shortfall between the guaranteed profits and the actual profits for the relevant years. Further details of the acquisition of Dong Di Xin are included in note 38 to the financial statements. The Profit Guarantee represents a right to the return of previously transferred consideration for the acquisition of Dong Di Xin when the specified conditions are met and hence constitutes a kind of contingent consideration arrangement to be accounted for as a financial asset at fair value through profit or loss in accordance with HKFRS 3 and HKAS 39. The Profit Guarantee was initially recognised in the consolidated statement of financial position at the acquisition-date fair value of RMB7,177,000, as determined by reference to a valuation performed by ROMA Appraisals Limited, an independent professionally qualified valuer.

The fair value of the Profit Guarantee was determined to be RMB4,604,000 by ROMA Appraisals Limited as at 31 December 2015, and a fair value loss on the other financial asset of RMB2,573,000 was recognised in profit or loss during the year ended 31 December 2015 (2014: Nil).

The fair value of the Profit Guarantee as at the date of acquisition and 31 December 2015 were measured using a discounted rate of 14.59% and 14.83% per annum, respectively, under probabilistic model and take into consideration of whether the Profit Guarantee is probable to meet.

Other financial liability

The contingent consideration arose from the possible cash considerations in relation to the acquisition of Dong Di Xin, as further detailed in note 38 to the financial statements ("Contingent Consideration"). Cash of RMB5,000,000, RMB5,000,000 and RMB10,000,000 is to be paid when no payments of tax liabilities related to Caretalk Technology Co., Ltd, a subsidiary of Dong Di Xin, which existed prior to the completion of the acquisition to the State Administration of Taxation of the PRC during the years ended 31 December 2015, and ending 31 December 2016 and 31 December 2017, respectively, in accordance with an agreement signed on 30 January 2015.

The Contingent Consideration was initially recognised in the consolidated statement of financial position at the acquisition-date fair value of RMB14,548,000, as determined by reference to a valuation performed by ROMA Appraisals Limited, an independent professionally qualified valuer.

The fair value of the Contingent Consideration as at 31 December 2015 was determined to be RMB16,362,000 by ROMA Appraisals Limited, and a fair value loss of RMB1,814,000 was recognised in profit or loss for the year ended 31 December 2015 (2014: Nil) as fair value loss on other financial liability.

The fair value of the Contingent Consideration as at the date of acquisition and 31 December 2015 were measured using a discounted rate of 14.59% and 14.83% per annum, respectively, under discounted cashflow method.

31. SHARE CAPITAL AND RESERVES

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 the equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Contributed surplus RMB'000 (note d)	Convertible bonds equity reserve RMB'000 (note f)	Exchange reserve RMB'000 (note h)	Captial reserve RMB'000 (note i)	Retained profits RMB'000	Total RMB'000
At 1 January 2015	**53,468**	**152,700**	**95,863**	**94,905**	**(28,147)**	**—**	**(21,759)**	**347,030**
Change in equity:								
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(19,123)**	**(19,123)**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**6,876**	**—**	**—**	**6,876**
Total comprehensive income/ (loss) for the year	**—**	**—**	**—**	**—**	**6,876**	**—**	**(19,123)**	**(12,247)**
Equity settled share-based transactions	**—**	**—**	**—**		**—**	**210**	**—**	**210**
Dividends (note 9(b))	**—**	**—**	**—**	**—**	**—**	**—**	**(9,400)**	**(9,400)**
At 31 December 2015	**53,468**	**152,700**	**95,863**	**94,905**	**(21,271)**	**210**	**(50,282)**	**325,593**
At 1 January 2014	53,468	152,700	95,863	—	(28,984)	—	5,195	278,242
Change in equity:								
Loss for the year	—	—	—	—	—	—	(8,092)	(8,092)
Other comprehensive income for the year	—	—	—	—	837	—	—	837
Total comprehensive (loss)/income for the year	—	—	—	—	837	—	(8,092)	(7,255)
Issuance of mandatorily convertible bonds	—	—	—	94,905	—	—	—	94,905
Dividends (note 9(b))	—	—	—	—	—	—	(18,862)	(18,862)
At 31 December 2014	53,468	152,700	95,863	94,905	(28,147)	—	(21,759)	347,030

