創美藥業股份有限公司
CHARMACY PHARMACEUTICAL CO., LTD.

(A joint stock limited liability company established in the People's Republic of China)

Stock Code: 2289

2016
ANNUAL REPORT

ABOUT US

Established in 2000, Charmacy Pharmaceutical Co., Ltd. (stock code: 2289.HK) is one of the leading pharmaceutical distributors in Southern China, with a comprehensive distribution network covering Southern China and surrounding areas including Fujian province. We distribute diversified pharmaceutical products to pharmaceutical distributors, retail pharmacies, hospitals, clinics and health centres. The Company has a variety of product offerings including western medicines, Chinese patent medicines, healthcare products, Chinese medicine material and decoction pieces, medical devices and cosmetic products. Charmacy Pharmaceutical has two large pharmaceutical logistics centres in Shantou and Foshan, as well as professional transport teams, modern information systems and an effective operating mechanism for the whole supply chain that encompasses purchasing, sales, warehousing, transport and delivery. With partners across the country, our business covers the entire Guangdong area and extends to surrounding provinces such as Fujian, Zhejiang, Guangxi, Hainan and Hunan. At the same time, the Company also operates its own B2B e-commerce platform "Charmacy e-Medicine" for customers to place orders online. On 14 December 2015, Charmacy Pharmaceutical was listed on the Main Board of the Stock Exchange of Hong Kong. According to the 2015 Statistical Analysis Report on the Operation of the Pharmaceutical Distribution Industry, the Company ranked 36 among top 100 wholesalers nationwide in terms of revenue from principal business.

In 2016, China Association of Pharmaceutical Commerce conferred on the Company the "Most Innovative Service Award" in the Chinese pharmaceutical distribution industry for the Company's good reputation and quality services. We are also a "Qualified Enterprise in Line with National Standards of Operation Practice for Cold-chain Logistics of Pharmaceutical Products" (《藥品冷鏈物流運作規範》國家標準達標企業), a title conferred by the Pharmaceutical Logistics Sub-branch of China Federation of Logistics & Purchasing (中國物流與採購聯合醫藥物流分會) and Cold Chain Logistics Professional Committee of China Federation of Logistics & Purchasing (中國物流與採購聯合會冷鏈物流專業委員會). We have also received such honorary titles as the "Model Enterprise of Trustworthiness in Guangdong Province" (廣東省誠信示範企業) for five consecutive years from 2011 to 2015.

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Yao Chuanglong (姚創龍)
Zheng Yuyan (鄭玉燕)
Fan Jianbo (范劍波)
Lin Zhixiong (林志雄)

Non-executive Director

You Zeyan (游澤燕)

Independent Non-executive Directors

Wan Chi Wai Anthony (尹智偉)
Zhou Tao (周濤)
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))

SUPERVISORS

Zhang Ling (張玲)
Zheng Xiyue (鄭禧玥)
Zhang Hanzi (張寒孜)

JOINT COMPANY SECRETARIES

Ng Wing Shan (吳詠珊)
Lin Zhixiong (林志雄)

AUDIT COMMITTEE

Wan Chi Wai Anthony (尹智偉) *(Chairman)*
Zhou Tao (周濤)
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))

NOMINATION COMMITTEE

Yao Chuanglong (姚創龍) *(Chairman)*
Zhou Tao (周濤)
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))

REMUNERATION COMMITTEE

Zhou Tao (周濤) *(Chairman)*
Wan Chi Wai Anthony (尹智偉)
You Zeyan (游澤燕)

RISK MANAGEMENT COMMITTEE

Yao Chuanglong (姚創龍) *(Chairman)*
Lin Zhixiong (林志雄)
Wan Chi Wai Anthony (尹智偉)

AUTHORISED REPRESENTATIVES

Zheng Yuyan (鄭玉燕)
Ng Wing Shan (吳詠珊)

AUDITOR

SHINEWING (HK) CPA Limited

LEGAL ADVISORS

Li & Partners (as to Hong Kong law)
Xinge Law Firm (as to PRC law)

COMPLIANCE ADVISER

Guotai Junan Capital Limited

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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28 Queen's Road East,
Wanchai, Hong Kong

PRINCIPAL BANKS

China Guangfa Bank Co., Ltd. (Shantou Branch)
Industrial and Commercial Bank of China Limited (Shantou Branch)

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

COMPANY WEBSITE

www.chmyy.com

STOCK CODE

2289.HK

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Charmacy Pharmaceutical Co., Ltd. (stock code: 2289.HK) (the "**Company**"), I would like to present the audited consolidated results for the year ended 31 December 2016 (the "**Reporting Period**") of the Company and its subsidiaries (the "**Group**" or "**us**" or "**we**" or "**Charmacy**").

BUSINESS OVERVIEW

We are one of the leading pharmaceutical distributors in Southern China, with a comprehensive distribution network covering Southern China and surrounding areas including Fujian Province. We distribute diversified pharmaceutical products to distributors, retail pharmacies, hospitals, clinics, health centers and the others. According to the 2015 Statistical Analysis Report on the Operation of the Pharmaceutical Distribution Industry, in 2015, we ranked 36th among top 100 wholesalers nationwide in terms of revenue from principal business. In 2016, we were awarded "Top 100 Private Enterprises in Guangdong Province" (廣東省民營企業100強), "Top 100 Enterprises of Service Industry in Guangdong Province" (廣東省服務業100強) and "Model Enterprise of Trustworthiness in Guangdong Province" (廣東省誠信示範企業) (for five consecutive years from 2011 to 2015) by Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and Guangdong Provincial Association of Entrepreneurs (廣東省企業家協會), in terms of revenue generated from the pharmaceutical distribution business in 2015. In addition, China Association of Pharmaceutical Commerce (中國醫藥商業協會) conferred on us the Most Innovative Service Award in the Chinese pharmaceutical distribution industry during the "12th Five-Year Plan" Period. We are also a "Qualified Enterprise in Line with National Standards of Operation Practice for Cold-chain Logistics of Pharmaceutical Products" (《藥品冷鏈物流運作規範》國家標準達標企業), a title conferred by the Pharmaceutical Logistics Sub-branch of China Federation of Logistics & Purchasing (中國物流與採購聯合醫藥物流分會) and Cold Chain Logistics Professional Committee of China Federation of Logistics & Purchasing (中國物流與採購聯合會冷鏈物流專業委員會). We have a variety of product offerings, including western medicines, Chinese patent medicines, healthcare products, Chinese medicine materials and decoction pieces, medical devices and cosmetic products. In June 2015, we started to run our B2B e-commerce platform "Charmacy e-Medicine" (創美e藥) (www.cmyynet.com) where customers can place purchase orders online. In March 2016, Charmacy joined hands with IBM to develop the SAP system as an omni-channel and integrated information-service platform covering purchasing, logistics, warehousing, sales and customer relationship management. The platform was formally launched on 1 November 2016. We will continue to strengthen, expand and integrate our existing distribution networks and capabilities, proactively develop the B2B e-commerce platform, and expand product offerings, so as to enlarge the customer base and enhance the Group's market position in Southern China.

ANNUAL PERFORMANCE FOR THE YEAR 2016

The turnover of the Group increased by 8.00% from RMB3,397.13 million in 2015 to RMB3,668.93 million in 2016, while the gross profit of the Group increased by 9.47% from RMB164.70 million in 2015 to RMB180.30 million in 2016. The gross profit margin of the Group increased to 4.91% in 2016 from 4.85% in 2015. The profit attributable to the owners of the Company increased by 125.15% to RMB59.35 million in 2016 from RMB26.36 million in 2015. The net profit margin of the Group (based on the calculation of net profit divided by turnover) increased from 0.78% in 2015 to 1.62% in 2016. The overall profitability significantly increased as compared to last year.

PROSPECTS

China has witnessed its urbanization picking up the speed, its population aging at a faster rate, its "Two-child" policy comprehensively rolled out, and its resident income growing at a steady pace. Given the circumstances, the country is confronted by a growing demand in pharmaceutical and health service markets. The competent authority for the PRC pharmaceutical distribution industry is tightening its regulation, procuring the industry to enter a stage where stronger players evict weaker ones. As the policy was rolled out to separate the pharmaceutical industry from its medical parent, the pharmaceutical bank of public hospitals will embrace a market of free competition, ushering in huge potential in the pharmaceutical distribution market of Southern China. The Group will continue to leverage its regional advantages and intensively engage itself in the end market of Southern China. Specifically, the Group will introduce new quality products to boost product variety, expand the sales network to widen its coverage in the end market of Southern China, and comprehensively upgrade the information system and the B2B e-commerce platform to increase operating efficiency and, in turn, the Group's profitability.

APPRECIATION

Lastly, I would like to take this opportunity to express my utmost gratitude to the management and staff of the Company for their development and contribution. I would also like to express my gratitude to all our Shareholders for their trust and support.

Charmacy Pharmaceutical Co., Ltd.

