百信集団
PASHUN GROUP

Pa Shun Pharmaceutical International Holdings Limited
百信藥業國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 574

Annual Report 2015

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Chen Yenfei
(Chairman and Chief Executive Officer)
Mr. Shen Shun
Mr. Zhou Jian

NON-EXECUTIVE DIRECTORS
Mr. Li Ho Tan
Mr. Masahiro Honna

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Liu Liangzhong
Mr. Wong Tak Shing
Mr. Min Feng

AUTHORISED REPRESENTATIVES
Mr. Chen Yenfei
Mr. Pang, Peter Chun Ming

JOINT COMPANY SECRETARIES
Mr. Pang, Peter Chun Ming
CPA (California Board of Accountancy), CFA
Mr. Tsoi, Yuen Hoi *HKICPA, ACCA*

AUDIT COMMITTEE
Mr. Liu Liangzhong *(Chairman)*
Mr. Wong Tak Shing
Mr. Min Feng

REMUNERATION COMMITTEE
Mr. Liu Liangzhong *(Chairman)*
Mr. Chen Yenfei
Mr. Wong Tak Shing

NOMINATION COMMITTEE
Mr. Chen Yenfei *(Chairman)*
Mr. Liu Liangzhong
Mr. Min Feng

CORPORATE GOVERNANCE COMMITTEE
Mr. Chen Yenfei *(Chairman)*
Mr. Min Feng
Mr. Zhou Jian

REGISTERED OFFICE
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Flat 1907B, 19/F., Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC
No. 608-616, Building 28,
Longfor North Paradise Walk 2
229 Wufuqiao dong Road
Jinniu District
Chengdu, Sichuan Province
PRC

AUDITORS
Crowe Horwath (HK) CPA Limited
Certified Public Accountants
9/F, Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

COMPLIANCE ADVISER
China Everbright Capital Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

CORPORATE INFORMATION

STOCK CODE
00574

COMPANY'S WEBSITE
www.pashun.com.cn

PRINCIPAL BANKS
Bank of Communications Co., Ltd.
China Everbright Bank Co., Ltd. (Hong Kong Branch)
China Merchants Bank Co., Ltd.
The Hong Kong and Shanghai Banking Corporation Limited
Xiamen International Bank Co., Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

FINANCIAL HIGHLIGHTS

A summary of the main financial data of Pa Shun Pharmaceutical International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2015 is set out below:

	For the year ended 31 December		
	2015	2014	
	RMB'000	*RMB'000*	Change
			(%)
Revenue	**867,963**	847,193	2.5
Gross profit	**165,265**	182,067	(9.2)
Profit from operations	**80,573**	118,832	(32.2)
Profit for the year	**84,886**	46,129	84.0
Profit attributable to equity shareholders of the Company	**88,257**	45,944	92.1
Basic earnings per share – RMB cents	**11.31**	8.74	29.4
Diluted earnings per share – RMB cents	**5.74**	8.74	(34.3)

The board of directors (the "Directors") of the Company (the "Board") recommended a final dividend payment of HK3.0 cents per share for the year ended 31 December 2015.

FINANCIAL SUMMARY

	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015** **RMB'000**
Revenue	712,111	794,349	847,193	**867,963**
Profit from operations	81,752	103,301	118,832	**80,573**
Profit before taxation	26,418	81,312	71,869	**113,006**
Income tax	(17,110)	(18,243)	(25,740)	**(28,120)**
Profit for the year	9,308	63,069	46,129	**84,886**
Earnings per share (RMB)				
Basic	0.013	0.090	0.087	**0.113**
Diluted	0.013	0.079	0.087	**0.057**
Assets and liabilities				
Non-current assets	72,998	154,420	138,811	**192,582**
Current assets	432,646	532,769	575,181	**708,714**
Current liabilities	370,055	484,500	468,601	**152,155**
Net current assets	62,591	48,269	106,580	**556,559**
Total assets less current liabilities	135,589	202,689	245,391	**749,141**
Non-current liabilities	62,974	61,609	64,111	**26,471**
NET ASSETS	72,615	141,080	181,280	**722,670**
Capital and reserves				
Share Capital	1	1	1	**801**
Reserves	71,737	140,203	180,218	**724,179**
Non-controlling interests	877	876	1,061	**(2,310)**
Total equity	72,615	141,080	181,280	**722,670**

CHAIRMAN'S STATEMENT

On behalf of the Company's board of directors, I hereby present the audited annual results of the Group for the year ended 31 December 2015.

BUSINESS REVIEW

The Group continued to focus on the pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing businesses in the People's Republic of China ("China").

In 2015, the Group's revenue generated by the pharmaceutical distribution segment amounted to RMB740.0 million, representing an increase of approximately 4.7% as compared to RMB707.1 million in 2014. This was primarily attributable to the fact that (i) optimizing the product mix provided a stimulus to the sales of wholesalers, thereby expanding the Group's market share; and (ii) revenue from the sales to hospitals in the rural regions as well as other medical institutions continued to increase, though the overall growth of the segment was offset by the reduction in revenue from the sales to franchise retail chain pharmacies due to the sluggish retail market.

The Group's revenue generated by the self-operated retail pharmacy segment was RMB8.3 million in 2015, representing a decrease of approximately 71.7% as compared to RMB29.4 million in 2014. The decrease in revenue was mainly attributed to the sluggish retail market and the re-arrangement and re-planning carried out for the long-term development of the self-operated retail pharmacy segment, including (i) the preparation for sale of Hebei Chun Sheng Tang Chain Store Co., Ltd. to concentrate resources in developing the retail pharmacy business in Sichuan; and (ii) the kickoff of plans to close down self-operated retail pharmacies in Chengdu and Wuhan which failed to meet the earnings targets upon assessment.

In 2015, the Group's revenue from the pharmaceutical manufacturing segment amounted to RMB119.6 million, representing an increase of approximately 7.9% from RMB110.8 million in 2014. The increase in revenue was mainly attributable to the reshuffle exercise on the sales team of the Group during 2015, where some staff members in the sales team who had been responsible for out-of-province distribution business were reassigned to specifically handle sale of pharmaceutical products manufactured by the Group in order to strengthen the sale of such products.

DEVELOPMENT PROSPECTS

China's economic environment was full of challenges and uncertainties in 2015, particularly in the second half of the year, and the deceleration in growth rate was significant as compared with the previous years. Nevertheless, looking ahead into 2016, the pharmaceutical industry is expected to be positively affected by national and local health reform policies. During the annual sessions of the National People's Congress and Chinese People's Political Consultative Conference which were just concluded, the Guiding Opinions on Promoting the Healthy Development of the Pharmaceutical Industry was officially released to the public by the State Council of China, which is a document carrying three big implications. These are a significantly positive news, a major policy and an important reform for the pharmaceutical industry. The Group should seize this opportunity and combine with its own advantages in actively seeking opportunities to reinforce the Group's market status and product positioning.

To support the development of its growing business, the Group will continue to implement the following business development strategies so as to maintain growth and achieve better returns under the leadership of an experienced and dedicated management team:

– Expand the breadth and depth of our distribution networks;

– Accelerate the construction of international logistics center to enhance operational efficiency;

– Expand our chain stores in the Sichuan Province;

– Expand the scope of products including Chinese medicine materials; and

– Strengthen online and offline publicity and promotional activities to increase brand awareness.

Last but not least, I take this opportunity to express my gratitude to all our investors and employees for their support to the Group.

Chairman
Chen Yenfei
Hong Kong, 31 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2015, the Group recorded a total revenue of RMB868.0 million, representing an increase of approximately 2.5% from RMB847.2 million for the year ended 31 December 2014. This increase was primarily due to growth in revenue from the Group's pharmaceutical distribution and pharmaceutical manufacturing segments, offset by the decrease in revenue from the Group's self-operated retail pharmacies segment.

COST OF SALES, GROSS PROFIT AND GROSS MARGIN

The Group's cost of sales increased by approximately 5.6% from RMB665.1 million for the year ended 31 December 2014 to RMB702.7 million for the year ended 31 December 2015. This increase was primarily due to increases in cost of sales for the Group's pharmaceutical distribution segment.

The Group's gross profit decreased by approximately 9.2% from RMB182.1 million for the year ended 31 December 2014 to RMB165.3 million for the year ended 31 December 2015. The Group's gross margin decreased from 21.5% for the year ended 31 December 2014 to 19.0% for the year ended 31 December 2015. Such decrease is primarily attributable to the higher contribution on revenue from the pharmaceutical distribution segment which had a lower margin than other segments.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses decreased by 29.9% from RMB36.5 million for the year ended 31 December 2014 to RMB25.6 million for the year ended 31 December 2015. This decrease was primarily due to a decrease in rent and management fees and business promotion expenses due to the closure for some of the Group's retail pharmacy stores, which were partially offset by an increase in salary and welfare benefits due to the increase in the number of pharmacists employed by the Group and an increase in depreciation and amortization expenses in relation to the implementation of the "Remote Prescription Review" system. Upon installation of this system, one pharmacist is able to oversee 25 stores at the same time and provide prescription review and consulting services to end consumers at those stores, which the Group believes will enhance the operational efficiency of the Group's retail pharmacy stores.

GENERAL AND ADMINISTRATIVE EXPENSES

The Group's general and administrative expenses increased by approximately 67.2% from RMB46.7 million for the year ended 31 December 2014 to RMB78.1 million for the year ended 31 December 2015. This increase was primarily due to an increase in the professional and audit fees in connection with the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), an increase in impairment loss of trade receivables from customers that were in financial difficulties, and an increased in write-off of other receivables, including those in relation to the planned disposal of Hebei Chun Sheng Tang Chain Store Co., Ltd.

OTHER REVENUE

Other revenue increased by 9% from RMB20.7 million for the year ended 31 December 2014 to RMB22.5 million for the year ended 31 December 2015. This increase was primarily due to (i) the increase in franchise fees as a result of the implementation of the "Remote Prescription Review" system and the increase in the total number of franchise retail pharmacies stores under the brand of the Group; and (ii) the increase in the Group's bank interest income from subscription funds during the IPO of the Company.

PROFIT FROM OPERATIONS AND OPERATING MARGIN

As a result of the foregoing, the Group's profit from operations decreased by approximately 32.2% from RMB118.8 million for the year ended 31 December 2014 to RMB80.6 million for the year ended 31 December 2015. The Group's operating margin decreased from 14.0% for the year ended 31 December 2014 to 9.3% for the year ended 31 December 2015.

FINANCE COSTS

Finance costs decreased by approximately 58.5% from RMB9.0 million for the year ended 31 December 2014 to RMB3.7 million for the year ended 31 December 2015. This decrease was primarily due to the decrease in bills charges resulting from discount costs relating to the bills receivable of the Group and the decrease in interest expense relating to less bank borrowings.

CHANGE IN FAIR VALUE ON CONVERTIBLE REDEEMABLE PREFERRED SHARES

The Company had fair value loss of convertible redeemable preferred shares of RMB33.2 million for the year ended 31 December 2014 due to the increase in the equity value of the Company. Upon the completion of the initial public offering of the Company (the "IPO") on 19 June 2015 (the "Listing Date"), the Company's convertible redeemable preferred shares were automatically converted into our ordinary shares on a one-to-one basis, resulting in a fair value gain of RMB37.5 million for the year ended 31 December 2015. There will be no fair value gain or loss associated with the said convertible redeemable preferred shares for any financial period after the Listing Date.

PROFIT BEFORE TAXATION

Profit before income tax increased by approximately 57.2% from RMB71.9 million for the year ended 31 December 2014 to RMB113.0 million for the year ended 31 December 2015. This increase was primarily due to the significant gain from the change in fair value on convertible redeemable preferred shares and a decrease in the finance costs of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME TAX EXPENSE

Income tax expense increased by 9.3% from RMB25.7 million for the year ended 31 December 2014 to RMB28.1 million for the year ended 31 December 2015. This increase was primarily due to the increase in taxable income from the PRC subsidiaries of the Company.

PROFIT FOR THE YEAR AND NET PROFIT MARGIN

As a result of the foregoing, the Group's profit for the year increased by approximately 84.0% from RMB46.1 million for the year ended 31 December 2014 to RMB84.9 million for the year ended 31 December 2015. The Group's net profit margin increased from 5.4% for the year ended 31 December 2014 to 9.8% for the year ended 31 December 2015.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group had total cash and cash equivalents of RMB116.3 million as at 31 December 2015 as compared to RMB67.1 million as at 31 December 2014.

The Group recorded net current assets of RMB556.6 million and RMB106.6 million as at 31 December 2015 and 31 December 2014 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 4.66 as at 31 December 2015, as compared to 1.23 as at 31 December 2014.

As at 31 December 2015, the total amount of bank loans was RMB15.0 million, as compared to RMB50.0 million as at 31 December 2014.

CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE RISKS

The functional currency of the Group is Renminbi while a portion of funds raised by the Group from the IPO is still in the form of bank deposits denominated in Hong Kong dollars. Therefore, it may be subject to the risks of exchange rate fluctuations of the Renminbi and the Hong Kong dollar. Apart from the above, most of the assets and transactions of the Group are dominated in Renminbi, and the Group mainly settles its operating expenses in the PRC with income generated in Renminbi, thus the Group is not exposed to any significant foreign exchange risks.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2015, the Group did not make any significant investments, acquisitions or disposals.

HUMAN RESOURCES

As at 31 December 2015, the Group had a total of 315 staff, primarily in the PRC. The total staff cost was RMB21.9 million for the year ended 31 December 2015.

The Group believes its human resources are its valuable assets and maintains its firm commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and cultivating a favorable working environment. The Group constantly invests in training across diverse operational functions and offers competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing corporate development needs.

DIVIDEND

The Board has proposed a final dividend of HK3.0 cents per share for the financial year ended 31 December 2015.

USE OF PROCEEDS FROM LISTING

The shares of the Company were listed on the main board of the Stock Exchange on 19 June 2015 with net proceeds ("Net Proceeds") from the global offering of approximately HK$249.5 million (after deducting underwriting commissions and related expenses). Part of these proceeds were applied during the financial year in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 9 June 2015 (the "Prospectus"). As at 31 December 2015, the Group had utilised HK$81.7 million of the Net Proceeds and unutilised Net Proceeds amounted to HK$167.8 million.

The following table sets forth a breakdown of the use of Net Proceeds during the financial year:

Use of Net Proceeds	**Available to use** HK$ million	**Utilised (as at 31 December 2015)** HK$ million	**Unutilised (as at 31 December 2015)** HK$ million
Logistics center and related expenses	121.3	27.7	93.5
Acquisition or establishment of self-operated retail pharmacy stores	116.2	42.0#	74.3
Working capital and other general corporate purposes	12.0	12.0	–
	249.5	81.7	167.8

Deposit made for acquisition which was refunded in March 2016 due to cancellation of the proposed transaction.

The proceeds not utilised were deposited into interest bearing bank accounts with licensed commercial banks in China and Hong Kong. The directors of the Company intended to continue to apply the unused proceeds in the manner as set out in the Prospectus.

CORPORATE GOVERNANCE REPORT

The Board is committed to upholding a high standard of corporate governance and business ethics in the firm belief that they are essential for enhancing investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders, comply with increasingly stringent regulatory requirements and fulfill its commitment to excellence in corporate governance.

CORPORATE GOVERNANCE CODE

After reviewing the Company's corporate governance practices and the relevant regulations of the Corporate Governance Code and Corporate Governance Report (the "CG code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Board is satisfied that the Company complied with the CG code provisions for the period from 19 June 2015 (the "Listing Date") to 31 December 2015, except for the deviation from the Code provision A.2.1, which stipulates that the role of chairman and chief executive officer should be separated. Mr. Chen Yenfei is currently the chairman of the Board as well as the chief executive officer of the Company.

Mr. Chen Yenfei is the chairman and chief executive officer of the Group. He has extensive experience in medicine industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and our senior management, which comprise experienced and high caliber individuals.

BOARD OF DIRECTORS

The Board is responsible for governing the Company and managing assets entrusted by the Shareholders. The Directors recognise their collective and individual responsibility to the Shareholders and perform their duties diligently to achieve positive results for the Company and to maximize returns for shareholders.