31. SHARE CAPITAL AND RESERVES *(Continued)*

a) Share Capital

	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:			
Ordinary shares of HK$0.1			
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	10,000,000	1,000,000	877,900
Issued and fully paid:			
Ordinary shares of HK$0.1			
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	622,500	62,250	53,468

b) Share premium

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands.

c) Statutory and discretionary reserves

The Group's PRC subsidiaries are required to transfer 10% of their net profits as determined in accordance with the PRC regulations to the statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The transfer of net profits to the discretionary reserve of the Group's PRC subsidiaries is determined by the shareholders in general meetings in accordance with the articles of association and the PRC regulations.

The statutory and discretionary reserves are non-distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

31. SHARE CAPITAL AND RESERVES *(Continued)*

d) *Contributed surplus*

The Group's contributed surplus represents the difference between the nominal value of the shares issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired upon a group reorganisation (the "Reorganisation") which was completed on 3 November 2010 in preparation for listing of shares of the Company on the Main Board of the Stock Exchange and rationalising the Group's structure.

The Company's contributed surplus represents the excess of total net assets of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

e) *Property revaluation reserve*

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for leasehold land and buildings held for own use in note 2(g).

f) *Convertible bonds equity reserve*

The convertible bonds equity reserve represents the value of the unexercised equity component of the mandatorily convertible bonds issued by the Group, as set out in note 28, recognised in accordance with the accounting policy adopted for mandatorily convertible bonds in note 2(u).

g) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 2(e).

h) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's operations outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2(r).

i) *Capital reserve*

The portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(w)(iv).

31. SHARE CAPITAL AND RESERVES *(Continued)*

j) *Distributable reserves*

i) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) At 31 December 2015, the aggregate amount of reserves available for distribution to owners of the Company was RMB198,281,000 (2014: RMB226,804,000). After the end of the reporting period, the directors proposed a final dividend of HK1.53 cents (equivalent to RMB1.28 cents) (2014: HK1.92 cents (equivalent to RMB1.51 cents)) per share amounting to RMB7,968,000 (2014: RMB9,400,000) (note 9(a)). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

k) *Capital management*

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

The Group monitors its capital structure on the basis of net debt to equity ratio. The Group defines net debt as interest-bearing bank loans and liability component of mandatorily convertible bonds, less pledged bank deposits and cash and bank balances. Equity comprises all components of equity.

The Group's net debt to equity ratio at 31 December 2015 and 2014 were as follows:

	2015 RMB'000	2014 RMB'000
Bank loans	**167,560**	228,677
Liability component of mandatorily convertible bonds	**4,155**	10,603
Total debt	**171,715**	239,280
Less: Pledged bank deposits	**—**	(84,097)
Cash and bank balances	**(132,478)**	(230,028)
Adjusted net debt	**39,237**	—
Total equity	**687,266**	570,975
Net debt to equity ratio	**5.71%**	0%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include cash and bank balances, available-for-sale financial assets, trade and other receivables and payables, financical assets at fair value through profit or loss, pledged bank deposits, other financial asset and liability, and bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) *Credit risk*

i) As at 31 December 2015, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position after deducting any impairment allowance.

ii) In respect of trade receivables, in order to minimise the credit risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. 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. The Group does not require collateral in respect of its financial assets. Trade receivables are usually due within 30 days to 90 days.

iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had certain concentration of credit risk of 22% (2014: 10%) of the total trade receivables due from the Group's largest customer and 33% (2014: 28%) of the total trade receivables due from the Group's five largest customers as at 31 December 2015.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 22.

iv) In respect of other receivables and other financial asset, the credit quality of the debtors is assessed by taking into account of their financial position, relationship with the Group, credit history and other factors. Management regularly reviews the recoverability about these other receivables and follow up the amounts overdue, if any. The directors are of the opinion that the probability of default by counterparties is low.

v) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings given by international credit-rating agencies.