Yao Chuanglong
Chairman

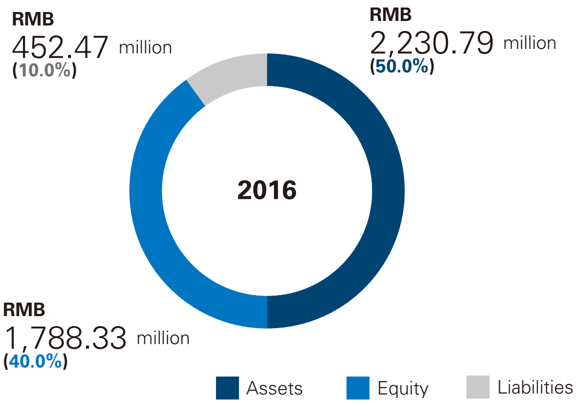
Hong Kong, 21 March 2017

Financial Summary

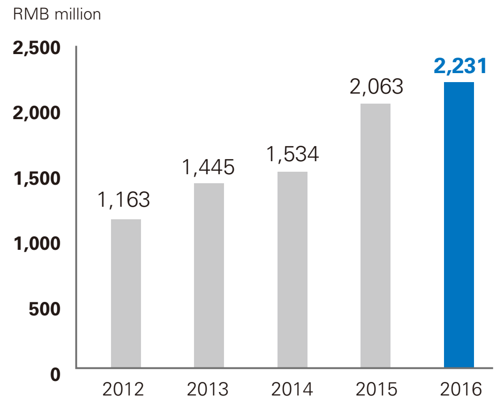
Results	For the year ended 31 December 2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Turnover	**3,668,928**	3,397,133	3,014,059	2,401,231	2,016,943
Profit before income tax	**79,886**	41,575	45,935	29,314	20,565
Total consolidated revenue for the year attributable to the equity Shareholders of the Company	**59,348**	26,359	36,445	22,219	14,111
Basic and diluted earnings per Share (as stated in RMB cent per Share)	**54.95**	32.30	45.56	N/A	N/A

Financial Position	As at 31 December 2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	**2,230,793**	2,062,970	1,533,936	1,444,602	1,163,059
Total liabilities	**1,788,328**	1,648,714	1,288,371	1,235,482	976,158
Total equity	**452,465**	414,256	245,565	209,120	186,901
Net assets per Share (as stated in RMB per Share)	**4.19**	3.84	N/A	N/A	N/A
Net debt to equity ratio	**0.67**	0.33	1.14	1.35	1.32

Chart of the relationship between assets, liabilities and equity as at 31 December 2016



Total assets as at 31 December



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

China has witnessed its urbanization picking up the speed, its population aging at a faster rate, its "Two-child" policy comprehensively rolled out, and its resident income growing at a steady pace. Given the circumstances, the country is confronted by a growing demand in pharmaceutical and health service markets, the ongoing reform of the medical and healthcare system, a more urgent demand for transforming and upgrading pharmaceutical distribution, and new opportunities and challenges for developing the pharmaceutical distribution industry.

Multiple policies and regulations on pharmaceutical distribution were introduced during the reporting period. The PRC Ministry of Commerce published its National Development Plan for the Pharmaceutical Distribution Industry (2016-2020) (《全國藥品流通行業發展規劃(2016-2020年)》) (the "**Plan**"), in an effort to guide the reform and development of the pharmaceutical distribution industry and propel its transformation and upgrade. The Plan sets forth the target that by 2020, the development of the industry will have been mostly compatible with the overall objective of building a moderately well-off society in an all-round manner and people's increasing demand for health. By then, the industry will have formed a modern pharmaceutical distribution system featuring unified and open operation, orderly competition, an optimized network, well-organized and efficient distribution, great safety and convenience, and benefit to the public.

Regulating the order and environment of pharmaceutical distribution

During the Reporting Period, China Food and Drug Administration ("**CFDA**") issued the "Announcement on Rectifying the Illegal Operation in Pharmaceutical Distribution" (Document No. 94) (《關於整治藥品流通領域違法經營行為的公告》(94號文)), to carry out concentrated rectification of the illegal operation in pharmaceutical distribution, further rectify and regulate the order of pharmaceutical distribution, and crack down on illegal operation.

The competent authority for the PRC pharmaceutical distribution industry is tightening its regulation, which will improve the order of pharmaceutical distribution and facilitate its industrial integration and reform. Under such tightened regulation, non-compliant pharmaceutical distribution enterprises will be eliminated, thus leading to a better environment for pharmaceutical distribution and promoting the healthy development of the industry.

Rising industrial concentration and a reshuffled industrial landscape

In April 2016, the General Office of the State Council of the PRC promulgated the "2016 Key Work Tasks of In-Depth Reform on Pharmaceutical and Healthcare System" (《深化醫藥衛生體制改革2016年重點工作任務》), requiring the implementation of the "Two-invoice system" (「兩票制」) to optimize the order of buying and selling pharmaceuticals and cut down circulation procedures. The implementation of the "Two-invoice system" will impel industrial integration in the pharmaceutical distribution industry and expedite its concentration.

According to the Plan, the sales of top-100 pharmaceutical wholesale enterprises accounted for 69% of the total sales on the pharmaceutical wholesale market in 2010; the proportion grew to 86% in 2015, with three national pharmaceutical-distribution giants whose respective annual sales exceeded RMB100 billion and 25 regional pharmaceutical distributors whose respective annual sales exceeded RMB10 billion, reflecting a substantial increase in industrial concentration. According to the Plan, by 2020, the annual sales of top-100 pharmaceutical wholesale enterprises will account for over 90% of the total sales of the pharmaceutical wholesale market, and the concentration of the pharmaceutical distribution industry will continue to increase significantly.

The number of companies seeking financing through listing on the capital market increased from 12 in 2010 to 20 in 2015, coupled with active mergers and acquisitions among listed companies. During the "13th Five-Year Plan" period, the government will continue to encourage large pharmaceutical distributors to accelerate their integration and expansion through merger and acquisition, listing for financing and bond issuance, so that such distributors can grow bigger, better and stronger. Meanwhile, the government also encourages small and medium-sized pharmaceutical distributors to develop professional and specialized operation with their own characteristics, in order to reshape the industrial landscape of the pharmaceutical distribution industry.

A new era for "Internet-Plus" development leading to transformation and upgrade of the pharmaceutical distribution industry

Pharmaceutical e-commerce has enjoyed rapid development in recent years. As at 31 December 2015, 517 enterprises had the "Qualification Certificate for Providing Internet Pharmaceutical Transaction Services" (《互聯網藥品交易服務資格證書》, ("**Qualification Certificate**") in China, in which 106 enterprises had Wholesale B2B Certificates ("**B Certificates**"), with total sales of RMB47.6 billion for pharmaceutical e-commerce recorded in the Direct Reporting System of the Ministry of Commerce in 2015. Out of the amount, RMB44.4 billion was from the B2B market, accounting for 93.3% of the total sales of pharmaceutical e-commerce. According to the information from CFDA, as at 22 January 2017, 913 enterprises had the Qualification Certificate. Among them, 224 enterprises had B Certificates. On 22 January 2017, the State Council published the Decision on Cancelling the Centrally-Specified Local Administrative Approval for 39 Matters (Batch 3) (《關於第三批取消39項中央指定地方實施的行政許可事項的決定》), specifying the "cancellation of the approval for internet service providers of pharmaceutical transactions (except third-party platforms)".

The "Internet-Plus" model experiences fast development into a new carrier of propelling the development of the pharmaceutical distribution industry. The Plan promotes the development of the "Internet + Pharmaceutical Distribution" model and the extensive application of information technology, such as mobile internet, to pharmaceutical distribution, so as to enrich the channels and development models of pharmaceutical distribution, facilitate online-offline integration, and boost the transformation and upgrade of the pharmaceutical distribution industry.

BUSINESS REVIEW

Our principal business is pharmaceutical products distribution in the PRC, and substantially all of our turnover were contributed by pharmaceutical products distribution. We procure pharmaceutical products from pharmaceutical manufacturers and distributor suppliers and then sell the products to distributor customers, retail pharmacy stores, and hospitals, clinics, health centres and others. In 2016, we followed the established operation target, to continue to explore the market in Southern China, with a focus on developing the business of sales to retail pharmacy stores, so as to lay the foundation for the operation of "Charmacy e-Medicine" (創美e藥).

As at 31 December 2016, our distribution network covered 5,674 customers, among which 783 were distributors, 3,496 were retail pharmacy stores and 1,395 were hospitals, clinics, health centres and others. As at 31 December 2015, our distribution network covered 5,245 customers, among which 745 were distributors, 3,256 were retail pharmacy stores and 1,244 were hospitals, clinics, health centres and others.

As at 31 December 2016, we had 1,019 suppliers, among which 673 were pharmaceutical manufacturers and 346 were distributor suppliers. As at 31 December 2015, we had 1,045 suppliers, among which 749 were pharmaceutical manufacturers and 296 were distributor suppliers.

As at 31 December 2016, we distributed 6,069 products, which increased by 508 products as compared to 2015.

	Number of Products For the year ended 31 December	
	2016	2015
Categories of Products		
Western medicines	**2,881**	2,858
Chinese patent medicines	**2,392**	1,995
Healthcare products	**125**	122
Others	**671**	586
Total	**6,069**	5,561

Our B2B e-commerce platform ("**e-commerce platform**"), "Charmacy e-Medicine" (創美e藥) (http://www.cmyynet.com/) was in full operation in December 2015. As at 31 December 2016, our B2B e-commerce platform had 4,759 registered customers who are mainly retail pharmacy stores. The turnover contributed from our e-transactions through our B2B e-commerce platform in 2016 was approximately RMB177.48 million. In 2016, we allocated part of the proceeds raised from listing to transform our former B2B e-commerce platform into an SAP Hybris e-commerce management platform, which was formally launched on 1 November 2016. In 2017, we will fully enhance the PC-based e-commerce platform, mobile-based WAP and upgraded generation of WeChat public account to optimize the customer application experience, promote the corporate brand in a more effective way, so that the operating efficiencies will increase and transaction costs will reduce through e-commerce platform.