The Board currently comprises three executive Directors, namely Mr. Chen Yenfei, Mr. Shen Shun and Mr. Zhou Jian, two non-executive Directors, namely, Mr. Li Ho Tan and Mr. Masahiro Honna and three independent non-executive Directors, namely, Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng.

Their biographical details and (where applicable) their family relationships are set out in the section headed "Directors and Senior Management" on pages 22 to 26 in the annual report. A list of the Directors identifying their roles and functions is available on the Company's website.

To the best knowledge of the Board, save as disclosed in the section headed "Directors and Senior Management" in the annual report, there is no other financial, business, family or other material/relevant relationships among members of the Board.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of directors and senior management. The Board also reviews the disclosures in the corporate governance report to ensure compliance.

All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organisations. These interests are updated on an annual basis and when necessary.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Each newly appointed Director is given necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant laws and regulations.

All directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors to ensure compliance and enhance their awareness of good corporate governance practices. In addition, in March 2016, all Directors attended a refreshment training session in connection with, among other things, the duties of directors under the Listing Rules and the applicable laws and regulations provided by the Company's legal advisers.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Chen Yenfei currently assumes the roles of both the Chairman and chief executive officer of the Company. The reasons for the deviation from the Code provision A.2.1 are explained in the section headed "Corporate Governance Code" above.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board and give adequate control and balances for the Group to protect the overall interests of the shareholders and the Group. They serve actively on the Board and its committees to provide their independent and objective views.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. Two of the independent non-executive Directors, Mr. Liu Liangzhong and Mr. Wong Tak Shing, have the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

BOARD COMMITTEES

The Board is supported by four committees, namely the audit committee, nomination committee, remuneration committee and corporate governance committee. Each Board committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference are available on the Company's website.

All Board committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The audit committee was established on 26 May 2015. The audit committee consists of three independent non-executive Directors, namely Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng. Mr. Liu Liangzhong, who has appropriate professional qualification and experience as required by Rule 3.10(2) of the Listing Rules, is the chairman of the audit committee.

The primary functions of the audit committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by our Board. These include reviewing the interim and annual results and reports of the Group.

The members of audit committee reviewed and discussed with the external auditors of the Company the consolidated financial statements of the Group for the year ended 31 December 2015, including the accounting principles and practices adopted by the Group and report prepared by the external auditors covering major findings in the course of the audit. The audit committee held two meetings in August 2015 and March 2016, respectively, and all members of the audit committee attended such meetings.

Remuneration Committee

The remuneration committee was established on 26 May 2015. The remuneration committee consists of Mr. Chen Yenfei and two independent non-executive Directors, namely Mr. Liu Liangzhong and Mr. Wong Tak Shing. Mr. Liu Liangzhong is the chairman of the remuneration committee.

The primary functions of the remuneration committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual executive Director and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No executive Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each director's workload, performance, responsibilities, job complexity and the Group's performance are taken into account.

The remuneration committee held two meetings in August 2015 and March 2016, respectively, and reviewed the remuneration policy and structure relating to the Directors and senior management of the Company. All members of the remuneration committee attended such meeting.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2015 is set out below:

Remuneration bands (HK$)	Number of persons
Nil to HK$1,000,000	2
HK$1,000,001 to HK$1,500,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the consolidated financial statements.

Nomination Committee

The nomination committee was established on 26 May 2015. The nomination committee consists of one executive Director and two independent non-executive Directors, namely Mr. Chen Yenfei, Mr. Liu Liangzhong and Mr. Min Feng, and Mr. Chen Yenfei is the chairman of the nomination committee.

The primary functions of the nomination committee are to review the composition of the Board, including its structure, size and diversity at least annually to ensure it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and make recommendations to the Board suitably qualified persons to become a member of the Board, monitor the succession planning for Directors and assess the independence of independent non-executive Directors. The nomination committee will also give consideration to the Board Diversity Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy (as defined below), so as to develop and review measurable objectives for the implementing the Board Diversity Policy (as defined below) and to monitor the progress on achieving these objectives.

No meeting was held by the nomination committee from the Listing Date to 31 December 2015. The nomination committee held one meeting in March 2016, and reviewed the structure, size and composition of the Board and assessed independence of the independent non-executive Directors. All members of the nomination committee attended such meeting.

Corporate Governance Committee

The corporate governance committee was established on 26 May 2015. The corporate governance committee consists of two executive directors, namely, Mr. Chen Yenfei and Mr. Zhou Jian, and one independent non-executive director, Mr. Min Feng. Mr. Chen Yenfei is the chairman of the corporate governance committee. The primary functions of the corporate governance committee include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

BOARD PROCEEDINGS

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors less than 3 days before the relevant meeting is held. Directors may propose to the chairman or any of the joint company secretaries of the Company (the "Joint Company Secretaries") to include matters in the agenda for regular board meetings.

For the year ended 31 December 2015, the Board held two Board meetings. Subsequent to the year ended 31 December 2015 and up to the date of this report, the Board held another Board meeting in March 2016 for the main purposes of approving the annual results of our Group for the year ended 31 December 2015, and formulating business development strategies of our Group.

Attendance at the Board meetings held within the financial year ended 31 December 2015 by each of the Directors are set out below:

Name of Director	Attendance at Board meetings
Mr. Chen Yenfei	2/2
Mr. Shen Shun	2/2
Mr. Zhou Jian	2/2
Mr. Li Ho Tan	2/2
Mr. Masahiro Honna	2/2
Mr. Liu Liangzhong	2/2
Mr. Wong Tak Shing	2/2
Mr. Min Feng	2/2

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and Board Committees are kept by the Joint Company Secretaries in sufficient details the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the Board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

MEETING WITH INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2015, the chairman of the Company had one meeting with the independent non-executive Directors without the executive Directors present to review and discuss, among other things, the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views in Board meetings without restrictions.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors and independent non-executive Directors of the Company has entered into a service contract with the Company for a term of three years commencing from the Listing Date subject to retirement and re-election at annual general meeting in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the shareholders.

BOARD DIVERSITY POLICY

Pursuant to the CG Code relating to board diversity policy which has come into effect since 1 September 2013, the Board adopted a board diversity policy (the "Board Diversity Policy") on 26 May 2015. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

SECURITIES TRANSACTIONS BY DIRECTORS

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 as the Company's code of conduct regarding Directors' securities transactions ("Securities Dealing Code"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code throughout the period from the Listing Date to 31 December 2015.

Senior management who, because of their office in the Company, are likely to be in possession of inside information, have also been requested to comply with the provisions of the Securities Dealing Code.

COMPANY SECRETARY

Mr. Peter Chun Ming Pang, one of the Joint Company Secretaries, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. He is also the chief financial officer of the Company.

Mr. Tsoi Yuen Hoi is the other Joint Company Secretary. Please refer to his biography under the section headed "Directors and Senior Management" in this annual report.

During the financial year, the Joint Company Secretaries have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of the Joint Company Secretaries is set out in the section headed "Directors and Senior Management" on page 28 in the annual report.

FINANCIAL REPORTING AND INTERNAL CONTROLS

Financial Reporting

The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the 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. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of Crowe Horwath (HK) CPA Limited ("Crowe Horwath"), the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal Controls

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholders investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The Group has established an internal audit department to review the financial condition, operational condition, risk management, compliance control and internal control of the Group.

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

EXTERNAL AUDITOR

Crowe Horwath has been appointed as the external auditor of the Company. The independence of the external auditor is recognised and annually reviewed by the Board and the audit committee of the Company. During the financial year, the fees paid and payable to Crowe Horwath and PRC statutory auditors in respect of their audit services provided to the Group were RMB1.5 million and RMB0.76 million, respectively. The fees paid to Crowe Horwath during the year for the reporting accountants service in relation to the listing of the Company's Shares on the Stock Exchange were approximately RMB0.65 million.

There was no disagreement between the Board and the audit committee of the Company on the selection and appointment of the external auditor during the year under review.

NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

Mr. Chen Yenfei and Praise Treasure Limited are the controlling shareholders (within the meaning of the Listing Rules) of the Company ("Controlling Shareholders"). To protect the Group from any potential competition, the Controlling Shareholders have entered into the Deed of Non-competition ("Deed of Non-competition") in favor of the Company on 26 May 2015.

The Company has adopted the following measures to manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking:

(a) the independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by the Controlling Shareholders under the Deed of Non-competition;

(b) the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;

(c) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of the Controlling Shareholders under the Deed of Non-competition in the annual reports of our Company; and

(d) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition in the annual report of our Company.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders. Each of the Controlling Shareholders has confirmed in writing to the Company that he/it has complied with the Deed of Non-competition for the year ended 31 December 2015. Based on such written confirmation from the Controlling Shareholders and other appropriate queries made by the independent non-executive Directors, the independent non-executive Directors considered that the Controlling Shareholders have complied with all the undertakings under the Deed of Non-competition for the financial year ended 31 December 2015.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all the Shareholders an equal opportunity to exercise their rights in an informed manner and allow the Shareholders to engage actively with the Company. Under the Company's articles of association, the Shareholder communication policy and other relevant internal procedures of the Company, the Shareholders enjoy, among others, the following rights:

(i) Participation at general meeting

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. Prior notices of meetings with appropriate notice period in compliance with the articles of association of the Company and the Listing Rules and circulars containing details on proposed resolutions will to be sent to the Shareholders before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors. No general meeting was held from the Listing Date to 31 December 2015.

(ii) Enquiries and proposals to the Board

The Company encourages shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board Committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the principal place of business of the Company in Hong Kong currently situated at Flat 1907B, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or via email to ir@pashunholding.com.

(iii) Convening extraordinary general meeting

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the principal place of business of the Company in Hong Kong currently situated at Flat 1907B, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (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 Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at Shareholders' meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

(iv) Procedures for proposing a person for election as a Director

Pursuant to the article 85 of the articles of association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

CONSTITUTIONAL DOCUMENTS

Pursuant to a special resolution of the Shareholders passed on 26 May 2015, the amended and restated memorandum and articles of association of the Company were adopted with effect from the Listing Date. Save as disclosed above, during the period from the Listing Date to 31 December 2015, there was no change in the amended and restated memorandum and articles of association of the Company.

The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

CHEN YENFEI, or CHEN YEN FEI, (陳燕飛), aged 68, was appointed as our executive Director on May 3, 2011. He is the founder of our Group, the chairman of the Board and our chief executive officer. He is mainly responsible for the overall business management and strategic planning of our Group. Mr. Chen has approximately 30 years of experience in the pharmaceutical industry. He has been the chairman of Chengdu Pashun since 1995, and has been the chairman of Toyot Pa Shun Medicine Factory Company Limited since 1989. Mr. Chen graduated from Zhongnan University of Economics*（中南財經大學）(predecessor of Zhongnan University of Economics and Law（中南財經政法大學）) with a bachelor degree in July 1987, majoring in statistics and Hubei Traditional Chinese Medical Science College*（湖北中醫學院）(predecessor of Hubei University of Chinese Medicine（湖北中醫藥大學）) in June 1998, majoring in traditional Chinese medicine, respectively. Mr. Chen also was elected as one of the members of the first session of standing committee of China Association of Traditional Chinese Medicine*（中國中藥協會）. He was the vice-president of Wuhan Pharmaceutical Profession Association*（武漢醫藥行業協會）in 2003, vice-president of Hubei Guangcai Association*（湖北光彩學會）since 2006 and the executive committee vice chairman of Hong Kong Chamber of Commerce in China-Wuhan（中國香港地區商會－武漢）since 2010, respectively.

SHEN SHUN (沈順), aged 43, was appointed as an executive Director of our Company on February 27, 2012. Mr. Shen is mainly responsible for sales and internal control. He has about 15 years of experience in the pharmaceutical industry. Mr. Shen has been appointed as a vice general manager of Chengdu Kexun since 1998, responsible for sales. Mr. Shen obtained a master degree of business administration from a course jointly cooperated by Southwest Jiaotong University*（西南交通大學）and University of South Australia in May 2011. He graduated from Southwest Jiaotong University*（西南交通大學）, majoring in business administration in June 2006 by long-distance online education*（網絡教育學院）.

ZHOU JIAN (周建), aged 59, was appointed as an executive Director of our Company on February 27, 2012. Mr. Zhou is mainly responsible for medicines supply and internal control. He has over 30 years of experience in the pharmaceutical industry. Mr. Zhou has been appointed as the general manager of Chengdu Kexun since 1999, responsible for purchase and sale business and overall management. Prior to joining our Group, Mr. Zhou worked for Shenzhen Hua Chen Pharmaceuticals Co., Ltd*（深圳華辰藥業有限公司）as a manager from 1991 to 1998, responsible for management and operation of the company. He also worked for Chongqing Yong Zhou Chinese Herbal Medicine Company*（重慶市永州區中藥材公司）as an assistant manager from 1979 to 1991, responsible for purchase and sale business. Mr. Zhou graduated from Yuzhou University*（渝州大學）in February 1992, majoring in enterprise management. In addition, Mr. Zhou obtained the qualification of economist in entrepreneurial management*（企業管理經濟師）granted by Qualification Evaluation Committee of Intermediate-level Profession of the China National Group Corporation of Traditional and Herbal Medicine*（中國藥材公司中級專業技術職務評審委員會）in November 1996.

NON-EXECUTIVE DIRECTORS

LI HO TAN, aged 51, was appointed as a non-executive Director of our Company on February 27, 2012, mainly responsible for overall supervision of compliance, corporate governance and business development. Mr. Li has worked as chief executive officer for Fujian Red Bridge Capital Management Co., Ltd*（福建紅橋創業投資管理有限公司）since June 2009. Mr. Li graduated from University of International Relations*（國際關係學院）with a bachelor degree in July 1984, majoring in Japanese language and culture.

MASAHIRO HONNA（本名正博）, aged 42, a non-executive Director of our Company, was appointed as our non-executive Director on February 27, 2012. Mr. Masahiro Honna has been a chief executive officer of Kygo Investment Limited, after he established Kygo Investment Limited in 2009. He also worked for Goldman Sachs Gao Hua Securities Company Limited as an executive director from June 2007 to January 2009, for Goldman Sachs Japan Co, Ltd from January 2001 to June 2007, and for Nomura Securities Co., Ltd from April 1997 to December 2000. Mr. Masahiro Honna graduated from the College of Arts and Sciences (Kyoyo-Gakubu) of the University of Tokyo with a diploma of bachelor of liberal arts in international relations in March 1997.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIU LIANGZHONG（劉良忠）, aged 52, was appointed as an independent non-executive Director of our Company on May 26, 2015. He is mainly responsible for overall supervision of compliance and corporate governance. Mr. Liu has about 30 years of experience in the food science and engineering industry. He has worked as a professor in Wuhan Polytechnic University*（武漢輕工大學）since 2004, specializing in food science and engineering. He worked as a lecturer and associated professor from 1992 to 2001 and as a teaching assistant from 1986 to 1989 in Yangtze University*（長江大學）. Mr. Liu obtained a doctor degree in processing and storage of agricultural products Huazhong Agricultural University*（華中農業大學）on June 17, 2004. In addition, he graduated from Beijing Agricultural University*（北京農業大學）in July 1992, majoring in storage and processing of agricultural products and obtained a bachelor degree in meat product safety from Hangzhou School of Commerce*（杭州商學院）(predecessor of Zhejiang Gongshang University（浙江工商大學）) in July 1986.

WONG TAK SHING（黃德盛）, aged 53, was appointed as independent non-executive Director of our Company on May 26, 2015. He is mainly responsible for overall supervision of compliance and corporate governance. Mr. Wong has more than 27 years of experience in various industries, the details of which are set forth in the table below.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

He worked in various companies listed on the Stock Exchange, details of which are set forth as below.