vi) With respect to credit risk arising from amounts due from a subsidiary and a director, the Company's exposure to credit risk arising from default of the counterparties is limited as the counterparties have good history of repayment and the Company does not expect to incur a significant loss for uncollected amounts due from a subsidiary and a director.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group is required to pay:

	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2015			
Non-derivative financial liabilities			
Trade and bills payables	**116,386**	**116,386**	**116,386**
Accruals	**10,314**	**10,314**	**10,314**
Other payables	**22,087**	**22,087**	**22,087**
Bank loans	**184,909**	**184,909**	**167,560**
Liability component of mandatorily convertible bonds	**4,411**	**4,411**	**4,155**
	338,107	**338,107**	**320,502**
2014			
Non-derivative financial liabilities			
Trade and bills payables	157,172	157,172	157,172
Accruals	4,818	4,818	4,818
Other payables	21,848	21,848	21,848
Bank loans	234,832	234,832	228,677
Liability component of mandatorily convertible bonds	11,893	11,893	10,603
	430,563	430,563	423,118

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk*

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued 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 policy is to manage its interest cost using a mix of fixed and variable rate debts.

i) *Interest rate profile*

The following table details the interest rate profile of the Group's bank loans, bank balances and deposits and the Company's bank balances at the end of the reporting period:

	2015		2014	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings:				
Bank loans	**4.2**	**167,560**	2.0-5.0	228,677
Variable rate borrowings:				
Bank loans	**—**	**—**	—	—
Total borrowings		**167,560**		228,677
Net fixed rate borrowings as a percentage of total borrowings		**100%**		100%

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk (Continued)*

ii) *Sensitivity analysis*

All of the bank loans, bank balances and the pledged deposits of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates for bank balances, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB1,218,000 (2014: RMB850,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until end of next annual reporting period. The analysis is performed on the same basis for the 2014.

d) *Currency risk*

The Group is exposed to currency risk primarily through purchases which give rise to trade and other payables, cash and bank balances, trade and other receivables and bank loans. The carrying values of these financial assets and liabilities are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, HK$ and RMB to the extent that they are not the functional currency of the operations to which the transactions and balances related. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk (Continued)*

i) *Exposure to currency risk*

	2015 RMB'000	2014 RMB'000
Assets/(Liabilities)		
Cash and bank balances		
US$	**23,794**	33
HK$	**82**	77
RMB	**1,634**	32,262
Trade and other receivables		
US$	**9,742**	1,838
RMB	**1,050**	10,000
Trade and other payables		
HK$	**(89,896)**	(157,172)
Bank loans		
HK$	**—**	(184,677)
Total assets		
US$	**33,536**	1,871
HK$	**82**	77
RMB	**2,684**	42,262
Total liabilities		
HK$	**(89,896)**	(341,849)

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk (Continued)*

ii) *Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2015			
US$	**5%**	**1,677**	**—**
	(5%)	**(1,677)**	**—**
HK$	**5%**	**(4,491)**	**—**
	(5%)	**4,491**	**—**
RMB	**5%**	**134**	**—**
	(5%)	**(134)**	**—**
At 31 December 2014			
US$	5%	94	—
	(5%)	(94)	—
HK$	5%	(17,089)	—
	(5%)	17,089	—
RMB	5%	2,113	—
	(5%)	(2,113)	—

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until end of next annual reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2014.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

e) *Business risk*

The Group has a certain concentration of business risk as 42% (2014: 77%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa (京都念慈庵蜜煉川貝枇杷膏), which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In November 2013, the Group entered into a one-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. The distribution agreement was renewed in December 2015 for one-year period. If there is any change in consumer taste and demand of the product, or the supplier does not further renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *Fair value*

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities, recorded at amortised cost, in the consolidated financial statements approximate their fair values.

Fair value hierachy

The following table presents the fair value of the Group's financial instruments measured at the end of the Reporting Period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is,unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group uses independent valuers to perform valuations of financial instruments which are categorised into Level 2 and Level 3 of the fair value hierachy. Valuation reports with analysis of changes in fair value measurement are prepared by the independent valuer at each interim and annual reporting date, and are reviewed and approved by the financial controller. Discussion of the valuation process and results with the financial controller is held twice a year to coincide with the reporting dates.