The turnover of the Group in 2016 was RMB3,668.93 million, increasing by 8.00% as compared to last year. The gross profit margin was 4.91%, increasing by 0.06 percentage points as compared to last year. The total expense ratio was 3.06%, representing a decline of 0.73 percentage points as compared to last year. We had the profit attributable to the owners of the Company of RMB59.35 million, increasing by 125.15% as compared to last year. The net profit margin was 1.62%, increasing by 0.84 percentage points as compared to last year. The overall profitability improved markedly compared with last year.

Reform on the information system and cooperation with IBM to build SAP system

The Group officially commenced the construction of information-based program on 20 March 2016. By leveraging on the brand new business suite, SAP S/4HANA, we integrated into Hybris e-commerce platform and various solutions including SAP CRM, mobile application and SAP BO. The IBMPOWER8 server assisted the Group for arranging SAP HANA on Power memory computing, so as to build an integrated information service platform with an omni-channel covering purchasing, logistics, storage, sales and management of customer relationship. The construction of information-based program (Phase I) was formally launched on 1 November 2016.

Purchase of refrigerated transportation vehicles for expanding the distribution coverage

In 2016, the Group had purchased a total of 23 refrigerated transportation vehicles for its two logistics centers. The refrigerated transportation vehicles can ensure better product quality as compared to the existing transportation vehicles. This can optimize the logistic quality, expand the distribution coverage, increase the supply of products to customers and provide better transportation services.

Establishment of a professional e-commerce team, and comprehensively planning and promotion of the e-commerce platform

In 2016, the Group established its e-commerce operations center, to provide comprehensive planning, instrument development and application, daily activity promotion and operation facilities for the Group's e-commerce platform. Specifically, the center works on six aspects, function development and optimization of the e-commerce platform, website design and planning, effect data synthesis and analysis, daily operation and promotion, product maintenance and testing, and departmental communication and coordination. The center aims to better promote the operation of "Charmacy e-Medicine" B2B e-commerce platform, introduce the existing pharmacy end users to the online platform, provide quality experience of online ordering for end users, and improve the work efficiency of the marketing team.

Prospects

Continuously expand the product offerings and enhance the product mix

The Group will continuously introduce new products with high quality, including healthcare products, cosmetics, equipment and Chinese medicine decoction pieces. At the same time, the Group will phase out some of the products with lower gross profit margin and turnover rate. We will enrich our product diversity and enhance the product mix to meet the diversified demands from customers and enjoy greater customer reliance and loyalty, and thus further increasing the profitability of the Group so as to strengthen our competitive position.

Continuously propel the progress of acquisition and increase the coverage in the end markets of Southern China

In 2017, the Group will accelerate its acquisition of established pharmaceutical distribution companies across cities in Southern China, such as Shenzhen, with consideration of various factors including geographical location, product mix, turnover and customer base, so as to facilitate the development of the Group's new logistic centers, expand its own distribution network, increase the Group's coverage in the end markets of Southern China, enhance pharmaceutical delivery capabilities and scale, increase service efficiency and form a more competitive pharmaceutical delivery network.

Investment in Zhuhai Hengxiang Pharmaceutical Limited

On 13 March 2017, the Company entered into a capital contribution agreement with the owner of Zhuhai Hengxiang Pharmaceutical Limited (珠海市恒祥醫藥有限公司, "**Zhuhai Hengxiang Pharmaceutical**"), to increase the Company's contribution to the registered capital of Zhuhai Hengxiang Pharmaceutical to 70% of its equity interest and become its controlling shareholder, at a consideration of RMB18.00 million (the "**Investment**"). This is an important measure that offers the Group an in-depth layout in Zhuhai region, a full coverage of the end markets in Zhuhai City as well as the neighboring regions such as Jiangmen and Zhongshan, which will help broaden the Group's sales network, expand its customer base and increase its turnover. In respect of the Investment, Zhuhai Hengxiang Pharmaceutical has completed its registration at Zhuhai Administration of Industry and Commerce (Xiangzhou Branch) (珠海市工商行政管理局香洲分局) on 30 March 2017, and had changed its name to "Zhuhai Charmacy Hengxiang Pharmaceutical Limited" (珠海創美恒祥醫藥有限公司). The Group estimates that there will be an increase of approximately 1,100 downstream customers and an increase of products of approximately 1,400 specifications under its operation, including 1,065 Chinese medicine decoction pieces. As such, it will help raise the proportion of such products as Chinese medicine decoction pieces and healthcare products, equipping the Group with stronger product mix to meet the diversified demands from customers and enjoy greater customer loyalty.

The funds used in the Investment are in line with the planned use of the proceeds as set out in the prospectus of the Company dated 2 December 2015 (the "**Prospectus**").

Launch the construction of information-based program (Phase II) to facilitate the corporate strategic development

In 2017, the Group will launch the construction of information-based program (Phase II), to invest in the implementation of three modules, namely, SAP EWM, SAP TM and SAP HR. The Group aims to: (i) develop and improve its warehouse management system and transportation system to complement the supply-chain collaboration platform, and realize visualized management of warehousing and distribution; (ii) establish a model of integrated network for logistic operation, to upgrade the model of separate business operation among logistic centers, and achieve support among different warehouses; deliver standard logistic and distribution operation and develop replicable operational models; and (iii) develop a three-pronged HR management model for the Group (supported by an human resources expert center, a human resources platform and human resources business partners), shared services and HRBP, to share resources, teams, abilities and information, provide one-stop HR solution to all departments, improve the work efficiency of teams and better serve corporate strategies.

Comprehensively upgrade the B2B e-commerce platform and optimise the customers' experience

The Group will push forward the upgrade and iteration of the PC terminal, WAP mobile terminal and WeChat public account of its e-commerce platform, to achieve better users' application experience. The Group will materialize its B2B marketing strategy by leveraging tools such as Hybris out-of-the-box solutions, social media and mobile marketing, to attract the existing end users of pharmacies to its online platform and provide the channel to connect the online e-commerce platform with offline stores. The Group seeks to fully realize online sales for more than 10,000 small and medium-sized pharmacy stores by 2018, and to offer a different distribution experience for end customers.

FINANCIAL REVIEW

Turnover

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Sales of goods	**3,640,925**	3,381,222
Services income	**28,003**	15,911
Total turnover	**3,668,928**	3,397,133

The turnover of the Group in 2016 was RMB3,668.93 million, increased by 8.00% as compared to last year.

	For the year ended 31 December	
Customer type	**2016 RMB'000**	2015 RMB'000
Distributors	**2,547,674**	2,400,620
Retail pharmacy stores	**1,026,163**	917,918
Hospitals, clinics, health centres and others	**67,088**	62,684
Total sales of goods	**3,640,925**	3,381,222

During 2016, we generated substantially all of our turnover from sales of goods to (i) distributor customers; (ii) retail pharmacy stores and (iii) hospitals, clinics, health centres and others. In 2016, over 98% of our total sales was derived from distributor customers and retail pharmacy stores.

Our turnover from sales of goods increased in 2016 primarily attributable to the increase in sales to distributor customers and retail pharmacy stores.

Our turnover from sales to distributor customers increased during 2016 mainly due to (i) our continued expansion of distribution network in Southern China and our number of distributor customers increased from 745 customers in 2015 to 783 customers in 2016; and (ii) the increase in sales volume to distributor customers as a result of the increase in the number of products sold by us as a primary distributor from 3,794 in 2015 to 4,509 in 2016.

Our turnover from sales to retail pharmacy stores increased during 2016 mainly due to our continued marketing efforts on the expansion of retail pharmacy stores network to prepare for our expansion of B2B e-commerce business, which increased the sales of products to retail pharmacy stores and distributor customers, and our number of retail pharmacy stores increased from 3,256 in 2015 to 3,496 in 2016.

Cost of sales, gross profit and gross profit margin

The cost of sales of the Group increased by 7.93% to RMB3,488.63 million for the year ended 31 December 2016 from RMB3,232.43 million for the year ended 31 December 2015. The increase in cost of sales was in line with the increase in turnover from sales of products.

The gross profit of the Group increased by 9.47% to RMB180.30 million for the year ended 31 December 2016 from RMB164.70 million for the year ended 31 December 2015. The gross profit margin of the Group increased to 4.91% for the year ended 31 December 2016 from 4.85% for the year ended 31 December 2015. The increase in the gross profit margin of the Group was primarily due to (i) the increase in proportion of sales to retail pharmacy stores in 2016 which generally have higher gross profit margin as the retail pharmacy stores usually sell the pharmaceutical products directly to consumers; (ii) phasing-out of products with lower turnover rate and gross profit margin; and (iii) the increase in purchase discount from our manufacturer suppliers primarily attributable to the increase in procurement of products from us as a primary distributor from 3,794 in 2015 to 4,509 in 2016.

Other income

In 2016, other income increased by 113.76% to RMB11.79 million (2015: RMB5.51 million), mainly due to the increase of (i) government subsidies of RMB2.69 million and (ii) exchange gains of RMB5.45 million.

Selling and distribution expenses

The selling and distribution expenses increased by 19.42% to RMB48.12 million in 2016 (2015: RMB40.30 million), mainly due to (i) the holding customer appreciation listing banquet to maintain the relationship with them; (ii) the increase in marketing expenses corresponding to the increase in our sales and (iii) the increase in sales staff salaries and other allowances, contribution to retirement benefits schemes, for maintaining a competitive remuneration package in the industry.