Period	Companies	Positions and responsibilities
March 2011-present	L'sea Resources International Holdings Limited (利海資源國際控股有限公司) (Stock code: 195)(principally engaged in the manufacturing and sales of insulation and heat resistance materials)	Regional chief financial officer, company secretary and authorized representative, responsible for accounting, compliance issues and project management.
December 2009-present	China Digital Culture (Group) Limited (中國數碼文化(集團)有限公司) (Stock code: 8175) (principally engaged in the provision of digital copyright management solution services)	Independent non-executive director, responsible for corporate governance and compliance issues.
January 2010-February 2011	Global Energy Resources International Group Ltd. (環球能源資源國際集團有限公司) (Stock code: 8192)(principally engaged in the manufacturing and sales of air-conditioners and trading of metal products)	Chief financial officer, responsible for accounting and corporate finance.
April 2006-September 2009	Sun Innovation Holdings Limited (subsequently renamed as Digital Domain Holdings Limited) (Stock code: 547) (at the material time principally engaged in property investment and media entertainment business)	Independent non-executive director, responsible for corporate governance and compliance issues.
June 2007-January 2008	Wah Yuen Holdings Limited (華園控股有限公司) (subsequently renamed as China City Infrastructure Group Limited (中國城市基礎設施集團有限公司) (Stock code: 2349) (at the material time principally engaged in food manufacturing, research and development, sales and distribution)	Chief financial officer and deputy general manager of a subsidiary company, responsible for accounting and corporate finance.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

He worked in various companies listed on the Stock Exchange, details of which are set forth as below.

Period	Companies	Positions and responsibilities
April 2006- May 2007	IA International Holdings Limited (毅興科技國際控股有限公司), (subsequently renamed as Sky Forever Supply Chain Management Group Limited (宇恒供應鏈集團有限公司)) (Stock code: 8047) (at the material time principally engaged in research, development and provision of information-ondemand system solutions)	Executive director, deputy chairman, authorized representative company secretary and qualified accountant, responsible for accounting and corporate finance.
January 2003- April 2003	Sing Pao Media Group Limited (subsequently renamed as Sing Pao Media Enterprises Limited) (Stock code: 8010) (at the material time principally engaged in publication of newspapers and magazines)	Executive director, authorized representative and company secretary, responsible for corporate finance and compliance.
March 2000- November 2003	Sun Media Group Holdings Limited (subsequently renamed as Up Energy Development Group Limited (優派能源發展集團有限公司)) (Stock code: 307) (at the material time principally engaged in media-related business, including broadcasting and publishing business)	company secretary (from August 2001 to April 2003); controller-personnel and administration (from March 2000 to October 2001), vice president-personnel and administration (from October 2001 to June 2002) and group vice president (from June 2002 to November 2003) of a subsidiary company, responsible for corporate development and compliance.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

In addition, he worked as the financial controller and company secretary of Times Publishing (Hong Kong) Limited from December 1999 to February 2000. From July 1991 to April 1999, he worked for Asia Television Limited with his last position as controller-personnel and administration. He was a consultant of Chu Lung Hai, Jimmy & Co. CPA from January 2004 to April 2006. From January 1989 to June 1989, he was a semi-senior accountant in Deloitte Haskins & Sells (subsequently renamed as Deloitte Touche Tohmatsu) in Hong Kong. From November 1985 to January 1988, he worked in PriceWaterhouse (subsequently renamed as PriceWaterhouseCoopers) in Hong Kong as an audit assistant.

Mr. Wong obtained a diploma in financial management from the University of New England, Australia in April 1989, and a bachelor degree of science in the social science in business economics and accounting from the University of Southampton, the United Kingdom in July 1985. Mr. Wong has been an associate member of the Hong Kong Institute of Certified Public Accountants since January 1991, and the Australian Society of Certified Practicing Accountants since January 1989.

MIN FENG（閔鋒）, aged 65, was appointed as independent non-executive Director of our Company on May 26, 2015. He is mainly responsible for overall supervision of compliance, corporate governance and business development. He has about 30 years of experience in legal business. Mr. Min has been employed by Hubei No. 6 Law Firm*（湖北省第六律師事務所）(later renamed as the Hubei Zhengyuan Law Firm*（湖北正苑律師事務所）) since 1994 and become the partner since 2001. In addition, he worked for Zhongnan College of Political Science and Law*（中南政法學院）(predecessor of Zhongnan University of Economics and Law（中南財經政法大學）) as a civil law associate professor since June 1992 and was appointed as a deputy director of the economic law department. Mr. Min obtained a master degree in civil law from Zhongnan College of Political Science and Law*（中南政法學院）on December 20, 1998 and a bachelor degree in law from Hubei College of Finance and Economics*（湖北財經學院）in January 1982. Mr. Min was qualified as senior lawyer*（一級律師）by Qualification Evaluation Committee of Senior Lawyer in Hubei Province*（湖北省高級律師職務評審委員會）on August 18, 2000.

SENIOR MANAGEMENT

HUANG QI（黃奇）, aged 54, our general executive manager in charge of retail pharmacy store business. He joined our Group in 2011 and is mainly responsible for the development of our self-operated retail pharmacy stores and franchise retail pharmacy stores and the arrangement for the daily business. Mr. Huang has over 30 years of experience in the pharmaceutical industry. Prior to joining our Group, Mr. Huang worked as the general manager of the Hebei Jin Tian Yan Xiao Medicine Company*（河北金天燕霄醫藥有限公司）from 2007 to 2011. He worked for Shijiazhuang Huanxiang Environment Equipment Co., Ltd.*（石家莊環祥環境設備有限公司）as a deputy general manager from 2005 to 2007. He also worked for North China Pharmaceutical Group Huayi Pharmacy Limited*（華北製藥集團華益大藥房有限公司）as a general manager from 1978 to 2005. Mr. Huang graduated from Hebei Medical University*（河北醫科大學）in June 2006, majoring in pharmaceuticals. In addition, he graduated from Correspondence Institute of the Party School of Central Committee of the Communist Party of China*（中共中央黨校函授學院）in 1997, majoring in economic management by correspondence course and graduated from Hebei Youth Officials College*（河北青年管理幹部學院）in June 1990 majoring in politics.

SENIOR MANAGEMENT *(Continued)*

LI XIAODUO（李小多）, aged 47, is our manager in charge of manufacturing of our Group. Mr. Li joined our Group in 1998 and is mainly responsible for the production and quality control. Mr. Li has over 17 years of experience in the pharmaceutical industry. Mr. Li was appointed as the deputy general manager of Wuhan Baixin Holdings Group Limited*（武漢百信控股集團有限公司）since March 1998 in charge of manufacturing. Prior to joining our Group, he was the workshop supervisor and chief of biotech of Chengdu Di Kang Pharmaceuticals Limited*（成都迪康製藥公司）from February 1996 to February 1998. He also worked for Chongqing Oriental Pharmaceutical Co., Limited*（重慶東方藥業股份有限公司）from July 1994 to February 1996, responsible for developing new products. Mr. Li graduated from Chengdu College of Traditional Chinese Medicine*（成都中醫學院）in July 1994, majoring in traditional Chinese medicine.

ZHANG SUIHUI（張遂會）, aged 53, our manager in charge of quality inspection department of our Group. She joined our Group in 2011 and is mainly responsible for product's quality inspection. Ms. Zhang has about 30 years of experience in the pharmaceutical industry. She has been the head of quality control since she joined Chengdu Kexun in 2011. Prior to joining our Group, she was the head of quality assurance and quality control of Sichuan Taichi Pharmacy Chain Limited Company*（四川太極大藥房連鎖有限公司）from December 2000 to May 2011. In addition, she worked for Sichuan Petroleum Administration General Hospital*（四川石油管理局總醫院）as a traditional Chinese pharmacist supervisor from 1993 to October 2000. Ms. Zhang graduated from Chengdu University of Traditional Chinese Medicine*（成都中醫藥大學）by correspondence course in June 2000, majoring in traditional Chinese pharmacy. Ms. Zhang obtained required qualifications for Licensed Pharmacist of Chinese Medicine*（執業中藥師）in November 1999. Ms. Zhang was accredited as a biomedical senior engineer*（生物醫藥高級工程師）in December 2012 by Chengdu Reform of Professional Title Leading Group Office*（成都市職稱改革工作領導小組辦公室）.

TANG ZAIXIU（唐再秀）, aged 37, is the head of accounting department. She is mainly responsible for daily accounting. Ms. Tang has about 15 years of experience in accounting. She has worked as cashier, accountant, financial supervisor and financial manager of Chengdu Kexun since 1999. Ms. Tang graduated from Chongqing Technology and Business University*（重慶工商大學）on 30 June 2007, majoring in accounting.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Continued)*

PANG, PETER CHUN MING (彭浚銘), aged 39, was appointed as the chief financial officer and one of the joint company secretaries of our Group in January 2015. He is responsible for the Group's financial reporting, investor relationship and assisting the Board on governance matters. He has more than 10 years of experiences in accounting, auditing and finance. From April 2011 to December 2014, Mr. Pang was appointed as a chief financial officer and company secretary of Renjian Antong International Holdings Limited, a Fujian based logistics company, mainly responsible for accounting and finance and overall compliance. Prior to that, he worked in Deutsche Bank AG, Hong Kong Branch as an associate in global banking division from September 2010 to April 2011 and worked as an associate director in corporate finance department of BOCI Asia Limited, a subsidiary of BOC International Holdings Limited, from March 2008 to September 2010, respectively, during which he accumulated experience in banking and corporate finance. Mr. Pang worked in Ernst & Young LLP in the United States as a senior from July 2003 to February 2006 and as a senior in the assurance standards services group from February 2007 to October 2007. He worked in Ernst & Young in Hong Kong as a manager in assurance and advisory business service department from November 2007 to March 2008. Mr. Pang received a master degree of accounting from the University of Southern California, the United States in May 2003 and completed a bachelor degree of arts major in economics from the University of California at Berkeley, the United States in August 1999. He has been a certified public accountant of the California Board of Accountancy of the United States since February 2006 and a chartered financial analyst (CFA) charterholder since November 2006.

JOINT COMPANY SECRETARIES

Mr. Pang, Peter Chun Ming (彭浚銘) is one of our joint company secretaries. Please refer to his biography under the paragraph above.

Mr. Tsoi, Yuen Hoi (蔡元開), was appointed as one of our joint company secretaries on May 26, 2015. He is a partner of T.O.Ho & Co. CPA. He has over 10 years' experiences in auditing. Mr. Tsoi holds a degree of bachelor of arts majoring in economics from York University, Toronto, Canada. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

REPORT OF DIRECTORS

The directors of the Company (the "Directors") are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

BUSINESS REVIEW

A review of the business of the Group during 2015 and a discussion on the Group's future business development are set out in the Chairman's Statement and Management Discussion and Analysis section of this annual report.

CORPORATE INFORMATION AND GLOBAL OFFERING

The Company was incorporated on 3 May 2011 as a limited liability company under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Company's shares (the "Shares") were listed on the Stock Exchange on 19 June 2015 (the "Listing").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group primarily operates in three business segments in China, namely (1) pharmaceutical distribution, (2) self-operated retail pharmacies, and (3) pharmaceutical manufacturing. The analysis of the revenue of the principal activities of the Group during the year ended 31 December 2015 is set out in note 4 to the consolidated financial statements in this annual report.

RESULTS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss on page 43 of this annual report.

FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of HKD3.0 cents (equivalent to approximately RMB2.5 cents) per Share for the financial year, representing a total payout of approximately HK$30.0 million (equivalent to approximately RMB25.2 million). Subject to the approval of the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company, the final dividend will be paid in cash on or around 5 July 2016 to the Shareholders whose names appear on the register of members of the Company on 10 June 2016.

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last four financial years are set out on page 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial management risks. The Group's key risk exposures are summarised as follows:

Business risks	(i)	Slowdown of China's economic growth in particular in southwestern China.
	(ii)	Overall sales growth rate of pharmaceutical products in China slowed down prominently in 2015
Operational risks	(i)	Any disruption or termination of or material change in our supplier relationships may have a negative impact on our operation
	(ii)	Reliance on key personnel and business and growth may be disrupted if the Group is not able to retain the key personnel
Financial risks	(i)	Foreign currency exchange risk
	(ii)	Interest rate risk
	(iii)	Credit risk
	(iv)	Liquidity risk
	(v)	Price risk

Details of the financial risk management are set out in note 30 to the consolidated financial statements.

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

CHARGES OF ASSETS

Details on charges of the Group's assets during the year ended 31 December 2015 are set out in note 23 to the consolidated financial statements in this annual report.

GEARING RATIO

The Group's gearing ratio, which is calculated by dividing total interest-bearing bank borrowings by total equity, as at 31 December 2015 was 2.1% (2014: 27.6%).

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$249.5 million, which sum is intended to be applied in the manner consistent with that set out in the Company's prospectus dated 9 June 2015. For details of the utilisation of the net proceeds, please refer to "Use of Net Proceeds from Listing" under the Management Discussion and Analysis section of this annual report.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY AND COMPLIANCE WITH LAWS AND REGULATIONS

As a responsible corporation, the Group is committed to maintain the highest environmental and social standards to ensure sustainable development of its business. The Group has complied with all relevant laws and regulations in relating to its business including production, health and safety, workplace conditions, employment and the environment that have a significant impact on the Group. The Group understands a better future depends on everyone's participation and contribution. It has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 29.4% of the total sales for the year ended 31 December 2015 and sales to the largest customer included therein amounted to 6.5% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 48.2% of the total purchase for the year ended 31 December 2015 and purchase from the Group's largest supplier included therein amounted to 11.2% of the total purchase for the year.

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Being people-oriented, the Group ensures all staff are reasonable remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

The Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

The Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2015 are set out in note 12 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2015 are set out in note 29 to the consolidated financial statements in this annual report.

RESERVES

Details of movements in the reserves of the Group during the year are set out on page 47 in the consolidated statement of changes in equity of this annual report and in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's accumulated losses amounted to RMB101,769,000 and the Company's share premium amounted to RMB447,331,000. By passing an ordinary resolution of the Company, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law of the Cayman Islands.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2015 are set out in note 23 to the consolidated financial statements in this annual report.

DIRECTORS

The Directors during the year ended 31 December 2015 and up to the date of this annual report were:

Executive Directors:
Mr. Chen Yenfei *(Chairman and Chief Executive Officer)*
Mr. Shen Shun
Mr. Zhou Jian
Mr. Su Si (Resigned on 28 January 2016)

Non-executive Directors:
Mr. Li Ho Tan
Mr. Masahiro Honna

Independent non-executive Directors:
Mr. Liu Liangzhong
Mr. Wong Tak Shing
Mr. Min Feng

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service contract with the Company for a term of three years commencing from Listing Date subject to his retirement and re-election at annual general meeting in accordance with the Company's articles of association. The details of the remuneration of each of the Directors are revealed on note 8 to the consolidated financial statements.

Details of the Directors' biographies have been set out on pages 22 to 26 of the annual report. In accordance with article 84 of the Company's articles of association, Mr. Chen Yenfei, Mr. Shen Shun and Mr. Zhou Jian will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 22 to 28 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than those transactions disclosed in note 33 to the consolidated financial statements in this annual report, no Director has any material interest, either directly or indirectly, in any contract of significance to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies were a party subsisted at the end of the year or at any time during the year ended 31 December 2015.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2015.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Director's and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) when the Report of the Board of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance (Chapter 622, Laws of Hong Kong).

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 26 May 2015 for the purpose of rewarding certain Eligible Persons (as defined below) for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such Eligible Persons (as defined below) who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on 26 May 2015.

SHARE OPTION SCHEME *(Continued)*

Eligible participants of the Scheme include, (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Company or any of its subsidiaries and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above (the person referred above are the "Eligible Persons").

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at the Listing Date, i.e. 100,000,000 shares of the Company. Subject to the issue of a circular by the Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

Notwithstanding the foregoing, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

The maximum number of shares issued and to be issued upon the exercise of options granted under the Share Option Scheme (including exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company; and (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

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

SHARE OPTION SCHEME *(Continued)*

The Board shall not offer the grant of any option to any Eligible Person after inside information has come to its knowledge until it has announced the information pursuant to the requirements of the Listing Rules. In particular, no option shall be granted during the period commencing two months immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements provided that no option may be granted during any period of delay in publishing a results announcement.