	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015 categorised into			Fair value at 31 December 2014	Fair value measurements as at 31 December 2014 categorised into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
Available-for-sale investments, at fair value								
– Unlisted equity investments	9,309	—	8,171	1,138	—	—	—	—
– Bank wealth management products	86,296	—	—	86,296	—	—	—	—
Financial assets at fair value through profit or loss	14,040	14,040	—	—	—	—	—	—
Other financial asset	4,604	—	—	4,604	—	—	—	—
Liabilities:								
Other financial liability	16,362	—	—	16,362	—	—	—	—

During the year ended 31 December 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the Reporting Period in which they occur.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

f) *Fair value (Continued)*

Fair value hierachy (Continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the year ended 31 December 2015 and 31 December 2014.

	Other financial asset RMB'000	Other financial liability RMB'000	Unlisted equity investments RMB'000	Bank wealth management products RMB'000	Total RMB'000
At 1 January 2014, 31December 2014 and 1 January 2015	—	—	—	—	—
Acquisition of subsidiaries (note 38)	7,177	(14,548)	—	58,900	51,529
Addition	—	—	10	25,000	25,010
Fair value loss recognised in profit or loss	(2,573)	(1,814)	—	—	(4,387)
Fair value gain recognised in other comprehensive income	—	—	1,128	2,396	3,524
At 31 December 2015	4,604	(16,362)	1,138	86,296	75,676

33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) Depreciation and amortisation

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 the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Both the period and method of amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

b) Impairment of assets

If circumstances indicate that carrying value of the Group's property, plant and equipment, deposit paid for property, plant and equipment, intangible assets and available-for-sale financial asset, at cost may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties or the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

d) *Impairment of receivables*

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

e) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) *Income tax*

Determining income tax provision involves judgement on the future tax treatment of certain transactions. The directors carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

g) *Investments in subsidiaries*

Investments in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

h) *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

i) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was RMB90,693,000 (2014: RMB Nil). Further details of impairment testing of goodwill are given in note 17 to the financial statements.

j) *Share-based payments*

Share options granted during the year were measured at fair value on the date of grant (note 39). In assessing the fair values of the share options, the generally accepted option pricing models were used to calculate the fair values of the share options. The option pricing models require the input of subjective assumptions, including the expected volatility and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair values of the share options.

k) *Acquisition accounting*

Accounting for acquisitions require the Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the acquisition of Dong Di Xin as set out in note 38, the Group undertook a process to identify all assets and liabilities acquired, including acquired intangible assets. Judgments made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset's useful lives, could materially impact the calculation of goodwill and depreciation and amortisation charges in subsequent periods. Estimated fair values are based on information available near the acquisition date and on expectations and assumptions that were deemed reasonable by management. Determining the estimated useful lives of tangible and intangible assets acquired where applicable also requires judgment.

34. COMMITMENTS

a) Commitments under operating lease

The Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	**4,394**	4,100
In the second to fifth year inclusive	**2,340**	953
	6,734	5,053

The Group leases certain premises for use as its office and warehouse under operating leases arrangements. Leases for properties are negotiated for terms ranging from one to five years (2014: one to three years). None of the leases include contingent rentals.

b) Capital Commitments

Capital commitments of the Group at the end of the reporting period are as follows:

	2015 RMB'000	2014 RMB'000
Capital commitment for the proposed acquisition of Shenzhen Dong Di Xin Technology Company Limited (note 38)	**—**	189,367
Capital commitment for the investment in 3.89% equity interest in the Sinopharm Healthcare Fund L.P. (note 20)	**23,800**	—
Share of the joint venture's capital commitments (note 18)	**—**	1,730

Apart from the above, the Group did not have other significant capital commitment as at 31 December 2015 and 2014.

35. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a state-managed scheme. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (HK$25,000 prior to June 2014). Contributions to the plan vest immediately.