Administrative expenses

The administrative expenses in 2016 decreased by 26.11% to RMB47.47 million (2015: RMB64.25 million), mainly because no listing expense was incurred which belonged to non-recurring expense in 2016 (2015: RMB23.87 million). Compared to the administrative expenses (excluding listing expenses) in 2015, the administrative expenses increased by RMB7.09 million in 2016, mainly due to (i) the increase in expenses for professional advisers engaged upon the listing of the Group; (ii) the increase in expenses related to the upgrade of information-based system and (iii) the increase in staff salaries and other allowances, contribution to retirement benefits schemes.

Finance costs

The finance costs in 2016 decreased by 31.09% to RMB16.61 million (2015: RMB24.10 million), mainly due to the decrease in the interest expenses on borrowings and bill charges on discounted bills resulted from the decrease in the benchmark interest rate in PRC. The proportion of finance cost to turnover was 0.45% in 2016 as compared to 0.71% in 2015.

Income tax expense

In 2016, the income tax expense of the Group was RMB20.54 million, increasing by 34.98% as compared with that of RMB15.22 million in 2015, mainly due to the increase in profit before taxation. The effective tax rate (income tax divided by profit before taxation) decreased by 10.89 percentage points to 25.71% in 2016 from 36.60% in 2015, mainly because no listing expense was incurred in 2016 and different accounting treatment between the PRC accounting standards and HKAS in computing the profit before taxation.

Profit attributable to the owners of the Company

The profit attributable to the owners of the Company increased by 125.15% to RMB59.35 million in 2016 from RMB26.36 million in 2015, mainly due to (i) the increase in turnover and gross profit of the Group; and (ii) no listing expense incurred which belonged to non-recurring expense in 2016 (2015: RMB23.87 million).

Property, plant and equipment

As at 31 December 2016, the net carrying value of the Group's property, plant and equipment was RMB130.01 million, which represented an increase of RMB12.34 million as compared to 2015. The increase was mainly due to (i) the new purchase of 23 refrigerated transportation vehicles and (ii) the new purchase of SAP software, facilities and auxiliary hardware equipment during 2016.

Liquidity and financial resources

As at 31 December 2016, the cash and bank balances of the Group was RMB119.57 million, while the cash and bank balances was RMB155.63 million as at 31 December 2015.

At at 31 December 2016 and 31 December 2015, the Group recorded net current assets of RMB228.31 million and RMB199.40 million respectively. As at 31 December 2016, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.13 (2015: 1.12).

The bank borrowings of the Group as at 31 December 2016 were RMB421.36 million. All of the bank borrowings were provided by the banks within the PRC, which bear interest at fixed interest rate. The unit of the carrying amount of the bank borrowings is RMB, which is approximate to the fair value. The Group did not use any financial instruments for hedging purposes or any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Trade and other receivables

The trade and other receivables of the Group mainly include trade receivables, bills receivables, prepayments and other receivables. As at 31 December 2016, the amount of trade and other receivables of the Group was RMB1,169.60 million, which represented an increase of RMB143.73 million as compared to the amount of the trade and other receivables as at 31 December 2015, mainly due to the increase in bills receivables and prepayments of RMB157.90 million as compared to 2015 following the increase in turnover, representing a growth rate of 109.90%.

Trade and other payables

The trade and other payables of the Group mainly include trade payables, bills payables, receipt in advance, other tax payables, accrued expenses and other payables. As at 31 December 2016, the amount of trade and other payables of the Group was RMB1,352.80 million, which represented a decrease of RMB2.83 million as compared to the amount of trade and other payables as at 31 December 2015, mainly due to the decrease in value-added tax payables. Bills payables increased by 6.02% to RMB823.86 million as compared to 2015.

Financial ratios

	For the year ended 31 December	
	2016	2015
Net profit margin	**1.62%**	0.78%
Gearing ratio	**0.93**	0.70
Net debt to equity ratio	**0.67**	0.33

The net profit margin of the Group (based on the calculation of net profit divided by turnover) for the year ended 31 December 2016 was 1.62% as compared to 0.78% in 2015.

The gearing ratio of the Group as at 31 December 2016 (based on the calculation of total borrowings divided by total equity) was 0.93 as compared to 0.70 in 2015.

The net debt to equity ratio of the Group as at 31 December 2016 (based on the calculation of total borrowings net of cash and cash equivalents divided by total equity) was 0.67 as compared to 0.33 in 2015.

Treasury policy

The Group adopts a prudent financial management strategy in implanting the treasury policy. Thus a sound liquidity position was able to be maintained throughout the period under review. The Group continues to assess its customers' credit and financial positions so as to minimize the credit risks. In order to control the liquidity risks, the Board would closely monitor the liquidity position of the Group to ensure its assets, liabilities and other flow structure committed by the Group would satisfy the funding needs from time to time.

Foreign currency exchange risk

The transactions of the Group are mainly denominated in RMB. Except for part of the unused funds raised from listing which are denominated in HK$ and deposited in designated accounts of commercial banks within the PRC and Hong Kong, most of the assets and all liabilities are denominated in RMB. The Group's deposits which are denominated in HK$ and deposited in designated accounts of commercial banks within the PRC and Hong Kong are subject to exchange risks. During the year, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risk

For the year ended 31 December 2016, the Group had no bank borrowings which bears a floating interest rate (2015: RMB183.48 million).

Capital structure

For the year ended 31 December 2016, there have been no changes on the capital structure of the Company. The capital structure of the Company comprises of bank borrowings, secured bank deposits, bank balances and cash as well as equity attributable to the owners of the Company (including paid-up share capital and reserves).

Capital commitment

As at 31 December 2016, the Group had no material capital commitment.

Employees' information

As at 31 December 2016, the Group had a total of 659 employees, including the executive Directors. The total staff cost (including emoluments of directors and supervisors) was RMB41.44 million, as compared to RMB32.33 million for the year ended 31 December 2015, representing a growth rate of 28.18%. The emoluments were determined with reference to the market practice and the performance, qualification and experience of individual employees.

The employees are entitled to bonus based on the results of the Group and individual performances other than basic salaries. Other staff benefits include other related insurances set up for the employees employed by the Group in accordance with the rules and regulations under Labour Law, Employment Contract Law, Social Insurance Law of the PRC and the rules of current related regulatory requirements of the PRC.

The salaries and benefits of the employees of the Group are kept at a competitive level. The employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually.

Change of auditor

The Company did not change the auditor over the past three years.

Significant investments held

Save as its investments in the subsidiary, the Group did not hold any significant investments during the year ended 31 December 2016.

Future plans related to the material investments and capital assets

Save as disclosed in the Prospectus, the Group has no other future plans related to the material investments and capital assets.

Material acquisitions and disposals of the subsidiary, associates and joint ventures

During the year ended 31 December 2016, the Group had no material acquisitions and disposals of the subsidiary, associates and joint ventures.

Pledge of assets

As at 31 December 2016, the Group was granted a credit limit of RMB760.52 million by various banks while the Group's utilized banking facilities in a total amount of RMB723.57 million, which were secured by (i) property, plant and equipment held by the Group with carrying amount of RMB86.33 million as at 31 December 2016; (ii) land use rights held by the Group with carrying amount of RMB96.35 million as at 31 December 2016; and (iii) inventories with carrying amount of RMB250.00 million as at 31 December 2016.

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities (2015: Nil).

Biographies of Directors, Supervisors and Senior Management

DIRECTORS AND SUPERVISORS

The table below sets out the information of the directors (the "**Directors**") and the supervisors (the "**Supervisors**") as at the date of this report:

Name	Date of appointment	Age
Executive Directors		
Yao Chuanglong (姚創龍)	6 March 2000	47
Zheng Yuyan (鄭玉燕)	25 May 2015	42
Fan Jianbo (范劍波)	25 May 2015	41
Lin Zhixiong (林志雄)	25 May 2015	47
Non-executive Director		
You Zeyan (游澤燕)	25 May 2015	46
Independent Non-executive Directors		
Wan Chi Wai Anthony (尹智偉)	1 December 2015	41
Zhou Tao (周濤)	1 December 2015	33
Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲))	1 December 2015	47
Supervisors		
Zhang Ling (張玲)	25 May 2015	44
Zheng Xiyue (鄭禧玥)	25 May 2015	37
Zhang Hanzi (張寒孜)	25 May 2015	37

Chairman and Executive Director

Mr. Yao Chuanglong (姚創龍), aged 47, is our Chairman, executive Director and Chief Executive Officer. He is responsible for the overall management of the Group, strategic planning and decision, formulation of annual business operation plan of the Group. He is the spouse of Ms. You Zeyan, our non-executive Director.

Mr. Yao obtained a certificate in postgraduate class on civil commercial law from China University of Political Science and Law (中國政法大學) in March 2004. Mr. Yao completed a class on selected on-job executive master of business administration course (在職工商管理碩士(EMBA)精選課程研修班) organised by the Sino-Foreign Management Research Institute of Sun Yat-sen University (中山大學中外管理研究中心) in the PRC in March 2004 and a course on "Advance Programme for Development of Leadership in Pharmaceutical Industry" (醫藥商業領導力發展高級研修班) in Zhejiang University (浙江大學) in the PRC in October 2007. Mr. Yao completed a course on "Advanced Programme on Business Management for Executives" (高級工商管理總裁研修班) in Tsinghua University (清華大學) in the PRC in July 2008 and a course on "Telaote Strategic Positing for Executives" (特勞特戰略定位總裁班) in Peking University (北京大學) in the PRC in September 2013. In November 2015, Mr. Yao completed a course on Internet Plus and Innovative E-commerce for Executives (互聯網+與電子商務創新總裁班) in Overseas Education College of Shanghai Jiao Tong University (上海交通大學海外教育學院).