The exercise period of the share options granted is determinable by the directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

As at 31 December 2015, no option had been granted under the Share Option Scheme.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements in this annual report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules since the Listing Date.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2015, the interests and short positions of the directors and 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 ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the Company

Name of Director	Capacity/ nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Chen Yenfei *(Note 1)*	Interest of a controlled corporation	488,040,000	48.80%
Mr. Li Ho Tan *(Note 2)*	Interest of a controlled corporation	197,360,000	19.74%

Notes:

1. Mr. Chen Yenfei holds 100% of the issued share capital of Praise Treasure Limited and is therefore deemed to be interested in the 488,040,000 Shares held by Praise Treasure Limited in the Company.

2. Mr. Li Ho Tan is interested in 47% of the issued share capital of Advance Apex Limited and the entire issued share capital of Jumbo Success Holdings Limited, both incorporated in the British Virgin Islands, and therefore is deemed to be interested in the 192,960,000 Shares and 4,400,000 Share which Advance Apex Limited and Jumbo Success Holdings Limited hold respectively.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS *(Continued)*

Long positions in associated corporations

Name of director	Name of associated corporation	Capacity/ Nature of interest	Amount of registered capital interested	Approximate percentage of shareholding
Mr. Su Si	Hebei Chun Sheng Tang Chain Store Co., Ltd. (河北春生堂大藥房連鎖有限公司)	Beneficial owner	RMB900,000	18%

Save as disclosed above, as at 31 December 2015, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate since the Listing Date.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31 December 2015, so far as the directors and chief executive of the Company were aware, the following persons and corporations (excluding the directors and chief executive of the Company) had interests or short positions in any of the shares or underlying shares of the Company which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who, directly or indirectly, is interested in 10% or more of the nominal value of any class of share capital to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Capacity/ nature of interest	Number of shares held *(Note 3)*	Approximate percentage of issued share capital
Praise Treasure Limited *(Note 1)*	Beneficial owner	488,040,000 (L)	48.80%
Advance Apex Limited *(Note 2)*	Beneficial owner	192,960,000 (L)	19.30%
Mr. Cheung Chi Mang *(Note 2)*	Interest of a controlled corporation	192,960,000 (L)	19.30%

Notes:

1. Praise Treasure Limited directly holds 488,040,000 shares representing 48.80% of the issued share capital of the Company.

2. Advance Apex Limited directly holds 192,960,000 shares representing 19.30% of the issued share capital of the Company. Mr. Cheung Chi Mang is interested in 50% of the issued share capital of Advance Apex Limited and is deemed to be interested in the 192,960,000 shares.

3. The letter "L" denotes the Director's long position in the shares of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2015.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to the existing Shareholders.

COMPETING BUSINESS

None of the Directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year. Each of Mr. Chen Yenfei and Praise Treasure Limited (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the noncompete undertaking given by them to the Company on 26 May 2015. The independent non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the period from the Listing Date to 31 December 2015.

CONNECTED TRANSACTIONS

The Group has not entered into any connected transaction for the year ended 31 December 2015. A summary of the related party transactions entered into by the Group during the year ended 31 December 2015 is contained in note 33 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules.

CHARITABLE DONATIONS

There was no charitable donations made by the group during the year ended 31 December 2015 (2014: nil).

AUDIT COMMITTEE

The audit committee has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2015.

REPORT OF DIRECTORS

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code from the Listing Date to 31 December 2015.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 12 to 21 of this annual report.

CLOSURE OF REGISTER OF SHAREHOLDERS

The register of shareholders of the Company will be closed from 30 May 2016 to 1 June 2016, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend the AGM. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 27 May 2016.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

EVENTS AFTER THE REPORT PERIOD

There were no significant events after the reporting period of the Group.

AUDITOR

Crowe Horwath has been appointed as auditor of the Company for the year ended 31 December 2015.

Crowe Horwath shall retire in the AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Crowe Horwath as independent auditor of the Company will be proposed at the AGM.

On behalf of the Board
Chan Yenfei
Chairman

Hong Kong, 31 March 2016

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PA SHUN PHARMACEUTICAL INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Pa Shun Pharmaceutical International Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 43 to 120, which comprise the consolidated statement of financial position as at 31 December 2015, 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 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.

INDEPENDENT AUDITOR'S REPORT

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 Hong Kong Companies Ordinance.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2016

Betty P.C. Tse
Practising Certificate Number P03024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	NOTES	Year ended 31 December 2015 RMB'000	2014 RMB'000
Revenue	4	**867,963**	847,193
Cost of sales		**(702,698)**	(665,126)
Gross profit		**165,265**	182,067
Other revenue	5	**22,534**	20,672
Other net loss	5	**(3,539)**	(710)
Selling and distribution expenses		**(25,569)**	(36,468)
General and administrative expenses		**(78,118)**	(46,729)
Profit from operations		**80,573**	118,832
Finance costs	6(a)	**(3,743)**	(9,013)
Impairment on goodwill	14	**(1,295)**	(4,714)
Change in fair value on convertible redeemable preferred shares	24	**37,471**	(33,236)
Profit before taxation	6	**113,006**	71,869
Income tax	7	**(28,120)**	(25,740)
Profit for the year		**84,886**	46,129
Attributable to:			
Equity shareholders of the Company		**88,257**	45,944
Non-controlling interests		**(3,371)**	185
Profit for the year		**84,886**	46,129
Earnings per share (in RMB cents)	10		
Basic		**11.31**	8.74
Diluted		**5.74**	8.74

The notes on page 51 to 120 form an integral part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 29(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit for the year	**84,886**	46,129
Other comprehensive income for the year, net of nil income tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**8,373**	(5,929)
Total comprehensive income for the year	**93,259**	40,200
Attributable to:		
Equity shareholders of the Company	**96,630**	40,015
Non-controlling interests	**(3,371)**	185
Total comprehensive income for the year	**93,259**	40,200

The notes on pages 51 to 120 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**59,451**	80,905
Prepaid land lease payments	13	**2,249**	2,359
Goodwill	14	**–**	1,295
Intangible assets	16	**814**	6,024
Prepayments for intangible assets	16	**29,000**	20,000
Other non-current assets	17	**94,895**	22,177
Deferred tax assets	25	**6,173**	6,051
		192,582	138,811
CURRENT ASSETS			
Inventories	18	**67,894**	69,128
Financial assets at fair value through profit or loss	19	**2,619**	–
Trade and other receivables	20	**411,794**	363,799
Amount due from a Controlling Shareholder	33	**–**	675
Amount due from a related party	33	**–**	340
Pledged bank deposits	21	**95,479**	74,180
Cash and cash equivalents	21	**116,334**	67,059
		694,120	575,181
Assets of a disposal group classified as held-for-sale	11	**14,594**	–
		708,714	575,181
CURRENT LIABILITIES			
Trade and other payables	22	**121,824**	184,332
Bank borrowings	23	**15,000**	50,000
Convertible redeemable preferred shares	24	**–**	220,355
Amount due to a director	33	**222**	210
Amounts due to other related parties	33	**35**	232
Current taxation	25	**13,346**	13,472
		150,427	468,601
Liabilities of a disposal group classified as held-for-sale	11	**1,728**	–
		152,155	468,601
NET CURRENT ASSETS		**556,559**	106,580
TOTAL ASSETS LESS CURRENT LIABILITIES		**749,141**	245,391

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
NON-CURRENT LIABILITIES			
Convertible redeemable preferred shares	24	–	36,757
Deferred income – government grant	26	26,471	27,354
		26,471	64,111
NET ASSETS		722,670	181,280
CAPITAL AND RESERVES	29		
Share capital		801	1
Reserves		724,179	180,218
Total equity attributable to equity shareholders of the Company		724,980	180,219
Non-controlling interests		(2,310)	1,061
TOTAL EQUITY		722,670	181,280

The financial statements on pages 43 to 120 were approved and authorised for issue by the board of directors on 31 March 2016 and were signed on its behalf by:

Chen Yenfei
Director

Shen Shun
Director

The notes on pages 51 to 120 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to equity shareholders of the Company								
	Share capital RMB'000	Share premium RMB'000	PRC Statutory reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014	1	–	22,138	9,463	(28,150)	136,752	140,204	876	141,080
Changes in equity for 2014									
Profit for the year	–	–	–	–	–	45,944	45,944	185	46,129
Other comprehensive income for the year – Exchange differences on translation of financial statements of entities outside the PRC	–	–	–	(5,929)	–	–	(5,929)	–	(5,929)
Total comprehensive income for the year	–	–	–	(5,929)	–	45,944	40,015	185	40,200
Appropriation to PRC statutory reserve	–	–	9,767	–	–	(9,767)	–	–	–
At 31 December 2014 and 1 January 2015	1	–	31,905	3,534	(28,150)	172,929	180,219	1,061	181,280
Balance at 1 January 2015	**1**	**–**	**31,905**	**3,534**	**(28,150)**	**172,929**	**180,219**	**1,061**	**181,280**
Changes in equity for 2015									
Profit for the year	**–**	**–**	**–**	**–**	**–**	**88,257**	**88,257**	**(3,371)**	**84,886**
Other comprehensive income for the year – Exchange differences on translation of financial statements of entities outside the PRC	**–**	**–**	**–**	**8,373**	**–**	**–**	**8,373**	**–**	**8,373**
Total comprehensive income for the year	**–**	**–**	**–**	**8,373**	**–**	**88,257**	**96,630**	**(3,371)**	**93,259**
Conversion of convertible redeemable preferred shares	**–**	**219,317**	**–**	**–**	**–**	**–**	**219,317**	**–**	**219,317**
Capitalization issue	**600**	**(600)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issuance of shares under IPO,	**200**	**244,073**	**–**	**–**	**–**	**–**	**244,273**	**–**	**244,273**
Share issuance expenses	**–**	**(15,459)**	**–**	**–**	**–**	**–**	**(15,459)**	**–**	**(15,459)**
Appropriation to PRC statutory reserve	**–**	**–**	**5,089**	**–**	**–**	**(5,089)**	**–**	**–**	**–**
At 31 December 2015	**801**	**447,331**	**36,994**	**11,907**	**(28,150)**	**256,097**	**724,980**	**(2,310)**	**722,670**

The notes on pages 51 to 120 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Operating activities			
Profit before taxation		**113,006**	71,869
Adjustments for:			
Depreciation of property, plant and equipment	*12*	**9,017**	9,368
Amortisation of prepaid land lease payments	*13*	**110**	109
Amortisation of intangible assets	*16*	**576**	619
Amortisation of government grant	*26*	**(883)**	(882)
Impairment loss/(reversal of impairment loss) of trade receivables	*20(b)*	**8,953**	(1,239)
Write off of other receivables	*6(c)*	**16,047**	1,093
Loss on disposal of property, plant and equipment	*5(b)*	**1,852**	1,992
Impairment on goodwill	*14*	**1,295**	4,714
Change in fair value of convertible redeemable preferred shares	*24*	**(37,471)**	33,236
Change in fair value of held for trading investment		**537**	–
Bank interest income	*5(a)*	**(2,182)**	(1,715)
Finance costs	*6(a)*	**2,721**	4,820
Net foreign exchange gain		**(323)**	(391)
		113,225	123,593
Change in working capital:			
Decrease/(increase) in inventories		**457**	(10,311)
Increase in trade and other receivables		**(67,475)**	(13,044)
Decrease in trade and other payables		**(54,237)**	(24,634)
Cash (used in)/generated from operations		**(8,000)**	75,604
Income tax paid	*25*	**(27,758)**	(26,940)
Net cash (used in)/generated from operating activities		**(35,758)**	48,664

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Investing activities			
Payment for purchase of property, plant and equipment		**(3,589)**	(19,833)
Proceeds from disposal of property, plant and equipment		**5,058**	6
Payment for purchase of intangible assets		**–**	(865)
Advanced payment in respect of purchase of intangible assets		**(9,000)**	–
Payment for deposit for purchase of property, plant and equipment		**(8,571)**	(9,866)
Decrease in deposits paid for acquisition of retail pharmacy stores		**–**	250
Increase in deposits paid for acquisition of land use right		**(27,667)**	–
(Increase)/decrease in deposit paid for acquisition of companies		**(42,000)**	30,000
Payment for financial assets at fair value through profit or loss		**(3,156)**	–
Increase in pledged bank deposits		**(21,298)**	(20,203)
Repayment from the Controlling Shareholder		**675**	684
Decrease in amounts due from other related parties		**340**	2,045
Bank interest received	*5(a)*	**2,182**	1,715
Net cash used in investing activities		**(107,026)**	(16,067)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Financing activities			
Drawn down of new bank loans		**15,000**	75,000
Repayment of bank loans		**(50,000)**	(100,000)
Gross proceeds from issuance of ordinary shares		**244,273**	–
Share issuance expenses paid		**(15,459)**	–
Increase in amount due to a director		**12**	457
Decrease in amount due to other related parties		**(197)**	(1,797)
Borrowing costs paid	*6(a)*	**(2,721)**	(4,820)
Net cash generated from/(used in) financing activities		**190,908**	(31,160)
Net increase in cash and cash equivalents		**48,124**	1,437
Cash and cash equivalents at 1 January		**67,059**	65,375
Effect of changes in foreign exchange rate		**1,218**	247
Cash and cash equivalents at 31 December	*21*	**116,401**	67,059

The notes on pages 51 to 120 form an integral part of these financial statements.

1. CORPORATE INFORMATION

Pa Shun Pharmaceutical International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 3 May 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its share are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 June 2015. The addresses of the Company's registered office and the principle place of business are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Flat 1907B, 19/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong respectively.

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15.

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"), 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. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the consolidated financial statements

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

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB") for easy reference for international investors.

The directors believe that the Group's operation involved Renminbi ("RMB") and HK$ while the financing is mainly in HK$ during the year ended 31 December 2015. Taking into account of all the factors, the directors exercised their judgement in changing the functional currency of the Company from United Stated dollars ("US$") to HK$ after considering that HK$ as the functional currency is the most faithfully reflection of the economic effects of the underlying transactions, events and conditions that are relevant to the Company. Such change in functional currency of the Company has no material effect on these consolidated financial statements.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial assets at fair value through profit or loss; and

– convertible redeemable preferred shares (note 2(n)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (note 2(x)).

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 that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the consolidated financial statements *(Continued)*

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 a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

c) Changes in accounting policies

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

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- Annual Improvements to *HKFRSs 2010-2012 Cycle*
- 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 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. These amendments do not have an impact on the Group's financial statements as the Group did not have defined benefit plans for its employee.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) 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, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets, however, the choice of measuring non-controlling interests is limited to those types of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the subsidiary's net assets in the event of liquidation. All other types of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by HKFRSs.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders 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 equity shareholders of the Company. 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 accordance with notes 2(m), (n) or (o) depending on the nature of the liability.

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (note 2(j)) unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (note 2(x)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Goodwill

Goodwill represents the excess of

i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

ii) the net fair value of the acquiree's identifiable assets and liabilities measured as of the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2(j)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

f) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling in the near term; or

– on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

At the end of each reporting period subsequent to initial recognition, financial assets at FVTPL are stated at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (note 2(j)).

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

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

– Buildings	20–30 years
– Leasehold improvements	The shorter of the lease term and their useful life of 3–10 years
– Machinery and equipment	5–10 years
– Furniture and other office equipment	3–10 years
– Motor vehicles	4–10 years

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

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment loss (note 2 (j)). Cost comprises direct costs of construction during the construction period. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the asset is substantially complete and ready for its intended use. No depreciation is provided in respect of construction in progress.

h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. 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:

– Patent	20 years
– Computer software	5–20 years

Both the period and method of amortisation are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group's 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.

i) Classification of assets leased to the Group

Assets that are 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.

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 aggregated net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Prepaid land lease payments under an operating lease are initially stated at cost and subsequently amortised on a straight-line basis over the period of the lease term.

j) Impairment of assets

i) Impairment of investment in equity securities and other receivables

Investment in equity securities and other current and non-current 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 costs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Impairment of assets *(Continued)*

i) Impairment of investment in equity securities and other receivables *(Continued)*

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

– 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 loss for equity securities carried at cost are not reversed.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and commercial bills receivables 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 receivables and commercial bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment;
- Prepaid land lease payments;
- Intangible assets;
- Other non-current assets;
- Prepayments;
- Goodwill; 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, 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 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 if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated 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 value 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 an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior reporting periods. Reversals of impairment losses are credited to profit or loss in the reporting period in which the reversals are recognised.

k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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.

l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (note 2(j)), 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Convertible redeemable preferred shares

The Group elected to designate the convertible redeemable preferred shares with one or more embedded derivatives as financial liability at fair value through profit or loss as they are contracts containing one or more embedded derivatives. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in the consolidated statements of profit or loss. Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognised in the profit or loss.