The total expense recognised in profit or loss of RMB7,573,000 (2014: RMB5,663,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

36. RELATED PARTY TRANSACTIONS

a) During the year, the directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related parties	Relationship
Mr. Zhao Li Sheng ("Mr. Zhao")	The Company's director and the ultimate controlling party of the Group. Mr. Zhao is the sole shareholder of the ultimate holding company of the Company.
Ms. Chan Lok San ("Ms. Chan")	The Company's director and the wife of Mr. Zhao
Morning Gold Medicine Company Limited ("Morning Gold")	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited ("Yuen Tai")	Subsidiary of Morning Gold
深圳金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("SZ Industry")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan

Notes:

i) The English names of the above PRC incorporated entities are for identification purpose only.

36. RELATED PARTY TRANSACTIONS *(Continued)*

b) *Related party transactions and balances*

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	**2015 RMB'000**	2014 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**2,449**	584
Yuen Tai	(i)	**—**	1,618
		2,449	2,202
Rental expenses			
SZ Kingworld Lifeshine	(i)	**—**	107
SZ Industry	(i)	**624**	669
		624	776
Advertising expenses			
SZ Industry	(i)	**—**	150

	Note	**2015 RMB'000**	2014 RMB'000
Trade deposits included in trade and other receivables (note 22)			
Yuen Tai	(ii)	**2,525**	2,526
SZ Kingworld Lifeshine	(ii)	**13,257**	4,383
		15,782	6,909
Amount due from a director included in trade and other receivables (note 22)			
Mr. Zhao	(iii)	**2,914**	2,853

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related parties transactions were conducted in the ordinary course of business.

ii) The amounts are unsecured and interest-free and will be set-off against the Group's purchases from the respective related parties in next twelve months after the end of the reporting period.

iii) The amount is unsecured, interest-free and repayable on demand.

36. RELATED PARTY TRANSACTIONS *(Continued)*

c) *Key management personnel remuneration:*

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	**7,333**	7,037
Post employment benefits	**64**	336
	7,397	7,373

37. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate holding company of the Group as at 31 December 2015 to be Golden Land International Limited, a company incorporated in the BVI which does not produce financial statements available for public use, and the ultimate controlling party of the Group as at 31 December 2015 to be Zhao Li Sheng, an executive director of the Company.

38. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisition of 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited and its subsidiaries during the year ended 31 December 2015

On 8 May 2014, Kingworld (Hong Kong) Holdings Limited, an indirect wholly-owned subsidiary of the Company, ("HK Holdings Kingworld"), Shenzhen Dong Di Xin Technology Company Limited (深圳市東迪欣科技有限公司*) ("Dong Di Xin"), and its shareholders, Zhao Zhigang and Zhao Wen (the "Vendors"), being independent third parties, entered into a cooperation agreement (as supplemented and amended by a supplemental agreement and further supplemental agreements dated 31 July 2014, 30 September 2014 and 25 November 2014 respectively), pursuant to which HK Holdings Kingworld conditionally agreed to acquire, and the Vendors conditionally agreed to transfer 55% equity interest in Dong Di Xin for an aggregate consideration of RMB189,367,000. Dong Di Xin is engaged in the business of manufacturing and sales of electrotherapeutic and physiotherapeutic devices and general medical examination devices.

The directors of the Company considered that the acquisition of equity interest in Dong Di Xin is benefical to the Group to expand its business into the markets of manufacturing and sales of medical devices and to create a synergy effect with the existing business of the Group.

38. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

Acquisition of 55% equity interest in Shenzhen Dong Di Xin Technology Company Limited and its subsidiaries during the year ended 31 December 2015 (Continued)

On 13 February 2015, the acquisition of 55% equity interest of Dong Di Xin was completed. Upon completion of the acquisition, the equity interest in Dong Di Xin is owned as to 55% by HK Holdings Kingworld, 15% by Zhao Zhigang and 30% by Zhao Wen, and Dong Di Xin has become a 55% indirectly owned subsidiary of the Company and has been consolidated into the financial statements of the Group since the completion date.