Mr. Yao joined the Group in March 2000 as a general manager of the Company, overseeing the daily operation and formulation of the strategic development of the Company. Since July 2011, he has also served as the general manger of Foshan Charmacy Pharmaceutical Co., Ltd. (佛山創美藥業有限公司). Mr. Yao has been acting as the chairman of the Company since May 2015.

Executive Directors

Ms. Zheng Yuyan (鄭玉燕), aged 42, is our vice president, executive Director and Chief Marketing Officer. She joined the Group in September 2003 and had served various positions in the Group including procurement officer, procurement director and sales director. Ms. Zheng was promoted in August 2015 as the vice president of the Group. She has been appointed as our Director since 25 May 2015. Ms. Zheng is mainly responsible for the marketing and products management of the Group, the arrangement and maintenance of the sales network of the Group as well as planning and guidance on the management of operating commodities of the Group.

In December 2008, Ms. Zheng obtained a Master of Business Administration degree in the Postgraduate School of Renmin University of China (中國人民大學研究生院) in the PRC. Ms Zheng completed a course of "Training Programme for Executives Master of Business Administration Courses" (EMBA課程總裁研修班) organised by Lingnan School of Sun Yat-sen University (中山大學嶺南學院) in the PRC in August 2013 and a course of "Telaote Strategic Positing for Executives" (特勞特戰略定位總裁班) organised by Peking University (北京大學) in the PRC in November 2013. In November 2015, Ms. Zheng completed a course on Internet Plus and Innovative E-commerce for Executives (互聯網+與電子商務創新總裁班) in Overseas Education College of Shanghai Jiao Tong University (上海交通大學海外教育學院).

Mr. Fan Jianbo (范劍波), aged 41, is our vice president, executive Director and Chief Technical Officer. He is responsible for the development of information system, logistics centre and information technology management of the Group. He joined the Group in March 2011 as Chief Technical Officer and is responsible for the planning and construction of the our logistics centres. Mr. Fan was promoted in August 2015 as the vice president of the Group.

Mr. Fan graduated from the Yunan University (雲南大學), majoring in international trade in February 2004 and obtained a postgraduate diploma on "Information Strategy and Business Transformation" from the University of Hong Kong School of Professional and Continuing Education in September 2013. He completed a course of "Telaote Strategic Positing for Executives" (特勞特戰略定位總裁班) organised by Peking University (北京大學) in the PRC in November 2013, and was awarded as an expert on warehouses and storage by the China Association of Warehouses and Storage (中國倉儲協會) from August 2014 to August 2016. In November 2015, Mr. Fan completed a course on Internet Plus and Innovative E-commerce for Executives (互聯網+與電子商務創新總裁班) in Overseas Education College of Shanghai Jiao Tong University (上海交通大學海外教育學院).

From February 2007 to July 2007, Mr. Fan was the logistics manager of Yuannan Gallops International Logistics Company Limited (雲南騰俊國際物流有限公司), a company engaging in the provision of delivery, logistics, warehouse management and import and export services, responsible for formulating the standard operating procedures and enhancing logistics system. Mr. Fan served as the logistics manager of Yunnan Hongxiang Yixintang Pharmaceutical Co., Ltd (雲南鴻翔一心堂(集團)藥業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002727) and engaging in production and sales of pharmaceutical products, during July 2007 and December 2010, responsible for the planning of construction of and management of the logistic centre and the implementation of enterprise resource planning software.

Mr. Lin Zhixiong (林志雄), aged 47, is our executive Director, joint company secretary and Chief Financial Officer. He is responsible for the financial management of the Group. He joined the Group in March 2010 as the financial director of the Group.

Mr. Lin graduated from Hunan Institute of Finance and Economics (湖南財經學院) in the PRC with a bachelor degree in economics studies, majoring in finance planning and statistics in July 1992. He also completed a course of "Telaote Strategic Positing for Executives" (特勞特戰略定位總裁班) organised by Peking University (北京大學) in the PRC in November 2013 and obtained a postgraduate diploma on "Corporate Finance and Investment Management" from the University of Hong Kong School of Professional and Continuing Education in May 2015. Mr. Lin was an accountant accredited by the Ministry of Finance in the PRC in May 1997.

Prior to joining the Group, Mr. Lin worked in Shantou International Trust Investment Limited (汕頭國際信託投資公司), a company engaging in financing and investment activities, as an accounting and financial manager from July 1992 to December 2001, responsible for financial management and accounting, tax planning and financing. During January 2002 to March 2010, he worked in Guangdong Deming Investment Group Limited (廣東德明投資集團公司) (currently known as Shantou Deming Packaging Group Limited (汕頭市德明包裝實業集團有限公司)), a company engaging in the production and sales of tobacco, and held the position of financial director and was responsible for the financial management and accounting, tax planning, financing and investment management.

Non-executive Director

Ms. You Zeyan (游澤燕), aged 46, was appointed as our non-executive Director on 25 May 2015. She is responsible for providing advice on strategic development of the Group. She is the spouse of Mr. Yao, our Chairman, executive Director and Chief Executive Officer.

Ms. You studied financial studies and finance in the Party School of Guangdong Committee of C.P.C (中共廣東省委黨校) in the PRC from September 1996 to July 1997 and graduated from the Teaching College of Party School of Guangdong Committee of C.P.C (中共廣東省委黨校函授學院) in the PRC with a bachelor degree in administrative management in December 2004. Ms. You joined Shantou Special Economic Zone Golden Gulf Hotel Limited (汕頭經濟特區金海灣大酒店有限公司) in the PRC in September 1990, serving successively as the director for public relations and marketing and the assistant general manager to assist the general manager in hotel marketing, lobby and room service management.

Independent non-executive Directors

Mr. Wan Chi Wai Anthony (尹智偉), aged 41, was appointed as our independent non-executive Director on 1 December 2015.

Mr. Wan graduated from the Hong Kong University of Science and Technology in November 1997 with a bachelor degree in business administration (accounting). Mr. Wan graduated from the University of London with a bachelor degree in laws in August 2003 through distance learning. He further obtained the Postgraduate Certificate in Laws in June 2004 from the University of Hong Kong.

Mr. Wan was admitted as a member of the Hong Kong Institute of Certified Public Accountants in January 2002 and a Fellow of the Association of Chartered Certified Accountants in May 2006. Mr. Wan was also admitted as a solicitor of the High Court of Hong Kong in September 2006.

Prior to joining the legal field, Mr. Wan worked in the financial, accounting and audit industry, including as a senior associate in PricewaterhouseCoopers, an accounting and audit firm, during August 1997 and May 2001; an accounting manager in Wellink Services Limited, a company engaging in investment business, during October 2001 and January 2002; and an assistant manager in finance in MLC (Hong Kong) Limited, an insurance company, during April 2002 and September 2003. Since 2004, Mr. Wan has worked in various local and international law firms, specialising in the practice of corporate finance transactions including Hong Kong listings and mergers and acquisitions. From October 2006 to July 2007 and January 2008 to November 2008, Mr. Wan was a corporate finance associate in Herbert Smith Freehills. He was an assistant solicitor in Reed Smith Richards Butler from March 2010 to November 2010 and an associate in Morrison & Foerster from December 2010 to May 2012. Mr. Wan joined Clifford Chance in May 2012 as a senior associate and left as a consultant in April 2015. From May 2015 to May 2016, he worked as the partner and head of the Hong Kong corporate and securities practice of Vivien Teu & Co in association with Llinks Law Offices (通力律師事務所), a law firm in Hong Kong. In May 2016, Mr. Wan joined King & Wood Mallesons, as a partner for its corporate and securities practice.

Mr. Zhou Tao (周濤), aged 33, was appointed as our independent non-executive Director on 1 December 2015.

Mr. Zhou graduated from Peking University (北京大學) in the PRC with a bachelor's degree in law in July 2005. He is a qualified practising lawyer in the PRC.

Since July 2005, Mr. Zhou has been working as a lawyer in Grandway Law Offices (北京國楓律師事務所), a law firm in the PRC.

Mr. Guan Jian (關鍵) (also known as Guan Suzhe (關蘇哲)), aged 47, was appointed as our independent non-executive Director on 1 December 2015.

Mr. Guan graduated from Chinese People's Liberation Army University of International Relationships (中國人民解放軍國際關係學院) with a bachelor degree in English in July 1991 and from China Europe International Business School (中歐國際工商學院) in the PRC with a master degree in business administration in November 1997. In August 2014, Mr. Guan was appointed as a guest professor by Shanghai Jiao Tong University Continuing Education School (上海交通大學繼續教育學院) in the PRC.

Mr. Guan worked as a sales director in Yihaodian (一號店), a company engaging in business administration, responsible for marketing, sales and operational management in May 2008. During the period from July 2009 to August 2010, he was the vice president of Shanghai Haolijia Electronics Commerce Limited (上海好麗家電子商務有限公司), a company engaging in the business of marketing, sales and training, responsible for the business management. Since July 2011, he has been working as the chief executive officer of Mankedao (Shanghai) Information Technology Limited (慢客島（上海）網絡科技有限公司), overseeing the general management. Since 2 June 2015, he has been the executive director and president of Shanghai New Focus Investment Development Limited (上海新關點投資發展有限公司), responsible for integrated corporate management. Mr. Guan has been the consultant of China Telecom Corporation Limited Jiangsu electronics channel operations centre (中國電信股份有限公司江蘇電子渠道營運中心).