The convertible redeemable preferred shares are classified as non-current liabilities unless the Group has an obligation to settle the liability within twelve months after the end of the reporting period.

o) 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.

p) 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.

q) Employee benefits

i) Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the reporting period 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 benefits

The entities within the Group in the PRC participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The cost of all these schemes is charged to profit or loss of the Group for the reporting period concerned and the assets of all these schemes are held separately from those of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Employee benefits *(Continued)*

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to share premium account) or the option expires (when it is released directly to retained profits).

(iv) 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.

r) Income tax

Income tax for the reporting period comprises current tax and movements in deferred tax asset 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 the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Income tax *(Continued)*

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from 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.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the asset 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Income tax *(Continued)*

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 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.

s) Provisions and contingent liabilities

Provisions are recognised for 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

ii) Interest income

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

iii) 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.

iv) Franchise fee income

Franchise fee income is recognised when services are rendered.

v) 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 recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) Translation of foreign currencies

Foreign currency transactions during the reporting period 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.

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 that are stated at fair value are translated using the foreign exchange rates ruling at the date the fair value was measured.

The results of operations outside Mainland China are translated into RMB at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statements of financial position items are translated into RMB at the closing foreign exchange rates 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.

On disposal of a foreign 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.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

v) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) 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 note 2(w)(a).

(vii) A person identified in note 2(w)(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)*

x) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a noncontrolling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

y) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's executive directors for the purpose 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 nature of production processes, 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Impairment of property, plant and equipment, prepaid land lease payments, intangible assets, prepayments for intangible assets and other non-current assets (Carrying amount: RMB186,409,000 (2014: RMB131,465,000))

If circumstances indicate that the carrying amounts of property, plant and equipment, prepaid land lease payments, intangible assets, prepayments for intangible assets and other non-current assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amounts to the recoverable amount in accordance with the accounting policy for impairment of these assets as described in note 2(j)(ii). 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 judgment relating to level of future income and 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 future income and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

b) Impairment of trade and other receivables (Carrying amount: RMB312,378,000 (2014: RMB252,896,000))

The Group estimates the provision for impairment of trade and other receivables by assessing the recoverability based on credit history, the ageing of the trade receivables balance and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassess the impairment allowances at the end of the reporting period.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

c) Assessment of useful economic lives of property, plant and equipment (Carrying amount: RMB59,451,000 (2014: RMB80,905,000))

The Group estimates the useful lives of property, plant and equipment based on the periods over which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation charges and decrease non-current assets.

d) Net realisable value of inventories (Carrying amount: RMB67,894,000 (2014: RMB69,128,000))

Net realizable 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 the products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior periods and affect the Group's net assets value. The Group reassesses these estimates at the end of each reporting period.

e) Recognition of deferred tax assets (Carrying amount: RMB6,173,000 (2014: RMB6,051,000))

Deferred tax assets are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgment exercised by the management. Any change in such assumptions and judgment would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

4. REVENUE AND SEGMENT REPORTING

a) Revenue

The principal activities of the Group are pharmaceutical distribution, self-operated retail pharmacies and manufacture of pharmaceutical products in the PRC.

Revenue represents the sales value of goods supplied to customers. The amount of each significant category of revenue is as follows:

	2015	2014
	RMB'000	RMB'000
Pharmaceutical distribution	**740,092**	707,053
Self-operated retail pharmacies	**8,321**	29,352
Pharmaceutical manufacturing	**119,550**	110,788
	867,963	847,193

b) Segment reporting

The Group manages its business by business lines and distribution channels. In a manner consistent with the way in which information is reported internally to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Pharmaceutical distribution: this segment generates revenue primarily from sales to (i) wholesalers, (ii) franchise retail pharmacy chain stores and (iii) hospitals and other medical institutions in rural areas.
- Self-operated retail pharmacies: this segment generates revenue primarily from sales of pharmaceutical and healthcare products, cosmetic products and daily necessities in self-operated retail pharmacies.
- Pharmaceutical manufacturing: this segment generates revenue primarily from sales of pharmaceutical products manufactured by the Group.

The Group's revenue and operating profit were entirely derived from activities of pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing in the PRC for the years ended 31 December 2015 and 2014 and the principal assets employed by the Group were located in the PRC as at 31 December 2015 and 2014. Accordingly, no analysis by geographical information is provided for the years ended 31 December 2015 and 2014.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision maker for review during the year ended 31 December 2015 and 2014 for the purposes of resource allocation and performance assessment.

4. REVENUE AND SEGMENT REPORTING *(Continued)*

b) Segment reporting *(Continued)*

The Group's customer base is diversified, thus no single customer of the Group contributed 10% or more of the Group's revenue for the year ended 31 December 2015 and 2014.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

(i) Segment revenue and results

Segment information regarding the Group's revenue and results as provided to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2015 and 2014 is set out below.

	Year ended 31 December 2015						
	Pharmaceutical distribution						
	Sales to wholesalers RMB'000	Sales to franchise retail pharmacy chain stores RMB'000	Sales to hospitals and other medical institutions in rural areas RMB'000	Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Revenue from external customers	493,893	149,763	96,436	740,092	8,321	119,550	867,963
Inter-segment revenue	–	1,308	–	1,308	–	4,311	5,619
Reportable segment revenue	493,893	151,071	96,436	741,400	8,321	123,861	873,582
Reportable segment profit	20,155	47,237	20,056	87,448	2,191	75,847	165,486
Other segment information							
Depreciation and amortisation	–	–	–	–	–	493	493

	Year ended 31 December 2014						
	Pharmaceutical distribution						
	Sales to wholesalers RMB'000	Sales to franchise retail pharmacy chain stores RMB'000	Sales to hospitals and other medical institutions in rural areas RMB'000	Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Revenue from external customers	446,018	173,189	87,846	707,053	29,352	110,788	847,193
Inter-segment revenue	–	6,524	–	6,524	–	22,136	28,660
Reportable segment revenue	446,018	179,713	87,846	713,577	29,352	132,924	875,853
Reportable segment profit	20,951	55,634	13,675	90,260	9,504	82,624	182,388
Other segment information							
Depreciation and amortisation	–	–	–	–	–	520	520

4. REVENUE AND SEGMENT REPORTING *(Continued)*

b) Segment reporting *(Continued)*

(ii) Reconciliations of reportable segment revenues and profit or loss

	2015 RMB'000	2014 RMB'000
Revenue		
Reportable segment revenue	**873,582**	875,853
Elimination of inter-segment revenue	**(5,619)**	(28,660)
Consolidated revenue *(note 4(a))*	**867,963**	847,193
Profit		
Reportable segment profit	**165,486**	182,388
Elimination of inter-segment profits	**(221)**	(321)
Reportable segment profit derived from external customers	**165,265**	182,067
Other revenue	**22,534**	20,672
Other net loss	**(3,539)**	(710)
Selling and distribution expenses	**(25,569)**	(36,468)
General and administrative expenses	**(78,118)**	(46,729)
Finance costs	**(3,743)**	(9,013)
Change in fair value on convertible redeemable preferred shares	**37,471**	(33,236)
Impairment on goodwill	**(1,295)**	(4,714)
Consolidated profit before taxation	**113,006**	71,869
Other items		
Depreciation and amortisation		
Reportable segment total	**493**	520
Unallocated total	**9,210**	9,576
Consolidated total	**9,703**	10,096

5. OTHER REVENUE AND OTHER NET LOSS

a) Other revenue

	2015 RMB'000	2014 RMB'000
Franchise fee	**17,414**	13,812
Bank interest income	**2,182**	1,715
Rental income	**465**	1,317
Deferred income – government grant	**883**	882
Others	**1,590**	2,946
	22,534	20,672

b) Other net loss

	2015 RMB'000	2014 RMB'000
Loss on disposal of property, plant and equipment	**(1,852)**	(1,992)
Reversal of impairment loss of trade receivables	**–**	1,239
Recovery of other receivables written off in prior years	**66**	43
Net foreign exchange loss	**(1,753)**	–
	(3,539)	(710)

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

a) Finance costs

	2015 RMB'000	2014 RMB'000
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank borrowings	**2,721**	4,820
Bills charges	**505**	3,642
Other bank charges	**517**	551
	3,743	9,013

6. PROFIT BEFORE TAXATION *(Continued)*

b) Staff costs (including directors' emoluments)

	2015 RMB'000	2014 RMB'000
Salaries, wages and other benefits	**21,906**	20,802
Contributions to defined contribution retirement plans	**3,919**	3,710
	25,825	24,512

c) Other items

	2015 RMB'000	2014 RMB'000
Amortisation of intangible assets	**576**	619
Amortisation of prepaid land lease payments	**110**	109
Depreciation of property, plant and equipment	**9,017**	9,368
Auditors' remuneration	**1,542**	2,416
Operating lease charges in respect of property rentals	**8,243**	11,963
Impairment loss/(reversal of impairment loss) of trade receivables	**8,953**	(1,239)
Write off of other receivables *(note i)*	**16,047**	1,093
Impairment loss on goodwill	**1,295**	4,714
Cost of inventories *(note ii)*	**702,698**	665,126

(i) The directors concluded that it is appropriate to write off other receivables of RMB16,047,000 (2014: RMB1,093,000) in light of the fact that some of the other receivables were long outstanding over one year without any settlement during the year and remained outstanding and that some other receivables were due from debtors with financial difficulties.

(ii) Cost of inventories for the year ended 31 December 2015 include RMB1,513,000 (2014: RMB1,622,000), relating to staff costs, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above.

7. INCOME TAX

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

	2015 RMB'000	2014 RMB'000
Current tax – PRC Corporation Income Tax		
Provision for the year	**28,242**	26,624
Deferred tax		
Origination and reversal of temporary differences	**(122)**	(884)
	28,120	25,740

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

(ii) Pursuant to 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.

(iii) No Hong Kong Profits Tax for the two years ended 31 December 2015 and 2014 have been provided for in the consolidated statement of profit or loss as the Group has no estimated assessable profits arising in Hong Kong during the years.

(iv) The Group's PRC subsidiaries are subject to PRC Corporate Income Tax at the statutory rate of 25%.

Toyot Pa Shun Medicine Factory Company Limited ("Toyot Pa Shun"), a wholly-owned subsidiary of the Group, applied for preferential income tax treatment under the Notice on the Issues of Tax Policies for Thorough Implementation of Western Development Strategy. Toyot Pa Shun obtained the approval from local tax authority and became entitled to a preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

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

	2015 RMB'000	2014 RMB'000
Profit before taxation	**113,006**	71,869
Notional tax on profit before taxation, calculated at the statutory tax rates applicable to the profits in the jurisdictions concerned	**17,509**	22,550
Effect of non-deductible expenses	**10,146**	3,859
Effect of non-taxable income	**(635)**	(863)
Effect of unused tax losses/deductible temporary difference not recognised	**503**	194
Others	**597**	–
Actual tax expense	**28,120**	25,740

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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:

For the year ended 31 December 2015

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Chen Yenfei *(Chairman and Chief Executive Officer)*	190	202	–	392
Su Si	–	330	14	344
Zhou Jian	–	148	26	174
Shen Shun	–	851	13	864
Non-executive directors				
Li Ho Tan	27	–	–	27
Masahiro Honna	27	–	–	27
Independent non-executive directors				
Liu Liang Zhong *(note a)*	55	–	–	55
Wong Tak Shing *(note a)*	80	–	–	80
Min Feng *(note a)*	55	–	–	55
	434	1,531	53	2,018

For the year ended 31 December 2014

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Chen Yenfei *(Chairman and Chief Executive Officer)*	–	–	–	–
Su Si	–	185	16	201
Zhou Jian	–	135	32	167
Shen Shun	–	171	14	185
Non-executive directors				
Li Ho Tan	–	–	–	–
Masahiro Honna	–	–	–	–
	–	491	62	553

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

a) No emolument was paid or payable to the independent non-executive directors, namely, Liu Liang Zhong, Wong Tak Shing and Min Feng, for the year ended 31 December 2014 as they were appointed on 26 May 2015.

b) During the two years ended 31 December 2015 and 2014, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any emoluments for the two years ended 31 December 2015 and 2014.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two for the year ended 31 December 2015 (2014: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2015 RMB'000	2014 RMB'000
Salaries and other emoluments	**2,458**	821
Retirement scheme contributions	**40**	12
	2,498	833

The emoluments of the above individuals with the highest emoluments are within the following bands:

	2015 Numbers of individuals	2014 Numbers of individuals
Nil to HK$1,000,000 (equivalent to RMB850,000) (2014: equivalent to RMB801,000)	**2**	2
HK$1,000,001 (equivalent to RMB850,001) (2014: equivalent to RMB801,001) to HK$1,500,000 (equivalent to RMB1,275,000) (2014: equivalent to RMB1,202,000)	**1**	–

10. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2015 is based on the profit attributable to ordinary equity shareholders of the Company of RMB88,257,000 (2014: RMB45,944,000) and the weighted average number of approximately 780,319,000 ordinary shares (2014: approximately 525,542,000 shares).

The weighted average number of ordinary shares in issue during the year ended 31 December 2015 is based on the assumption that 525,542,000 ordinary shares of the Company were in issue, comprising 703,000 ordinary shares in issue and 524,839,000 ordinary shares issued pursuant to the capitalization issue, as if these shares were outstanding throughout the period from 1 January 2015 to the date of listing, and 224,458,000 ordinary shares issued upon the conversion of Series A convertible redeemable preferred shares and Series B convertible redeemable preferred shares to ordinary shares (adjusted for the capitalization issue) on the date of listing, and 250,000,000 ordinary shares issued by the way of an initial public offering (the "IPO").

The weighted average number of ordinary shares in issue during the year ended 31 December 2014 is based on the assumption that 525,542,000 ordinary shares of the Company were in issue, comprising 703,000 ordinary shares in issue and 524,839,000 ordinary shares issued pursuant to the capitalization issue, as if these shares were outstanding throughout the year ended 31 December 2014.

	2015 '000	2014 '000
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	**703**	703
Effect of capitalisation issue	**524,839**	524,839
Effect of issuance of new shares under the IPO	**134,246**	–
Effect of conversion of Series A convertible redeemable preferred shares to ordinary shares (adjusted for the capitalization issue)	**103,617**	–
Effect of conversion of Series B convertible redeemable preferred shares to ordinary shares (adjusted for the capitalization issue)	**16,914**	–
Weighted average number of ordinary shares at 31 December	**780,319**	525,542

10. EARNINGS PER SHARE *(Continued)*

b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2015 and 2014 is based on the profit attributable to ordinary equity shareholders of the Company of RMB50,786,000 and RMB45,944,000 and the weighted average number of ordinary shares of approximately 884,246,000 and 525,542,000 shares, respectively, in issue during each reporting period, calculated as follows:

(i) Profits attributable to ordinary equity shareholders of the Company (diluted)

	2015 RMB'000	2014 RMB'000
Profit attributable to ordinary equity shareholders of the Company	**88,257**	45,944
After tax effect of change in fair value on convertible redeemable preferred shares	**(37,471)**	–
Profit attributable to ordinary equity shareholders of the Company (diluted)	**50,786**	45,944

(ii) Weighted average number of ordinary shares (diluted)

	2015 Number of shares '000	2014 Number of shares '000
Weighted average number of ordinary shares	**780,319**	525,542
Effect of conversion of Series A convertible redeemable preferred shares (adjusted for the capitalization issue)	**89,343**	–
Effect of conversion of Series B convertible redeemable preferred shares (adjusted for the capitalization issue)	**14,584**	–
Weighted average number of ordinary shares (diluted)	**884,246**	525,542

For the year ended 31 December 2014, diluted earnings per share is the same as basic earnings per share because the effect of conversion of the Company's outstanding convertible redeemable preferred shares during the reporting period was anti-dilutive. Accordingly, they were not included in the calculation of diluted earnings per share in the period.

11. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

(a) Disposal of Chunshengtang, the subsidiary

Due to the challenging operating environment and poor operating performance of Chunshengtang, a subsidiary, the directors decided to either dispose (i) the pharmacies of Chunshengtang on a piecemeal basis or (ii) Chunshengtang in its entirety.

The directors has been in active discussions with potential buyers for the proposed sale before 31 December 2015 and from the discussions held, the directors noted that the potential proceeds from the sale of the entire Chunshengtang are likely to be higher than arising from sale of pharmacies on a piecemeal basis. The directors plan to complete the proposed sale within the next 12 months. On 28 January 2016, the Group entered into an equity transfer agreement with an independent third party, to transfer all its equity interest in Chunshengtang for a consideration of RMB400,000 and assignment of amount due to the Group entities of RMB24,413,000. Upon completion and settlement of such equity transfer, the Group ceased to hold any equity interest in Chunshengtang.

At 31 December 2015, the disposal group comprised the following assets and liabilities.

	2015 **RMB'000**	2014 RMB'000
Assets		
Plant and equipment	**9,116**	–
Intangibles assets	**4,634**	–
Inventories	**777**	–
Cash and cash equivalents	**67**	–
Assets of a disposal group classified as held for sale	**14,594**	–
Liabilities		
Trade and bills payables	**973**	–
Other payables and accruals	**145**	–
Tax payable	**610**	–
Liabilities of disposal group classified as held for sale	**1,728**	–

(b) Cumulative income or expenses included in other comprehensive income

There are no cumulative income or expenses included in other comprehensive income relating to the disposal group classified as held for sale.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and other office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2014	49,374	11,943	3,365	6,292	3,416	3,020	77,410
Additions	–	9,870	556	10,181	73	8,634	29,314
Transfer from construction in progress	4,080	551	–	–	–	(4,631)	–
Disposals	(3,683)	(2,608)	(74)	–	–	–	(6,365)
At 31 December 2014 and 1 January 2015	49,771	19,756	3,847	16,473	3,489	7,023	100,359
Additions	389	1,405	171	883	–	741	3,589
Transfer from construction in progress	4,569	1,570	–	–	–	(6,139)	–
Disposals	(1,165)	(10,456)	(182)	(528)	–	–	(12,331)
Transfer to assets held for sale	–	(7,461)	–	(3,052)	(173)	–	(10,686)
At 31 December 2015	53,564	4,814	3,836	13,776	3,316	1,625	80,931
Accumulated depreciation							
At 1 January 2014	5,340	1,339	2,973	2,503	2,298	–	14,453
Depreciation for the year	3,981	2,068	75	2,763	481	–	9,368
Written back on disposals	(3,683)	(617)	(67)	–	–	–	(4,367)
At 31 December 2014 and 1 January 2015	5,638	2,790	2,981	5,266	2,779	–	19,454
Depreciation for the year	1,918	2,386	100	4,321	292	–	9,017
Written back on disposals	(1,165)	(3,695)	(167)	(394)	–	–	(5,421)
Transfer to assets held for sale	–	(317)	–	(1,094)	(159)	–	(1,570)
At 31 December 2015	6,391	1,164	2,914	8,099	2,912	–	21,480
Carrying amount							
At 31 December 2015	**47,173**	**3,650**	**922**	**5,677**	**404**	**1,625**	**59,451**
At 31 December 2014	44,133	16,966	866	11,207	710	7,023	80,905

a) The Group's buildings are held in Mainland China.

b) The buildings with carrying amount of RMB47,173,000 (2014: RMB44,133,000), are situated at a parcel of land that the application of land use right certificate is still under progress.

13. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land leases represent prepayments of land use rights in respect of land located in the PRC.

	2015 RMB'000	2014 RMB'000
Costs:		
At 1 January and 31 December	3,779	3,779
Accumulated amortisation:		
At 1 January	1,311	1,202
Charge for the year	110	109
At 31 December	1,421	1,311
Carrying amount:		
At 31 December	2,358	2,468

	2015 RMB'000	2014 RMB'000
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables)	109	109
Non-current asset	2,249	2,359
	2,358	2,468

a) At 31 December 2015, the application of land use rights certificate of a parcel of land with carrying amount of RMB892,000 (2014: RMB922,000), is still under progress.

14. GOODWILL

	2015 RMB'000	2014 RMB'000
Cost		
At 1 January and at 31 December	**6,009**	6,009
Accumulated impairment loss		
At 1 January	**4,714**	–
Impairment loss recognised for the year	**1,295**	4,714
At 31 December	**6,009**	4,714
Carrying amount	**–**	1,295

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified as follows:

	2015 RMB'000	2014 RMB'000
Hebei Chun Sheng Tang Chain Store Co., Ltd. ("Chunshengtang") *(note a)* (河北春生堂大藥房連鎖有限公司)	**–**	17
Hubei Baixintang Pharmacy Chain Store Co., Ltd. ("Baixintang") *(note b)* (湖北百信堂大藥房連鎖有限公司)	**–**	1,278
	–	1,295

a) **Goodwill arising from the acquisition of Chunshengtang in relation to self-operated retail pharmacies segment**

For the year ended 31 December 2014, since the recoverable amount of CGU was larger than the carrying amount, the directors of the Company considered that no impairment of goodwill was to be made.

However, during the year ended 31 December 2015, after considering the poor operating performance relating to the Group's retail business activities based in Hebei and the recoverable amount for this CGU has been reduced to RMB nil, the directors of the Company considered that it is appropriate to make impairment for the goodwill of RMB17,000.

b) **Goodwill arising from the acquisition of Baixintang in relation to self-operated retail pharmacies segment**

For the year ended 31 December 2014, the impairment loss of RMB4,714,000 recognised solely relates to the Group's retail business activities based in Hubei. As the recoverable amount of CGU had been reduced to RMB2,303,000, any adverse change in the key assumptions used in the calculation of recoverable amount would result in further impairment losses.

For the year ended 31 December 2015, since the operating performance relating to the Group's retail business activities based in Hubei was further deteriorated and the recoverable amount of this CGU has been reduced to RMB nil, the directors of the Company considered that it is appropriate to make impairment of the goodwill of RMB1,278,000.

15. INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of company	Place of incorporation/ operation	Issued and fully paid up capital/ registered capital	Attributable equity interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Pa Shun Pharmaceutical Company Limited ("Pashun BVI")	The British Virgin Islands ("BVI")/ Hong Kong ("HK")	United States dollars ("USD" or "US$") 50,000	100%	100%	–	Investment holding
Toyot Pa Shun Medicine Factory Company Limited ("Pashun HK") (東洋百信製藥廠有限公司)	HK/HK	Hong Kong dollars ("HKD") 10,000,000	100%	–	100%	Investment holding
Chengdu Toyot Pa Shun Pharmacy Co., Ltd. ("Chengdu Pashun") 成都東洋百信製藥有限公司 *(note a and b)*	The People's Republic of China (the "PRC")/ PRC	Renminbi ("RMB") 326,000,000 registered capital	100%	–	100%	Manufacturing and sale of pharmaceutical products in the PRC
Chengdu Pashun Pharmacy Chain Store Co., Ltd. ("Chengdu Pashun Chain Store") 成都百信藥業連鎖有限責任公司 *(note a and c)*	PRC/PRC	RMB5,000,000 registered capital	100%	–	100%	Medicine chain store operation and management
Chengdu Kexun Pharmaceutical Co., Ltd. ("Chengdu Kexun") 成都科訊藥業有限公司 *(note a and c)*	PRC/PRC	RMB50,000,000 registered capital	100%	–	100%	Distribution of pharmaceutical products in the PRC
Hebei Chun Sheng Tang Chain Store Co., Ltd. ("Chunshengtang") 河北春生堂大藥房連鎖有限公司 *(note a and c)*	PRC/PRC	RMB5,000,000 registered capital	80%	–	80%	Medicine Chain Store operation
Hubei Baixintang Pharmacy Chain Store Co., Ltd. ("Baixintang") 湖北百信堂大藥房連鎖有限公司 *(note a and c)*	PRC/PRC	RMB10,000,000 registered capital	100%	–	100%	Medicine Chain Store operation
Chengdu Keyi Biotechnology Co., Ltd. 成都科一生物科技有限公司 *(note a and c)*	PRC/PRC	RMB2,000,000 registered capital	100%	–	100%	Not yet commenced business

a) The English translations of the names of the Company's subsidiaries which were registered and incorporated in the PRC are for reference only and the official names of these entities are in Chinese.

b) This entity was established in the PRC in the form of wholly-foreign-owned enterprise.

c) These entities were established in the PRC as PRC domestic-invested companies.

d) The Group has no subsidiaries which have material non-controlling interests at the end of each reporting period.

16. INTANGIBLE ASSETS AND PREPAYMENT FOR INTANGIBLE ASSET

a) Intangible assets

	Patent RMB'000	Computer software RMB'000	Total RMB'000
Cost			
At 1 January 2014	2,000	5,898	7,898
Additions	–	1,365	1,365
At 31 December 2014 and 1 January 2015	2,000	7,263	9,263
Transfer to assets held for sale	–	(5,891)	(5,891)
At 31 December 2015	**2,000**	**1,372**	**3,372**
Accumulated amortisation			
At 1 January 2014	1,650	970	2,620
Charge for the year	100	519	619
At 31 December 2014 and 1 January 2015	1,750	1,489	3,239
Charge for the year	100	476	576
Transfer to assets held for sale	–	(1,257)	(1,257)
At 31 December 2015	**1,850**	**708**	**2,558**
Carrying amount			
At 31 December 2015	**150**	**664**	**814**
At 31 December 2014	250	5,774	6,024

The amortisation charges of RMB174,000 (2014: RMB231,000) and RMB402,000 (2014: RMB388,000) are included in "general and administrative expenses" "selling and distribution expenses" respectively in the consolidated statement of profit or loss.

b) Prepayment for intangible asset

In 2014, the Group entered into a technology cooperation agreement with Beijing Runbofude Biotechnology Co., Ltd ("Beijing Runbofude"), an independent third party, to acquire a patented technology from Beijing Runbofude for a ten-year period from 1 January 2014 to 31 December 2023 at a consideration of RMB20,000,000.

On 28 July 2014, by way of a supplementary agreement the ten-year period commencement date was changed from 1 January 2014 to the date on which the installation and testing of production plant and equipments was approved by Beijing Runbofude.

16. INTANGIBLE ASSETS AND PREPAYMENT FOR INTANGIBLE ASSET *(Continued)*

b) Prepayment for intangible asset *(Continued)*

On 10 February 2015, the Group signed a further supplementary agreement with Beijing Runbofude in respect of the patented technology for further research and development at a consideration of RMB8,000,000.

On 15 October 2015, the Group entered into an agreement with Tianfu Mercantile Exchange Company Limited ("Mercantile Exchange") and to acquire the right to use the electronic platform of Mercantile Exchange for 10 years started from 15 January 2016 at a consideration of RMB4,000,000. In 2015, the Group prepaid RMB1,000,000 to Mercantile Exchange and the remaining consideration of RMB3,000,000 was paid after the year ended 31 December 2015.

17. OTHER NON-CURRENT ASSETS

	2015 RMB'000	2014 RMB'000
Deposits		
– Deposits for acquisition of companies *(note a)*	**42,000**	–
– Deposits for property plant and equipment *(note b)*	**20,228**	11,657
– Deposits for acquisition of retail pharmacy stores	**–**	5,520
– Guarantee deposit *(note c)*	**5,000**	5,000
– Deposit for acquisition of land use right *(note d)*	**27,667**	–
	94,895	22,177

a) During the year ended 31 December 2015, the Group entered into two agreements with two groups of independent third parties to acquire two companies which are holding retail pharmacy chain stores in the PRC.

In accordance with the agreements, the Group paid RMB20,000,000 and RMB22,000,000 as deposits which could be refunded if the Group did not acquire these two companies finally.

Subsequent to the year ended 31 December 2015, the directors considered that such potential acquisitions may not give benefits to the Group. Accordingly, on 29 March 2016, the Group and those independent third parties entered into agreements to cancel such potential acquisitions and deposits of RMB42,000,000 were refunded to the Group.

b) Deposits for property, plant and equipment were paid by the Group for acquiring and installing plant and machinery in the Group's production plant.

c) Guarantee deposit represented the deposit paid for a ten-year period Chinese herbal planting project which will be refunded upon the completion of the project.

d) Deposits for acquisition of land use right for the application of new land use right due to the change of land usage for own business operation.

18. INVENTORIES

a) Inventories in the consolidated statement of financial position comprise:

	2015 **RMB'000**	2014 RMB'000
Raw materials	**2,819**	2,667
Work in progress	**491**	404
Finished goods	**64,567**	66,040
Consumables	**17**	17
	67,894	69,128

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

	2015 **RMB'000**	2014 RMB'000
Carrying amount of inventories sold	**702,698**	665,126

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 **RMB'000**	2014 RMB'000
Equity securities listed in Hong Kong, at fair value – held for trading *(note 30(f)(i))*	**2,619**	–

20. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables *(note b)*	**256,068**	218,563
Commercial bills receivables *(note b)*	**36,000**	20,500
Less: allowance for doubtful debts *(note b)*	**(18,207)**	(9,254)
	273,861	229,809
Bank bills receivables *(note c)*	**1,444**	5,507
Advance payments to suppliers *(note d)*	**79,094**	91,123
Advance to staff	**4,046**	–
Prepaid land lease payments *(note 13)*	**109**	109
Government grant receivable *(note 26)*	**7,000**	7,000
Other taxes recoverable	**20,213**	20,686
Others	**26,027**	9,565
	411,794	363,799

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

b) Trade receivables and commercial bills receivables

i) Ageing analysis of trade receivables and commercial bills receivables

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

	2015 RMB'000	2014 RMB'000
Within 1 month	**88,896**	80,229
1 to 3 months	**108,512**	98,686
4 to 6 months	**62,231**	41,791
Over 6 months	**14,222**	9,103
Trade receivables and commercial bills receivables, net of allowance for doubtful debts	**273,861**	229,809

Trade receivables and commercial bills receivables are due within 180 days from the date of billing.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

b) Trade receivables and commercial bills receivables *(Continued)*

ii) Impairment of trade receivables and commercial bills receivables

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

	2015 RMB'000	2014 RMB'000
At 1 January	**9,254**	10,516
Impairment losses/(reversal of impairment losses) recognised	**8,953**	(1,239)
Uncollectible amounts written off	**–**	(23)
At 31 December	**18,207**	9,254

As of 31 December 2015, the Group's trade receivables and commercial bills receivables of RMB18,207,000 (2014: RMB9,254,000) were individually determined to be impaired. The individually impaired receivables relate to customers that were in financial difficulties and are doubtful. The Group does not hold any collateral or other credit enhancements over these balances.

iii) Trade receivables and commercial bill receivables that are not impaired

The ageing analysis of trade receivables and commercial bill receivables that are neither individually nor collectively considered to be impaired are as follows:

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	**163,041**	206,119
Less than 1 month past due	**48,831**	17,498
1 to 3 months past due	**45,241**	3,722
4 to 6 months past due	**15,863**	501
Over 6 months past due	**885**	1,969
	110,820	23,690
	273,861	229,809

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

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

c) The ageing of bank bills receivables is within 180 days (2014: 180 days).

d) The amount represents deposits paid to suppliers for purchase of inventories. The Group generally utilised the deposits to suppliers within one year from the date of deposits.

21. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2015 RMB'000	2014 RMB'000
Pledged bank deposits *(notes a and b)*	**95,479**	74,180
Cash and cash equivalents in the consolidated statement of financial position		
– Cash at banks and on hand	**116,334**	67,059
	211,813	141,239
Reconciliation of the cash and cash equivalents at the end of the year in the consolidated statement of cash flows is set out as below:		
Cash and cash equivalents included in the consolidated statement of financial position	**116,334**	67,059
Cash and cash equivalents included in the assets of a disposal group *(Note 11)*	**67**	–
	116,401	67,059

a) Bank deposits amounted to RMB15,479,000 (2014: RMB63,880,000), have been pledged to banks for bills facilities of RMB53,901,000 (2014: RMB107,524,000). The pledged bank deposits will be released upon the settlement of relevant bills payables. The bills facilities to the extent of RMB53,901,000 were utilized as at the end of this reporting period (2014: RMB107,524,000).

b) Bank deposit of RMB10,000,000 (2014: RMB10,300,000) of the Group has been pledged to a bank for bank borrowings. This pledged bank deposit will be released upon the repayment of the bank borrowings.

c) Bank deposit of the Group of RMB70,000,000 (2014: RMB nil) has been pledged to bank for general banking facilities to an extent of RMB70,000,000 (2014: RMB Nil).

d) Cash at bank earned interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the pledged bank deposits approximate their fair values.

e) Cash and cash equivalents and pledged bank deposits placed with banks in the PRC amounted to RMB203,828,000 (2014: RMB141,194,000). Remittance of these funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

22. TRADE AND OTHER PAYABLES

	2015 **RMB'000**	2014 RMB'000
Trade creditors *(note a)*	**37,023**	28,617
Bills payables *(note b)*	**53,901**	107,524
Salaries, wages and welfare payables	**9,170**	9,120
Other payables and accrued expenses	**12,314**	14,654
Deposits received from customers	**5,382**	16,337
Other tax payables	**4,034**	8,080
	121,824	184,332

a) As of the end of each reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	2015 **RMB'000**	2014 RMB'000
Within 1 month	**13,915**	11,184
1 to 3 months	**4,812**	4,231
Over 3 months	**18,296**	13,202
	37,023	28,617

b) The ageing of bills payables is within 180 days (2014: 180 days).

23. BANK BORROWINGS

	2015 **RMB'000**	2014 RMB'000
Carrying amount of bank loans repayable within one year and shown under current liabilities		
– secured by Group's assets	**10,000**	20,000
– secured by related parties' assets	**–**	30,000
– unsecured	**5,000**	–
	15,000	50,000

23. BANK BORROWINGS *(Continued)*

a) All bank loans bear interest at floating interest rates of 4.4% to 7.8% per annum (2014: 5.6% to 7.8% per annum) for the year ended 31 December 2015 which approximate to market rates of interest.

b) The bank loans were secured by:

(i) For the year ended 31 December 2014, bank loans amounted to RMB10,000,000 was secured by (1) the trade receivables balances of RMB47,948,000; (2) corporate guarantee by a subsidiary; and (3) personal guarantee from the Controlling Shareholder, Mr. Chen Yenfei.

(ii) Bank loan amounted to RMB10,000,000 (2014: RMB10,000,000) was secured by the pledged bank deposit of RMB10,000,000 (2014: RMB10,300,000).

(iii) For the year ended 31 December 2014, bank loans amounted to RMB10,000,000 was secured by (1) the land and building owned by Chengdu Yiming Investment Management Co., Ltd. which was a related party during the year ended 31 December 2014; and (2) corporate guarantee provided by a subsidiary.

(iv) For the year ended 31 December 2014, bank loan amounted to RMB20,000,000 was secured by (1) the land and building owned by Chengdu Yiming Investment Management Co., Ltd. which was related party during the year ended 31 December 2014; and (2) corporate guarantee provided by an independent third party, Wuhan Taifu Pharmaceutical Company Limited.

(v) Bank loan amounted to RMB5,000,000 (2014: RMBnil) was guaranteed by a subsidiary and an independent third party, 成都中小企融資擔保有限責任公司.

24. CONVERTIBLE REDEEMABLE PREFERRED SHARES

At 31 December 2014, the Company had 257,280 Series A convertible redeemable preferred shares of par value of HK$0.001 each (the "Series A Shares") and 40,000 Series B convertible redeemable preferred shares of par value of HK$0.001 each (the "Series B Shares") in issue.

The Series A Shares and the Series B Shares contain two components: a liability component and conversion option component.

The Group has elected to designate the Series A Shares and the Series B Shares with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A Shares and the Series B Shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

The movements of the Series A Shares and Series B Shares are as follows:

	RMB'000
At 1 January 2014	218,090
Change in fair value	33,236
Exchange realignment	5,786
At 31 December 2014 and 1 January 2015	257,112
Change in fair value	(37,471)
Exchange realignment	(324)
Conversion of Series A Shares and Series B Shares into ordinary shares	(219,317)
	–

	2015 RMB'000	2014 RMB'000
Analysed for reporting purpose as:		
Current liabilities	–	220,355
Non-current liabilities	–	36,757
	–	257,112

24. CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

The Series A Shares and the Series B Shares were all converted into ordinary shares upon the Company's IPO on 19 June 2015. The fair values of the Series A Shares and Series B Shares at the date of conversions were estimated by the directors of the Company with reference to the issue price of ordinary share of HK$1.22 (approximately RMB0.98) per share and the number of ordinary shares being converted (adjusted for the capitalization issue).

As at 31 December 2014, the estimation of fair value of convertible redeemable preferred shares was performed by Savills Valuation and Professional Services Limited, an independent professional valuer not connected with the Group.

The fair value of the Series A Shares and the Series B Shares is equal to the summation of the fair value of the liability component and the embedded derivatives calculated using discounted cash flows and option-pricing method. The valuer has adopted an equity value allocation method known as option-pricing method. The valuer has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted an equity allocation method to determine the fair value of the Series A Shares and the Series B Shares as of 31 December 2014. The option-pricing method has commonly used the Black-Scholes model to price the call option, which assumes that conversion would only take place at the liquidity event date.

	At 31 December 2014
Discount rate *(note a)*	15.0%
Expected volatility *(note b)*	43.2%
Risk-free rate *(note c)*	1.1%
Expected dividend yield	0%

a) The Discount rate was estimated by weighted average cost of capital as of each valuation date.

b) The expected volatility is estimated based on past years historical price volatility of listed companies with similar business nature.

c) Risk-free interest rate is estimated based on the market yield of a USD Hong Kong Government Bond as of the valuation date.

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2015 RMB'000	2014 RMB'000
PRC Enterprise Income Tax	**13,346**	13,472

The movement of the current taxation in the consolidated statement of financial position during the year are as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	**13,472**	13,788
Charge for the year	**28,242**	26,624
Tax paid for the year	**(27,758)**	(26,940)
Reclassified to liabilities of a disposal group classified as held-for-sale	**(610)**	–
At 31 December	**13,346**	13,472

b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during 2015 are as follows:

	Provision for impairment RMB'000	Provision for accrued expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2014	2,526	1,899	742	5,167
Credited/(charged) to profit or loss	(364)	–	1,248	884
At 31 December 2014 and 1 January 2015	2,162	1,899	1,990	6,051
Credited/(charged) to profit or loss	997	23	(898)	122
At 31 December 2015	3,159	1,922	1,092	6,173

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

c) Deferred tax assets and liabilities not recognised:

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profit earned by a PRC subsidiary to its direct holding company outside the PRC from 1 January 2008 onward. Deferred tax liabilities of RMB44,633,000 (2014: RMB36,161,000) was not provided for in the consolidated financial statements of the Group for the year ended 31 December 2015 in respect of undistributed profits of relevant PRC subsidiaries amounted to RMB446,330,000 (2014: RMB361,304,000) as the management confirmed that profits generated by the relevant PRC subsidiaries from 2008 to 2015 will not be distributed to its direct holding company outside the PRC in the foreseeable future.

There were no material unrecognised deferred tax assets and liabilities at 31 December 2015 and 2014.

26. DEFERRED INCOME – GOVERNMENT GRANT

	2015 **RMB'000**	2014 RMB'000
At 1 January	**27,354**	28,236
Credited to profit or loss	**(883)**	(882)
At 31 December	**26,471**	27,354

Deferred income of the Group mainly represented government compensation in respect of the exchange of land use rights with local government.

Such deferred income will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

27. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group 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. 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.

27. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

Defined contribution retirement plan *(Continued)*

The Group also participates in a state-managed retirement benefit scheme operated by the government of the PRC. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme. The subsidiaries are required to contribute certain portion 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.

At 31 December 2015, there were no material forfeitures available to offset the Group's future contributions (2014: nil).

28. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company adopted the share option scheme (the "Scheme") on 26 May 2015 for the purpose of rewarding certain eligible participants for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on 26 May 2015.

Eligible participants of the Scheme include, (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Company or any of its subsidiaries and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue.

Participants of the Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share. The exercise of any option may be subject to a vesting schedule to be determined by the board of directors in its absolute discretion, which shall be specified in the offer letter.

28. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

Shares are issued and allotted upon the exercise of options. The Company has no legal or constructive obligations to repurchase or settle the options in cash.

No share options were granted under the Scheme during the year ended 31 December 2015 and there were no outstanding share options at 31 December 2015 (2014: nil).

29. CAPITAL AND RESERVES

a) Movement in components of equity

The reconciliation between the opening and closing balances during the year ended 31 December 2015 of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	The Company					
	Share capital RMB'000	Share Premium RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total surplus/ (deficit) RMB'000
At 1 January 2014	1	–	4,489	(74,753)	(78,365)	(148,628)
Changes in equity for 2014						
Loss for the year	–	–	–	–	(43,403)	(43,403)
Other comprehensive income for the year						
– Exchange difference arising on translation of functional currency to presentation currency	–	–	(4,025)	–	–	(4,025)
Total comprehensive loss for the year	–	–	(4,025)	–	(43,403)	(47,428)
At 31 December 2014 and 1 January 2015	1	–	464	(74,753)	(121,768)	(196,056)
Changes in equity for 2015						
Loss for the year	**–**	**–**	**–**	**–**	**19,999**	**19,999**
Other comprehensive income for the year						
– Exchange difference arising on translation of functional currency to presentation currency	**–**	**–**	**17,930**	**–**	**–**	**17,930**
Total comprehensive loss for the year	**–**	**–**	**17,930**	**–**	**19,999**	**37,929**
Conversion of convertible redeemable preferred shares	**–**	**219,317**	**–**	**–**	**–**	**219,317**
Capitalization issue	**600**	**(600)**	**–**	**–**	**–**	**–**
Issuance of shares under IPO,	**200**	**244,073**	**–**	**–**	**–**	**244,273**
Share issuance expenses	**–**	**(15,459)**	**–**	**–**	**–**	**(15,459)**
At 31 December 2015	**801**	**447,331**	**18,394**	**(74,753)**	**(101,769)**	**290,004**

29. CAPITAL AND RESERVES *(Continued)*

b) Dividend

The directors recommend the payment of a final dividend of HK3.0 cents per share for the year ended 31 December 2015 (2014: nil cents per share) totalling HK$30,000,000 (2014: nil). The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

c) Share capital

	2015 Number of shares '000	**2015** HK$'000	2014 Number of shares '000	2014 HK$'000
Authorised:				
Ordinary shares of HK$0.001 each				
At 1 January	**230,000**	**230**	230,000	230
Addition *(note i)*	**1,620,000**	**1,620**	–	–
Shares reclassified from Series A convertible redeemable preferred shares *(note ii)*	**100,000**	**100**	–	–
Shares reclassified from Series B convertible redeemable preferred shares *(note ii)*	**50,000**	**50**	–	–
At 31 December	**2,000,000**	**2,000**	230,000	230

	2015 Number of shares '000	**2015** HK$'000	2014 Number of shares '000	2014 HK$'000
Authorised:				
Series A convertible redeemable preferred shares of HK$0.001 each				
At 1 January	**100,000**	**100**	100,000	100
Shares reclassified from Series A convertible redeemable preferred shares to ordinary shares *(note ii)*	**(100,000)**	**(100)**	–	–
At 31 December	**–**	**–**	100,000	100

29. CAPITAL AND RESERVES *(Continued)*

c) Share capital *(Continued)*

	2015		2014	
	Number of shares '000	HK$'000	Number of shares '000	HK$'000
Authorised:				
Series B convertible redeemable preferred shares of HK$0.001 each				
At 1 January	50,000	50	50,000	50
Shares reclassified from Series B convertible redeemable preferred shares to ordinary shares *(note ii)*	(50,000)	(50)	–	–
At 31 December	–	–	50,000	50

	2015			2014		
	Number of shares '000	Nominal value of shares HK$'000	Amount RMB'000	Number of Shares '000	Nominal value of shares HK$'000	Amount RMB'000
Ordinary shares, issued and fully paid:						
At 1 January	703	1	1	703	1	1
Conversion of Series A convertible redeemable preferred shares to ordinary shares *(note iii)*	257	–	–	–	–	–
Conversion of Series B convertible redeemable preferred shares to ordinary shares *(note iv)*	40	–	–	–	–	–
	297	–	–	–	–	–
	1,000	1	1	703	1	1
Capitalization issue *(note v)*	749,000	749	600	–	–	–
Issuance of shares under IPO *(note vi)*	250,000	250	200	–	–	–
At 31 December	1,000,000	1,000	801	703	1	1

29. CAPITAL AND RESERVES *(Continued)*

c) Share capital *(Continued)*

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

	2015 Number of shares '000	**2015** HK$'000	2014 Number of shares '000	2014 HK$'000
Series A convertible redeemable preferred shares, issued and fully paid:				
At 1 January	**257**	**–**	257	–
Conversion of Series A convertible redeemable preferred shares to ordinary shares	**(257)**	**–**	–	–
At 31 December	**–**	**–**	257	–

	2015 Number of shares '000	**2015** HK$'000	2014 Number of shares '000	2014 HK$'000
Series B convertible redeemable preferred shares, issued and fully paid:				
At 1 January	**40**	**–**	40	–
Conversion of Series B convertible redeemable preferred shares to ordinary shares	**(40)**	**–**	–	–
At 31 December	**–**	**–**	40	–

29. CAPITAL AND RESERVES *(Continued)*

c) Share capital *(Continued)*

The convertible redeemable preferred shares have the same voting rights as the ordinary shares.

Any dividend payable by the Company shall be paid on a pro rata basis to all ordinary shares and all convertible redeemable preferred shares (on an "as converted" basis). The holders of convertible redeemable preferred shares shall also be entitled to receive any non-cash dividends declared by the Company's board on an "as converted" basis.

(i) As at 31 December 2014, the authorised share capital of the Company amounted to HK$380,000 which divided into 230,000,000 ordinary Shares of a par value of HK$0.001 each, 100,000,000 Series A convertible redeemable preferred shares of a par value of HK$0.001 each and 50,000,000 Series B convertible redeemable preferred shares of a par value of HK$0.001 each. Pursuant to the written resolutions of all shareholders dated 26 May 2015, the authorised share capital of the Company was increased from HK$380,000 to HK$2,000,000 by the creation of an additional 1,620,000,000 ordinary shares of par value of HK$0.001 each (ranking pari passu in all respects with the then existing issued ordinary shares) such that the authorised share capital of the Company became HK$2,000,000 divided into 1,850,000,000 Shares,100,000,000 Series A convertible redeemable preferred shares and 50,000,000 Series B convertible redeemable preferred shares.

(ii) Pursuant to a written resolution of the shareholders of the Company dated 26 May 2015, following the conversion of Series A convertible redeemable preferred shares and Series B convertible redeemable preferred shares, that part of the authorised share capital of the Company comprising 100,000,000 Series A convertible redeemable preferred shares be re-designated and re-classified into 100,000,000 ordinary shares and the share class of Series A convertible redeemable preferred shares shall cease to exist thereafter and that part of the authorised share capital of the Company comprising 50,000,000 Series B convertible redeemable preferred shares be re-designated and re-classified into 50,000,000 ordinary shares and the share class of Series B convertible redeemable preferred shares shall cease to exist thereafter (the "Re-designation"), such that following the Re-designation, the authorised share capital of the Company became HK$2,000,000 divided into 2,000,000,000 ordinary shares, all ranking pari passu in all respects with the then existing issued ordinary shares;

(iii) On 19 June 2015, 257,280 Series A convertible redeemable preferred shares were converted into 257,280 ordinary shares (which shall rank pari passu in all respects with the then existing issued ordinary shares) at a conversion rate of 1:1 share immediately prior to the Capitalization Issue as defined in note (v) below.