* The English name of the above PRC incorporated entity is for identification purpose only

The following summarised the recognised amounts of identifiable assets acquired and liabilities assumed as at 13 February 2015 and goodwill acquired are as follows:

	Notes	Amounts recognised (at fair value) RMB'000
Net assets acquired of		
Property, plant and equipment	13	8,254
Intangible assets	19	133,427
Investment properties	14	3,560
Deferred tax assets	29(b)	270
Cash and cash equivalents		41,546
Available-for-sale financial assets		58,900
Trade and other receivables		24,977
Inventories		9,468
An indemnification asset	(iv)	12,146
Trade and other payables		(71,724)
Income tax payable	29(a)	(8,002)
Deferred tax liabilities	29(b)	(20,014)
Net identifiable assets and liabilities		192,808
Non-controlling interests (45% equity interest)		(86,763)
Goodwill arising on acquisition	17	90,693
Consideration for acquisition		196,738
Satisfied by:		
– Cash		189,367
– Fair value of the contingent consideration as at the completion date	30	14,548
– Fair value of the profit guarantee as at the completion date	30	(7,177)
		196,738
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Dong Di Xin		
Cash consideration paid		(189,367)
Cash and cash equivalent acquired		41,546
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries		(147,821)

38. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(i) Goodwill represents the premium paid for the benefit of expected synergies from the talent and skills of the acquired workforces, future economic benefit resulting from revenue growth and future market development generated from its business activities.

For the period from 14 February 2015 to 31 December 2015, the trading operation contributed revenue of RMB141,136,000 and net profit of RMB31,753,000 respectively to the consolidated turnover and net profit of the Group for the year ended 31 December 2015. Had the acquisition occurred on 1 January 2015, the Group's revenue and consolidated profit for the year ended 31 December 2015 would have been RMB 726,477,000 and RMB51,674,000 respectively.

The above pro forma information on the Group's revenue and results is for illustrative purpose only and is not necessarily indicative of the revenue and results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

(ii) Except for intangible assets and an indemnification asset, the fair value of the identifiable assets acquired and liabilities assumed is approximately the same as their corresponding carrying amount immediately before the acquisition.

(iii) The trade and other receivables in the transaction with a fair value of RMB24,977,000 had an equivalent gross contractual amount. There is no expected uncollectible balance.

(iv) The indemnification asset represented the amount receivable from the Vendors in relation to the acquisition of Dong Di Xin during the year ended 31 December 2015. Pursuant to the relevant sale and purchase agreements, the Vendors agreed to indemnify the Group if the Group has to bear certain liabilities amounted to RMB12,146,000 of a subsidiary of Dong Di Xin. Therefore, the Group recognised the amount of such liabilities indemnifiable by the Vendors upon the completion of the acquisition as an indemnification asset due from the Vendors which is included in other receivables in the consolidated statement of financial position as at 31 December 2015.

(v) Pursuant to the sale and purchase agreement, the Vendors have guaranteed that the consolidated profit of Dong Di Xin shall not be less than RMB32,047,000, RMB35,252,000 and RMB38,777,000 for the years ended 31 December 2015 and ending 31 December 2016 and 31 December 2017 (the "Profit Guarantee"). Details regarding the Profit Guarantee are set out in note 30 to the financial statements.

39. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 5 November 2010 whereby the directors of the Company are authorised, at their discretion, to grant options to subscribe for shares in the Company to eligible participants ("Eligible Participants"), including directors, eligible employees, consultants, suppliers, customers, and shareholders of any member of the Group or associated company or any of their respective associates, who contributed to the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 4 November 2021, after which no further options will be granted.

Options granted on 1 June 2015 to the directors, employees and consultants vest after one to three years from the date of grant and are then exercisable within a period of one year. Of the share option granted on 9 October 2015 to a consultant vest and exercisable from the date of grant after the market conditions are met.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(Expressed in Renminbi unless otherwise indicated)

39. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 1 June 2015	3,572,000	One to three years from the date of grant	4 years
Options granted to employees:			
– on 1 June 2015	13,236,000	One to three years from the date of grant	4 years
Options granted to other eligible participants			
– on 1 June 2015	300,000	One year from the date of grant	2 years
– on 9 October 2015	6,200,000	After the market conditions are met	3 years
Total share options granted	23,308,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2015		2014	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	**—**	**—**	—	—
Exercised during the period	**—**	**—**	—	—
Forfeited during the period	**—**	**—**	—	—
Granted during the period	**HK$ 2.54**	**23,308,000**	—	—
Outstanding at the end of the period	**HK$ 2.54**	**23,308,000**	—	—
Exercisable at the end of the period	**HK$ 2.54**	**—**	—	—

The share options outstanding at 31 December 2015 had an exercise price of HK$ 2.54 (2014: Nil) and a weighted average remaining contractual life of 3.2 years (2014: Nil).