Supervisors

Ms. Zhang Ling (張玲), aged 44, was appointed as the chairlady of the Board of Supervisors on 25 May 2015.

Ms. Zhang graduated from Beijing Wuzi University (北京物資學院) in the PRC with a bachelor degree in international trade in July 1994. She obtained a master degree in industrial economics from Shantou University (汕頭大學) in the PRC in June 2005 and a doctorate degree in accounting from Xiamen University (廈門大學) in the PRC in December 2009.

From March 2000 to September 2002, Ms. Zhang was the assistant to general manager in the Company, responsible for overseeing financial and administrative matters. Since January 2010, she has been an associate professor in Shantou University Business School (汕頭大學商學院) in the PRC.

Ms. Zheng Xiyue (鄭禧玥), aged 37, was appointed as our employee representative Supervisor on 25 May 2015.

Ms. Zheng graduated from China Central Radio and TV University (中央廣播電視大學) in the PRC with a bachelor degree in accounting in July 2009. She has also completed a course on "Executive Master of Business Administration (EMBA) Programme for Executives" in Market Economy Academy of Peking University (北京大學民營經濟研究學院) in the PRC in April 2010.

Ms. Zheng joined the Group in July 2001 and held positions including accounting officer and manager of settlement department. She is currently the assistant to the marketing officer and the treasury manager of the Group and is responsible for providing assistance to our Chief Marketing Officer in the operation of our sales centre and overseeing treasury management of the Group.

Ms. Zhang Hanzi (張寒孜), aged 37, was appointed as our Supervisor on 25 May 2015.

Ms. Zhang studied international finance in Sichuan University (四川大學) in the PRC and graduated with a bachelor degree in economics studies in July 2002. She was an intermediate accountant accredited by Guangdong Human Resources and Social Welfare Bureau (廣東省人力資源和社會保障廳) in August 2011.

During July 2008 and January 2014, Ms. Zhang was the financial vice manager in Kaiser China Holding Co., Ltd. (凱撒（中國）股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002425) and engaging in the wholesale and retail of apparel and leather products. She was also the director of Yuxin (Guangdong) Trading Limited (宇鑫（廣東）貿易有限公司), a subsidiary of Kaiser China Holding Co., Ltd. (凱撒（中國）股份有限公司) from July 2008 to January 2014. Since February 2014, she has been serving as the financial manager of the Company.

SENIOR MANAGEMENT

Mr. Xiang Zhixiong (向志雄), aged 37, is our Chief Human Resources Officer. Mr. Xiang graduated from Zhongnan University of Economics and Law (中南財經政法大學) in the PRC in June 2002, majoring in international economic law. From November 2010 to June 2015, Mr. Xiang was the HR director of Shenzhen Infinova Polytron Technologies Inc.

Mr. Xiang joined our Group in August 2016 and has been responsible for the strategic planning of human resources of our Group, and supervising the implementation, including building expedite communication channels and effective incentive mechanisms, and planning the work responsibilities of human resource center of our Group as a whole.

Mr. Dong Jianfeng (董劍鋒), aged 34, is our e-commerce operations director. Mr. Dong graduated from the Guangdong Polytechnic College of Science and Technology (廣東科學技術職業學院) in the PRC in 2005, majoring in information management and computer application. From September 2014 to June 2016, Mr. Dong was the vice general manager of Guangzhou Yingfulihuang Asset Management Limited (廣州英福力皇資產管理有限公司).

Mr. Dong joined our Group in October 2016 and has been responsible for the overall positioning of the e-commerce platform of our Group, including the planning, tool building and application of the e-commerce platform; the construction and application of big data; and the promotion and implementation of daily activities.

Mr. Lin Zhijie (林志杰), aged 33, is our vice logistics officer. Mr. Lin graduated from the Science and Technology College of Jiangxi University of Traditional Chinese Medicine (江西中醫學院科技學院) in the PRC in July 2007, majoring in pharmaceutics formulation.

Mr. Lin joined our Group in January 2007 and has been responsible for transportation and logistics arrangements of our Group, including the planning of budget for transportation.

JOINT COMPANY SECRETARIES

Mr. Lin Zhixiong (林志雄), aged 47, is our joint company secretary. Biographical details of Mr. Lin are set out in the paragraph headed "Executive Directors" in this section.

Ms. Ng Wing Shan (吳詠珊) was appointed as our joint company secretary on 1 December 2015. Ms. Ng is an assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. She has over 10 years of professional experience in the company secretarial field and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

To coordinate and comply with the generally acknowledged standards of the corporate governance principles and practices is one of the top principles of the Company. The Board believes that good corporate governance is one of the factors to pave the way for the Company to achieve success and balance the interest relationship among Shareholders, clients and employees. The Board is devoted to continuously improving the efficiency and effectiveness of those principles and practices.

The Company adopted and complied with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the year ended 31 December 2016, save for the deviation as stated below:

Under Code Provision A.2.1, the responsibilities between the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yao Chuanglong is our Chief Executive Officer, and he also performs as the chairman of our Board as he has considerable experience in the pharmaceutical distribution industry. Our Board believes that vesting the roles of both the chairman of our Board and the chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning of our Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code (the "**Model Code**") for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code of conduct in dealings with securities for the Directors and Supervisors of the Company. Having made enquiries with all Directors and Supervisors of the Company, the Company confirmed that all Directors and Supervisors have complied with the required standard set out in the Model Code for the year ended 31 December 2016.

MEMBERS OF THE BOARD

Composition

Currently, the Board consists of eight Directors ("**Directors**"), of which four are executive Directors, one is non-executive Director and three are independent non-executive Directors. The composition of the Board is as follow:

Directors	Age	Position	Duration of service contract/ letter of appointment
Mr. Yao Chuanglong	47	Chairman, executive Director and Chief Executive Officer	14 December 2015 to 13 December 2018
Ms. Zheng Yuyan	42	Vice president, executive Director and Chief Marketing Officer	14 December 2015 to 13 December 2018
Mr. Fan Jianbo	41	Vice president, executive Director and Chief Technical Officer	14 December 2015 to 13 December 2018
Mr. Lin Zhixiong	47	Executive Director, joint company secretary and Chief Financial Officer	14 December 2015 to 13 December 2018
Ms. You Zeyan	46	Non-executive Director	1 December 2015 to 30 November 2018
Mr. Wan Chi Wai Anthony	41	Independent non-executive Director	1 December 2015 to 30 November 2018
Mr. Zhou Tao	33	Independent non-executive Director	1 December 2015 to 30 November 2018
Mr. Guan Jian (also known as Guan Suzhe)	47	Independent non-executive Director	1 December 2015 to 30 November 2018

During the year ended 31 December 2016, the composition of the Board did not have any changes.

Details for each of the Directors' profile are set out on pages 16 to 21 in the section "Biographies of Directors, Supervisors and Senior Management".

Save as the relationship disclosed in the section "Biographies of Directors, Supervisors and Senior Management" and the working relationship in the Company, there is no relationship among the Directors, Supervisors and senior management regarding the financial, business, family or other material aspects.

The Board meeting

The regular Board meeting shall be convened at least four times a year, representing once a quarter. Other board meetings shall be convened when necessary for the discussion of the overall strategy and financial performance of the Company's operation. During the year ended 31 December 2016, the Company convened 9 Board meetings. Their details are as follows:

Name	Position	Number of Meetings Attended/Available for Attendance
Mr. Yao Chuanglong	Chairman, executive Director and Chief Executive Officer	9/9
Ms. Zheng Yuyan	Vice president, executive Director and Chief Marketing Officer	9/9
Mr. Fan Jianbo	Vice president, executive Director and Chief Technical Officer	9/9
Mr. Lin Zhixiong	Executive Director, joint company secretary and Chief Financial Officer	9/9
Ms. You Zeyan	Non-executive Director	9/9
Mr. Wan Chi Wai Anthony	Independent non-executive Director	9/9
Mr. Zhou Tao	Independent non-executive Director	9/9
Mr. Guan Jian (also known as Gunan Suzhe)	Independent non-executive Director	9/9

The Company has three independent non-executive Directors, which is more than one-third of the number of Directors in the Board. Among them, Mr. Wan Chi Wai Anthony has the appropriate professional qualification.

Appropriate notification will be sent to each Director in advance prior to the regular meetings and other meetings. Meeting agendas and other relevant information are provided to the Directors prior to the Board meetings. All Directors would be inquired for the agenda for Board meetings and other additional matters.

All Directors have access to the advice and services of the joint company secretaries with a view to ensuring that the Board procedures, all applicable rules and regulations are followed.

The comment made by the Directors at the meetings and both draft and final versions of the minutes will be sent to all Directors. Minutes of Board meetings are kept by the secretary of the meetings.