(iv) On 19 June 2015, 40,000 Series B convertible redeemable preferred shares were converted into 40,000 ordinary Shares (which shall rank pari passu in all respects with the then existing issued ordinary shares) at a conversion rate of 1:1 share immediately prior to the Capitalization Issue as defined in note (v) below.

(v) Pursuant to a written resolution of the shareholders of the Company dated 26 May 2015, the directors of the Company were authorised to allot and issue a total of 749,000,000 ordinary shares, by way of capitalisation of the sum of HK$749,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company immediately before the listing of the Company's shares on the Stock Exchange. The capitalization shares were allotted on 19 June 2015 and distributed, credited as fully paid at par.

(vi) On 19 June 2015, the Company issued 250,000,000 shares of HK$0.001 each at a price of HK$1.22 per share (approximate to RMB0.98 per share) by way of an initial public offering. Proceeds of HK$250,000 (approximate to RMB200,000), representing the par value of shares issued, were credited to the Company's share capital. The remaining proceeds of approximately HK$285,448,000 (approximate to RMB228,614,000), after deducting share issuance expenses of approximately HK$19,302,000 (approximate to RMB15,459,000), were credited to the share premium account.

29. CAPITAL AND RESERVES *(Continued)*

d) Nature and purpose of reserves

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside the PRC. The reserve is dealt with in accordance with the accounting policies set out in note 2(u).

(ii) PRC Statutory reserve

Pursuant to the Articles of Association of the Group's PRC subsidiaries and relevant statutory regulations, appropriations to the statutory reserve fund were made at a 10% of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. When the balance of statutory reserve fund reaches 50% of registered capital of each relevant PRC subsidiary, any further appropriation is at the discretion of the shareholders of this subsidiary. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries provided that the balance after such conversion is not less than 25% of their registered capital, and is non-distributable other than in liquidation.

(iii) Other reserve

Other reserve comprises the following:

– the difference between the Company's cost of acquisition of the subsidiaries over the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired under common control.

– the amount arising from transactions with owners in their capacity as the equity owners.

(iv) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders 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.

29. CAPITAL AND RESERVES *(Continued)*

e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of:

	2015 **RMB'000**	2014 RMB'000
ASSETS		
Pledged bank deposits	**95,479**	74,180
Cash and cash equivalents	**116,334**	67,059
LIABILITIES		
Bank borrowings	**15,000**	50,000
Bills payables	**53,901**	107,524
Convertible redeemable preferred shares	**–**	257,112
Amount due to a director	**222**	210
Amounts due to other related parties	**35**	232
EQUITY		
Equity attributable to equity shareholders of the Company		
– Share capital	**801**	1
– Reserves	**724,179**	180,218

The directors of the Company review the capital structure on a continuous basis. As part of this review, the Company's directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Company's directors, the Group will balance its overall capital structure through issuance of new shares as well as the addition of new borrowings.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include financial assets at fair value through profit or loss, trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank borrowings, convertible redeemable preferred shares and amounts due from/to the Controlling Shareholder, directors and related parties. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

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

(i) Trade and other receivables

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Trade receivables are due within 180 days from the date of billing. Monitoring procedures have been implemented to ensure the follow-up action is taken to recover overdue debts. The Group grants credit limits to the customers in consideration of their payment history and business performance. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

In respect of bank bills receivables, the credit risk on the Group's bank bills receivables is limited because the counterparties are banks with high credit rating.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2015, 9% (2014: 15%) of the trade receivables were due from the Group's largest customers, and 30% (2014: 42%) of the trade receivables were due from the Group's five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

a) Credit risk *(Continued)*

(ii) Pledged bank deposits and cash at banks

The Group's cash is deposited with banks with sound credit ratings and the Group have exposure limit to any single bank. Given their high credit ratings, management does not expect any of these banks will fail to meet their obligations.

(iii) Amounts due from the Controlling Shareholder, directors and other related parties

With respect to credit risk arising from amounts due from related parties, the Group's exposure to credit risk arising from default of the counterparties is limited as the counterparties have good history of repayment and the Group does not expect to incur a significant loss for uncollectible amounts due from related parties.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

The Group does not provide any guarantees which would expose the Group to credit risk.

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 approval by the management and the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below analyzes the Group's financial liabilities into relevant grouping based on the remaining period at the end of the reporting period to the contractual maturity date. The amount disclosed in the table are the contractual undiscounted cash flows that includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

b) Liquidity risk *(Continued)*

	2015			2014		
Financial liabilities	**Within one year or on demand RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amount RMB'000**	Within one year or on demand RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities						
Trade and other payables	**109,380**	**109,380**	**109,380**	167,932	167,932	167,932
Amounts due to other related parties	**35**	**35**	**35**	232	232	232
Amounts due to a director	**222**	**222**	**222**	210	210	210
Bank borrowings	**15,404**	**15,404**	**15,000**	51,307	51,307	50,000
	125,041	**125,041**	**124,637**	219,681	219,681	218,374
Financial liability designated at fair value through profit or loss						
Convertible redeemable preferred shares – Series A Shares *(note ii)*	**–**	**–**	**–**	159,645	159,645	220,355

(i) At 31 December 2014, the Series B Shares were not included in the above analysis since the Company has no contractual obligation to settle the Series B Shares in cash, other than in the event of default.

(ii) The maximum exposure of the redemption of Series A Shares is the contractual redemption price which is equal to the Subscription Price of Series A Shares plus an amount which would enable such holders of Series A Shares to achieve the annual return rate at 10% up to and including the date of redemption.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, pledged bank deposits, bank borrowings. Cash at banks and pledged bank deposits issued at variable rates expose the Group to cash flow interest rate risk. Bank 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 does not anticipate significant impact to cash at banks and the pledged bank deposits because the interest rates of bank deposits are not expected to change significantly.

The interest rates and terms of repayment of bank loans of the Groups are disclosed in note 23. The Group normally borrows short-term bank loans which have short-term maturity within one year in order to limit its exposure to interest rate risk. The Group's interest rate profiles as monitored by the management is set out in note (i) below.

(i) The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2015 RMB'000	2014 RMB'000
Variable rate instruments		
Financial liabilities		
– bank loans	**(15,000)**	(50,000)
Financial assets		
– cash at banks	**116,276**	66,947
– pledged bank deposits	**95,479**	74,180
Total net deposits	**196,755**	91,127

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

c) Interest rate risk *(Continued)*

Sensitivity analysis

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates for bank borrowings and cash at banks and pledged bank deposits, with all other variables held constant, would increase/decrease the Group's profit after tax (and retained profits) by approximately RMB1,551,000 (2014: RMB758,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments held by the Group which expose the Groups to cash flow interest rate risk at the end of the reporting period. The impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the year ended 31 December 2014.

The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group's exposure to fair value interest risk is insignificant.

d) Foreign currency exchange risk

For presentation purposes, the Group's financial information is shown in RMB. The companies within the Group, whose functional currencies are different from RMB, have translated their financial information into RMB for consolidation purpose. At 31 December 2015 and 2014, all companies within the Group have no material financial instruments that were denominated in a currency other than the respective functional currency in which they are measured and accordingly the Group has no significant exposure to foreign currency risk.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

e) Price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 19).

The Group's listed investments are listed on the Stock Exchange of Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to industry indicators, as well as the Group's liquidity needs.

At 31 December 2015, it is estimated that an increase/(decrease) of 10% (2014: 10%) in the relevant stock market index (for listed investments), with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) as follows:

	2015		2014	
		Effect on profit after tax and retained profits RMB'000		Effect on profit after tax and retained profits RMB'000
Change in the relevant equity price risk variable:				
Increase	**10%**	**261**	10%	–
Decrease	**(10%)**	**(261)**	(10%)	–

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables and that all other variables remain constant.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

f) Fair value measurement

(i) Financial instruments measured at fair value

The following table presents the fair value of financial instruments measured at fair value 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.

The Group engages an independent professional valuer performing valuations for the convertible redeemable preferred shares which are categorised into Level 3 of the fair value hierarchy. The professional valuer reports directly to the chief financial officer and the Company's directors. Valuation reports with analysis of changes in fair value measurement are prepared by professional valuer at each annual reporting date, and are reviewed and approved by the chief financial officer and the Company's directors. Discussion of the valuation process and results with the chief financial officer and the Company's directors is held once a year, to coincide with the reporting dates.

		Fair value measurements as at 31 December 2015 categorised into				Fair value measurements as at 31 December 2014 categorised into		
	Fair value at 31 December 2015 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	Fair value at 31 December 2014 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements								
Assets:								
Trading securities	**2,619**	**2,619**	**–**	**–**	–	–	–	–
Liabilities:								
Financial liability of fair value through profit or loss								
– Convertible redeemable preferred shares	**–**	**–**	**–**	**–**	257,112	–	–	257,112

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

f) Fair value measurement *(Continued)*

(i) Financial instruments measured at fair value (Continued)

During the year 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 of the end of the reporting period in which they occur. Upon consummation of Qualified Initial Public Offering on 19 June 2015, the convertible redeemable preferred shares liabilities in level 3 were automatically converted to equity.

For the year ended 31 December 2014

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Convertible redeemable preferred shares designated as of fair value through profit or loss	Discounted cash flow method, Black-Scholes model	Expected volatility of 43.2%

An external valuer was appointed to prepare valuation of the Group's fair value of convertible redeemable preferred shares at 31 December 2014. The fair value of convertible redeemable preferred shares are determined using discounted cash flow method and Black-Scholes model and the significant unobservable input used in the fair value measurement is expected volatility.

The fair value measurement of convertible redeemable preferred share is positively correlated to the expected volatility. At 31 December 2014, it is estimated that with all other variables held constant, an increase/decrease in the expected by 5% would have decreased/increased the Group's profit before taxation by RMB355,000/RMB321,000 for the year ended 31 December 2014.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

f) Fair value measurement *(Continued)*

(i) Financial instruments measured at fair value *(Continued)*

Information about Level 3 fair value measurements (Continued)

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

	2015 RMB'000	2014 RMB'000
At 1 January	**257,112**	218,090
Change in fair value included loss on change in fair value of convertible redeemable preferred shares	**(37,471)**	33,236
Exchange realignment	**(324)**	5,786
Conversion of Series A and Series B Shares into ordinary shares	**(219,317)**	–
At 31 December	**–**	257,112
Total losses for the year included in profit or loss for liability held at the end of the reporting period:		
Loss on change in fair value of convertible redeemable preferred shares	**–**	(33,236)
Total (losses)/gains for the periods included in other comprehensive income:		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of financial statements of entities outside the PRC	**324**	(5,786)

(ii) Fair value of financial instruments carried at other than fair value

The directors of the Company consider that the carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2015 and 2014.

31. OPERATING LEASE COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015 **RMB'000**	2014 RMB'000
Within 1 year	**1,247**	9,026
After 1 year but within 5 years	**–**	16,875
	1,247	25,901

The Group is the lessee in respect of the Group's offices under operating leases. The leases typically run for an initial period of 1 year (2014: 1 to 5 years), with an option to renew when all terms are renegotiated. Lease payments are usually increased at the end of the lease term to reflect market rentals.

32. CAPITAL COMMITMENTS

Capital commitments outstanding not provided for in the consolidated financial statements were as follows:

	2015 **RMB'000**	2014 RMB'000
Commitments for the acquisition of property, plant and equipment:		
– Contracted but not provided for	**7,521**	4,999

33. MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 December 2015 and 2014 the transactions or balances with the following parties were considered to be related party transactions:

Name of party	Relationship with the Group
Mr. Chen Yenfei	The Controlling Shareholder
Mr. Su Si	Executive Director of the Company (resigned on 28 January 2016)
Hubei Bai Xin Food Company Limited	Entity controlled by the Controlling Shareholder
Wuhan Wantong Investment Company Limited	Entity controlled by the Controlling Shareholder
Wuhan Bai Xin Zheng Yuan Biotechnology Engineering Company Limited	Entity controlled by the Controlling Shareholder
Chengdu Yiming Investment Management Co., Ltd. ("Chengdu Yiming") *(note i)*	Entity controlled by Mr. Wu Dong Wang ("Mr. Wu")

Note:

(i) Chengdu Yiming Investment Management Co., Ltd. cease to be a related party of the Group since June 2015. Mr. Wu is a close relative of the Controlling Shareholder.

a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 is as follows:

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	**4,795**	491
Post-employment benefits	**103**	62
	4,898	553

Total remuneration is included in staff costs (see note 6(b)).

33. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

b) Financing arrangements with related parties

In addition to the balances disclosed elsewhere in the Financial Information, the Group has the following balances with related parties:

		Amounts owed to the Group by related parties		Amounts owed by the Group to related parties	
	NOTES	**2015 RMB'000**	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Amount due from/(to) Mr. Chen Yenfei	*(i), (ii)*	**–**	675	**–**	–
Amount due from/(to) Mr. Su Si	*(i)*	**–**	–	**(222)**	(210)
Amount due to Hubei Bai Xin Food Company Limited	*(i)*	**–**	–	**(35)**	(24)
Amount due from/(to) Wuhan Wantong Investment Company Limited – non-trade in nature	*(i)*	**–**	–	**–**	(88)
Amount due from Chengdu Yiming Investment Management Co., Ltd. – non-trade in nature	*(i), (ii)*	**–**	340	**–**	–
Amount due to Wuhan Bai Xin Zheng Yuan Biotechnology Engineering Company Limited – trade in nature		**–**	–	**–**	(120)
Amounts due from/(to) other related parties		**–**	340	**(35)**	(232)
		–	1,015	**(257)**	(442)

33. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

b) Financing arrangements with related parties *(Continued)*

(i) The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms.

(ii) No provisions for bad or doubtful debts have been made in respect of these amounts due from related parties.

(iii) The maximum outstanding balances due from related parties during the two years ended 31 December 2015 and 2014 are as follows:

	Maximum balance outstanding during	
	2015	2014
	RMB'000	RMB'000
Mr. Chen Yenfei	**675**	675
Chengdu Yiming Investment Management Co., Ltd.	**–**	340

c) Trading transactions

In addition to the related party transactions disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions during the two years ended 31 December 2015 and 2014:

	NOTES	**2015 RMB'000**	2014 RMB'000
Rental expenses paid	*(i)*	**–**	263
Purchases of pharmaceutical products	*(ii)*	**–**	188

(i) It represented office and warehouse rental expenses paid to Chengdu Yiming in accordance with the terms of underlying contracts.

(ii) It represented purchases from the entities controlled by the Controlling Shareholder in accordance with normal commercial terms.

34. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	NOTES	**2015 RMB'000**	2014 RMB'000
Non-current asset			
Investments in subsidiaries		**324**	324
Current Assets			
Amounts due from subsidiaries		**245,344**	65,540
Other receivables		**11,719**	–
Cash and cash equivalents		**37,419**	2
		294,482	65,542
Current liabilities			
Trade and other payables		**4,802**	3,157
Convertible redeemable preferred shares		**–**	220,355
Amount due to the Controlling Shareholder		**–**	1,653
		4,802	225,165
Net current assets/(liabilities)		**289,680**	(159,623)
Total assets less current liabilities		**290,004**	(159,299)
Non-current liabilities			
Convertible redeemable preferred shares		**–**	36,757
NET ASSETS/(LIABILITIES)		**290,004**	(196,056)
CAPITAL AND RESERVES	*29*		
Share capital		**801**	1
Reserves		**289,203**	(196,057)
TOTAL RESERVES		**290,004**	(196,056)

Approved and authorised for issue by the board of directors on 31 March 2016 and were signed on its behalf by:

Chen Yenfei
Director

Shen Shun
Director

35. IMMEDIATE AND ULTIMATE HOLDING COMPANY AND ULTIMATE CONTROLLING PARTY

At 31 December 2015, the directors considered the ultimate and immediate holding company to be Praise Treasure Limited which is incorporated in the British Virgin Islands and did not produce financial statements available for public use. The ultimate controlling party of the Company is Mr. Chen Yenfei, the controlling shareholder.

36. EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors of the Company proposed a final dividend. Further details are disclosed in note 29(b).

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

Up to the date of issue of these financial statements, the HKICPA has issued a few 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 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 and new standards 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 Group's results of operations and financial position.