(Expressed in Renminbi unless otherwise indicated)

39. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured by reference to valuations performed by DTZ Debenham Tie Leung Limited, independent professional valuer not connected to the Group, based on the Monte Carlo Method and Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions

	On 1 June 2015				On 9 October 2015
Fair value at measurement date	HK$0.770 and HK$0.768	HK$0.781 and HK$0.782	HK$0.839 and HK$0.841	HK$0.768	HK$0.259 and HK$0.230
Share price	HK$2.450	HK$2.450	HK$2.450	HK$2.450	HK$1.360
Exercise price	HK$2.540	HK$2.540	HK$2.540	HK$2.540	HK$2.540
Risk-free interest rate (based on Exchange Fund Notes)	0.438%	0.657%	0.876%	0.438%	0.606%
Expected Life:	2 years	3 years	4 years	2 years	3 years
Expected volatility	63.07%	54.39%	52.13%	63.07%	59.49%
Expected dividends Yield:	1.89%	2.25%	2.34%	1.89%	2.04%
Early Exercise Behavior:	280% and 220%	280% and 220%	280% and 220%	220%	220%
Valuation method used	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model	Binomial Option Pricing Model	Monte Carlo Method

The expected volatility of the underlying security of the Share Options was determined with reference to the historical volatility of the Company, as extracted from Bloomberg Terminal; The expected dividend yields of the underlying security of the Share Options was determined by the historical dividend yield of the underlying security of the Company, as extracted from Bloomberg Terminal. Changes in the subjective input assumptions could materially affect the fair value estimate.

The fair value of the share options granted to the consultants are measured at fair values of options granted as these participants are providing services that are similar to those rendered by employees.

40. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2015 RMB'000	2014 RMB'000
Non-current assets		
Investments in subsidiaries	**216,957**	216,957
Current assets		
Other receivables	**122**	114
Amount due from a subsidiary	**240,477**	9,957
Cash and bank balances	**69,664**	139,122
	310,263	149,193
Current liabilities		
Other payables	**5,234**	617
Amounts due to subsidiaries	**24,678**	7,900
Bank loans	**167,560**	—
Liability component of mandatorily convertible bonds	**4,155**	7,277
	201,627	15,794
Net current assets	**108,636**	133,399
Total assets less current liabilities	**325,593**	350,356
Non-current liabilities		
Liability component of mandatorily convertible bonds	**—**	3,326
NET ASSETS	**325,593**	347,030
CAPITAL AND RESERVES		
Share capital	**53,468**	53,468
Reserves	**272,125**	293,562
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**325,593**	347,030

Approved and authorised for issue by the board of directors on 30 March 2016.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

(Expressed in Renminbi unless otherwise indicated)

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued the following 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.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
Amendments to HKAS 1	Disclosure Initiative[2]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[2]
Amendments to HKAS 27	Equity method in separate financial statements[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2016

3 Effective for annual periods beginning on or after a date to be determined

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.

Financial Summary

The following table summarizes the consolidated results of the Group for the five years ended 31 December:

	For the year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(restated)	(restated)
Results					
Turnover	**713,548**	660,323	554,763	626,840	606,268
Profit before taxation	**51,322**	48,667	63,214	61,191	71,353
Income tax	**(11,935)**	(10,802)	(16,037)	(12,656)	(20,322)
Profit for the year	**39,387**	37,865	47,177	48,535	51,031
Attributable to					
Owners of the Company	**31,205**	37,865	47,177	48,535	51,031
Asset and Liabilities					
Total assets	**1,081,631**	1,019,489	730,083	640,327	606,651
Total liabilities	**394,365**	448,514	272,659	217,497	212,154
Equity attributable to owners of the Company	**687,266**	570,975	457,424	422,830	394,497