General meeting

During the year ended 31 December 2016, the Company held two general meetings. Their details are as follows:

Date	Location	Meeting
3 June 2016	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2016 Annual General Meeting
9 November 2016	3rd Floor, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the People's Republic of China	2016 First Extraordinary General Meeting

The attendance of the Directors is stated as follows:

Name	Position	Number of Meetings Attended/Available for Attendance
Mr. Yao Chuanglong	Chairman, executive Director and Chief Executive Officer	2/2
Ms. Zheng Yuyan(1)	Vice president, executive Director and Chief Marketing Officer	1/2
Mr. Fan Jianbo	Vice president, executive Director and Chief Technical Officer	2/2
Mr. Lin Zhixiong	Executive Director, joint company secretary and Chief Financial Officer	2/2
Ms. You Zeyan	Non-executive Director	2/2
Mr. Wan Chi Wai Anthony	Independent non-executive Director	2/2
Mr. Zhou Tao	Independent non-executive Director	2/2
Mr. Guan Jian (also known as Gunan Suzhe)	Independent non-executive Director	2/2

Note:

1. Ms. Zheng Yuyan was unable to attend the 2016 First Extraordinary General Meeting, due to official commitments.

RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is primarily responsible for monitoring and managing the Company's affairs, including the adoption of long-term strategies, appointment of and supervision on senior management, to ensure that the operations of the Group are conducted in accordance with its own objectives. The Board is also responsible for determining the Company's corporate governance policies which include: (i) the preparation of and review on the Company's corporate governance policies and practices; (ii) the review and regulation on the training and continuous professional development of Directors and senior management; (iii) the review and regulation on the code of conduct and compliance manual (if any) applicable to employees and Directors; and (iv) the review on the Company's disclosure in the Corporate Governance Report. The Board has discharged its duties in respect of the corporate governance function mentioned above during 2016.

While the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association (the "**Articles of Association**") as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the Articles of Association). With the new composition of members of the risk management committee, nomination committee, remuneration committee and the audit committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by each of the Board committees.

The Board has also delegated the responsibility of implementing its strategies and the daily operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance and financial reporting, internal controls, communication with Shareholders, Board membership, delegation of authority and corporate governance.

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The Financial Statements set out on pages 53 to 56 were prepared on the basis set out in note 3 to the Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditor of the Company on the Company's Financial Statements is set out in the Independent Auditor's Report on page 49.

The Company has no non-compliance with rules 3.10(1), (2) and 3.10A of the Listing Rules. Except as disclosed in the section "Biographies of Directors, Supervisors and Senior Management" above, there is no financial, business, family or other material relationship among members of the Board.

CONFIRMATION OF INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

During the year ended 31 December 2016, all Directors have been given relevant guidance materials and participated related training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interests and business of the Group. Such guidance materials and relevant overview will be provided immediately to the Directors who are newly appointed. Continuing briefings and professional development for the Directors will be arranged whenever necessary.

All Directors have provided record of training attendance and the Company will continue to arrange or provide training in accordance with paragraph A.6.5 of the Code Provisions.

In the year 2016, continuing professional development participated by the Directors is summarized as follows:

Directors	Training in relation to corporate governance, regulatory developments and other relevant professional topics
Executive Directors	
Yao Chuanglong *(Chairman)*	✓
Zheng Yuyan	✓
Fan Jianbo	✓
Lin Zhixiong	✓
Non-executive Director	
You Zeyan	✓
Independent non-executive Directors	
Wan Chi Wai Anthony	✓
Guan Jian (also known as Guan Suzhe)	✓
Zhou Tao	✓

APPOINTMENT, RE-ELECTION AND DISMISSAL

All independent non-executive Directors have entered into letters of appointment or agreements with the Company for a specific term of three years, subject to re-election.

In accordance with the Articles of Association, Directors are elected at the general meeting with a term of three years from the effective date of being elected. Directors may offer themselves for re-election if their terms expire. The chairman is elected and removed by the majority votes from all Directors, with a term of three years and may offer himself/herself for re-election. The removal of any Directors with an unexpired term is allowed at the general meeting by way of ordinary resolutions, provided that it is complied with the requirements of related laws and administrative regulations.

NON-EXECUTIVE DIRECTOR

The term of Ms. You Zeyan, the Company's incumbent non-executive Director lasts for three years from 1 December 2015.

NOMINATION COMMITTEE

The Company established a nomination committee (the "**Nomination Committee**") on 26 November 2015 with written terms of reference in compliance with paragraph A.5.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; identify individuals qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on matters relating to the appointment or re-election of Directors. The Nomination Committee comprises three members, two of them are independent non-executive Directors, namely Mr. Zhou Tao and Mr. Guan Jian and one of them is executive Director, namely Mr. Yao Chuanglong (Chairman).

For the year ended 31 December 2016, the Nomination Committee held one meeting on 21 March 2016 to review the structure, size and composition of the Board and assess the independence of the independent non-executive Directors. The meeting was attended by all the members of the Nomination Committee, including Mr. Yao Chuanglong, Mr. Zhou Tao and Mr. Guan Jian.

When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant laws and statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. Qualified candidates will then be recommended to the Shareholders' meeting for approval.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "**Remuneration Committee**") pursuant to a resolution of the Board passed on 26 November 2015 and the requirement of Rules 3.25 and 3.26 of the Listing Rules and its written terms of reference were adopted. The written terms of reference of the Remuneration Committee were adopted in compliance with paragraph B.1.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and ensure none of the Directors determine their own remuneration. The remuneration of executive Directors are determined based on the skills, knowledge, individual performance and contributions, the scope of responsibility and duties of such Directors, taking into consideration of the Company's results performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The remuneration of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. As at 31 December 2016, the Remuneration Committee consists of three members, two of them are independent non-executive Directors, namely Mr. Zhou Tao (chairman) and Mr. Wan Chi Wai Anthony and one of them is non-executive Director, namely Ms. You Zeyan.

According to the Code Provision B.1.5, the remuneration paid to the senior management by the Group based on the remuneration benchmark for the year ended 31 December 2016 is as follows:

Remuneration benchmark	Number of individuals
Nil to RMB50,000	5
RMB50,001 to RMB250,000	5
RMB250,001 to RMB500,000	3
More than and including RMB500,001	1

Details of remuneration of Directors are set out in note 13 to the Financial Statements.

For the year ended 31 December 2016, the Remuneration Committee held one meeting on 21 March 2016 to review the overall remuneration policy for the Directors and senior management, determine such policies and propose them to the Board. The meeting was attended by all the members of the Remuneration Committee, including Mr. Zhou Tao, Mr. Wan Chi Wai Anthony and Ms. You Zeyan.

The Remuneration Committee has adopted the model that it will review the proposals made by the management on the remuneration of executive Directors and senior management and make recommendation to the Directors. The Board will have final authority to approve the remuneration recommendations made by the Remuneration Committee.

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") pursuant to a resolution of the Board passed on 26 November 2015 with written terms of reference and the requirement of Rules 3.21 and 3.22 of the Listing Rules. The written terms of reference of the Audit Committee were adopted in compliance with paragraphs C.3.3 and C.3.7 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The Audit Committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group's financial reporting process and internal controls. Other than that, the primary duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting and overseas internal control of the Company. As at the date of this annual report, the Audit Committee consists of three members and three of them are independent non-executive Directors, namely Mr. Wan Chi Wai Anthony (chairman), Mr. Zhou Tao and Mr. Guan Jian.

As at the date of this annual report, the Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also discussed and reviewed the annual results for the year ended 31 December 2016 of the Company with the external auditor of the Company.

For the year ended 31 December 2016, the Audit Committee held two meetings on 23 March 2016 and 22 August 2016. On both occasions, the Audit Committee reviewed, amongst others, the Group's annual results for the year ended 31 December 2015 and the interim results for the six months ended 30 June 2016, and believed that the preparation of such results was in compliance with applicable accounting standards and the Listing Rules. Both meetings were attended by all the members of the Audit Committee, including Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian.

The Audit Committee was aware about the Group's existing system for risk management and internal control and noted that the system would be subject to annual review.

For the year ended 31 December 2016, the Board has not taken a different view from the Audit Committee on the selection, appointment, designation or dismissal of external auditor.

RISK MANAGEMENT COMMITTEE

The Company established a risk management committee (the "**Risk Management Committee**") pursuant to a resolution of the Board passed on 26 November 2015 with written terms of reference. Its terms of reference are available on the websites of the Company and Stock Exchange.

The primary duties of the Risk Management Committee are to review the general goals and fundamental policies of our risk and compliance management, internal control and risk management and internal audit functions and made recommendations to our Board on the same. As at 31 December 2016, the Risk Management Committee comprises three members, namely Mr. Yao Chuanglong, our Chairman and executive Director, Mr. Lin Zhixiong, our executive Director and Mr. Wan Chi Wai Anthony, our independent non-executive Director. Mr. Yao Chuanglong is the chairman of our Risk Management Committee.

For the year ended 31 December 2016, the Risk Management Committee held one meeting on 21 March 2016 where the Risk Management Committee reviewed the strategy, policy and guideline of the Company's risk management, the effectiveness of the Group's risk management and internal control systems, and the adequacy of resources. The meeting was attended by all the members of the Risk Management Committee, including Mr. Yao Chuanglong, Mr. Lin Zhixiong and Mr. Wan Chi Wai Anthony.

BOARD DIVERSITY POLICY

The Board adopted the following board diversity policy:

With a view of achieving a sustainable and balanced development, the Company sees increasing diversity of the Board as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All the appointments made by the Board will be based on meritocracy, and candidates will be adequately considered against objective criteria, together with the benefit to the Board made by the board diversity policy. Selection of Board members will be based on a range of board diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the specific demand for talents in various stages of the business development and strategic planning of the Company, and also the merits and contribution to be made by the selected candidates. The composition of the Board (including gender, age and length of service) will be disclosed in the Corporate Governance Report annually.

AUDITOR'S REMUNERATION

During the year, the Company engaged SHINEWING (HK) CPA Limited as the external auditor of the Company. The fees in respect of audit services provided by SHINEWING (HK) CPA Limited for the year ended 31 December 2016 amounted to RMB1 million.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare accounts of the Group and other financial disclosures required under the Listing Rules and the Company's management will provide information and explanation to the Board to enable it to make informed assessments of the finance and other decisions.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company in respect of their reporting responsibilities on the Company's financial statements for the year ended 31 December 2016 is set out in the "Independent Auditors' Report" contained in this annual report.

JOINT COMPANY SECRETARY

Mr. Lin Zhixiong and Ms. Ng Wing Shan, being our joint company secretaries, are primarily responsible for the company secretarial work of the Group. Mr. Lin Zhixiong currently does not possess the qualifications as required under Rule 3.28 of the Listing Rules. Ms. Ng Wing Shan is an assistant vice president of SW Corporate Services Group Limited and her major contact of the Company is Mr. Lin Zhixiong, an executive Director and joint company secretary.

Pursuant to Rule 3.29 of the Listing Rules, as at 31 December 2016, Ms. Ng and Mr. Lin each have attended no less than 15 hours of relevant professional training.

SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the system of internal control and risk management; the Audit Committee assists the Board in performing its duty of monitoring and corporate governance, which covers the finance, operation, compliance, risk management and internal control of the Company, as well as performing the function of internal audit. Assisted by the Audit Committee and the Risk Management Committee, the Board is responsible for effectively maintaining the system of internal control and risk management, to safeguard the Group's assets and the shareholders' interests. The system aims to manage (not eliminate) the risks that may cause the failure to fulfill business objectives, and can only provide reasonable (not absolute) assurance against major mistakes, losses or fraud.

Composed of a robust organizational structure and comprehensive policies and procedures, the system of internal control and risk management of the Company covers all its operating departments, with clear specification of the duties of all business and functional departments, to ensure effective checks and balances. The structure of risk management and internal control of the Company includes the following parts:

The Board

As the ultimate decision-maker on internal control and management, the Board is responsible for assessing and determining the nature and extent of the Company's risks, to help it deliver its business strategies and achieve its business objectives. The Board is also responsible for establishing, improving, and effectively implementing the Company's system of internal control and risk management, as well as supervising the management in its design, implementation and monitoring of the system.

The Risk Management Committee and the Audit Committee

The Board authorizes its Risk Management Committee to review and approve the risk management policies and guidance of the Company, make decisions on risk level and preference as well as relevant resource allocation, and review the effectiveness and resources of the Group's internal control system at least annually.

The Board authorizes the Audit Committee to review the Company's financial control, internal control and risk management systems at least annually, discuss with the management on the internal control system, ensure that the management has performed its duty to establish an effective internal control system (taking into account, amongst others, the sufficiency of the Company's resources, staff qualifications and experience in auditing and finance, and the sufficiency of staff training courses and relevant budgets), and review the Group's financial and accounting policies and practice.

The Board of Supervisors

As the supervisory body for internal control and management, the Board of Supervisors is responsible for supervising the Board and the management in establishing and implementing internal control.

The Management

The management is responsible for leading the development and daily operation of the Company's internal control, as well as its coordination and management, identifying, assessing and managing the risks that potentially affects important operational procedures, timely responding to and following the matters on risk management and internal control raised by the internal auditor, and confirming to the Board and the Audit Committee as to whether the system of risk management and internal control is effective.

The Company has also established a corresponding mechanism for risk management, which provides the framework and scope of risk management, business objectives, risk assessment process, and the process of regular assessment and monitoring. By a comprehensive evaluation of the effectiveness of internal control, the Company identifies the risks with potential impacts on its operation, and assesses and controls the risks in the environment and process. By a comparison of risk assessment results, the Company ranks the priority of its risks and determines its risk management strategies and internal control procedures, to curb, prevent or reduce risks.

The Board has conducted its annual review of the effectiveness of the system of internal control and risk management as at 31 December 2016, discovered no material defect in internal control, and considered the existing system to be effective and adequate. The Company also had adequate resources, staff qualifications, training courses and budgets in its accounting, internal audit and financial reporting functions.

DISCLOSURE OF INSIDE INFORMATION

The Group has established a policy regarding the disclosure of inside information, which sets out the procedures and internal control measures of the handling and dissemination of inside information in a timely manner in compliance with the Securities and Futures Ordinance. The policy and its effectiveness would be reviewed on a regular basis.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by the Shareholders

Two or more Shareholders who are jointly holding more than 10% (including 10%) of Shares with voting rights at the meeting proposed to be held shall be entitled to request the Board to convene an extraordinary general meeting or class meeting upon signing one or several written requests with the same format and content, and stating the subject of the meeting. If the Board agrees to convene an extraordinary general meeting or class meeting, it shall issue a notice of meeting within 5 days upon making the Board decision. The Board shall convene an extraordinary general meeting or class general meeting as soon as possible upon receiving the aforesaid written requests. If the Board does not issue a notice of meeting within 30 days upon receiving the aforesaid written requests, Shareholders who made such request may convene the meeting by themselves within four months after the Board has received such request, and the procedures for convening the meeting shall be as similar as possible to those for convening a general meeting by the Board.

Proposals put forward at the general meeting

Shareholders severally or jointly holding more than 3% of Shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting within two days after receipt of such proposal and announce the contents of provisional proposals.

Making enquiry to the Board

Shareholders who request related information or ask for information shall provide the Company with the written documents proving their types of Company's Shares and the number of Shares being held. The Company would provide related information in accordance with the request of Shareholders after verifying the identity of Shareholders and receiving reasonable fees.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Company Secretary, Lin Zhixiong, No. 235 Song Shan North Road, Longhu District, Shantou City, Guangdong Province, PRC (For the attention of Joint Company Secretary)
Fax: 86-0754-82752026
Email: linzhixiong@chmyy.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Shareholders may call the Company at 86-0754-88109272 for any assistance.

CONSTITUTIONAL DOCUMENT

The Company has approved the revision of the amendments to the Articles of the Association at the 2015 annual general meeting convened on 3 June 2016 which were made to reflect the adoption "Charmacy Pharmaceutical Co., Ltd." as the English company name of the Company, ensure the Company complies with, and the operation is within, the business scope as registered with the Administration for Industry and Commerce of the PRC, and to update the descriptions in relation to the structure of share capital of the Company in accordance with circumstances of the Company after the completion of the global offering of the Company for the purpose of registration at PRC Administration for Industry and Commerce. Save for the above, there was no material change in the Articles of the Company during 2016.

INVESTOR RELATIONS AND COMMUNICATION

The Board recognizes the importance of good communications with all Shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations. The Company is committed to a policy of open and timely disclosure of corporate information to its Shareholders and public investors.

The Company updates its Shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's business for the year ended 31 December 2016 has been provided in this annual report. While the annual general meeting provides a valuable forum for direct communication between the Board and its Shareholders, the Company also maintains its website (http://www.chmyy.com) to provide an alternative communication channel for the public and its Shareholders. All corporate communication and Company's latest updates are available on the Company's website.

For the year ended 31 December 2016, the Company had changed its English name from Chuangmei Pharmaceutical Co., Ltd. to Charmacy Pharmaceutical Co., Ltd. The abbreviation of its shares is correspondingly revised to be Charmacy Phar. The Company has also replaced its former registration number of business license 440500000024328 to a uniform social credit number 91440500722414635C.

Directors' Report

The Board of the Company are pleased to present 2016 annual report together with the Financial Statements of the Group for the year ended 31 December 2016.

PRINCIPAL BUSINESS AND BUSINESS REVIEW

The principal business of the Company is pharmaceutical products distribution in the PRC. The principal activities of the subsidiary of the Company are set out in note 24 of the Financial Statements. Business review during the Reporting Period and discussion on the future business development of the Group are set out in the Management Discussion and Analysis on pages of 9 to 11 of this annual report; Performance analysis of the Group within the year based on key financial performance indicators are set out in the Management Discussion and Analysis on pages 11 to 15 of this annual report.

USE OF PROCEEDS

The Company was successfully listed on 14 December 2015. The net proceeds from the Global Offering (the "**Global Offering**") of the Company are approximately RMB158.91 million, after deducting the underwriting commissions and other estimated expenses payable by the Company in connection with the Global Offering. As at the date of this report, the Directors did not aware of any material changes in the use of proceeds as set out in the Prospectus.

According to the use of proceeds disclosed in the Prospectus by the Company, the details of the actual usage as at 31 December 2016 are as follows:

Planned use	**Budgeted amount** RMB	**Actual usage amount** RMB
To strengthen, expand and integrate our existing distribution network and capabilities	Approximately 55.62 million	Approximately 15.47 million
To enhance and promote our B2B e-commerce platform	Approximately 15.89 million	Approximately 7.86 million
To repay bank borrowings	Approximately 47.67 million	Approximately 47.67 million
To acquire pharmaceutical distribution business in Southern China region	Approximately 23.84 million	Nil
For working capital and general corporate purposes	Approximately 15.89 million	Approximately 15.89 million
Total	Approximately 158.91 million	Approximately 86.89 million

The Board has resolved at the Board meeting held on 21 March 2017 that the use of proceeds shall be reallocated, and such resolution will be proposed at the upcoming annual general meeting of the Company. Please refer to the Company's letter from the Board dated 25 April 2017 for details of the changes in related net proceeds.

RESULTS AND DIVIDENDS

The Group's annual results for the year ended 31 December 2016 and its financial positions as at 31 December 2016 are set out in the Financial Statements on pages 53 to 54.

The Board recommends the distribution of a final dividend of RMB0.20 per share for the year ended 31 December 2016 (tax inclusive), which is subject to the approval by the Shareholders of the Company at the annual general meeting (the "**AGM**") to be convened on 10 June 2017 and, if approved, will be paid on or before 17 July 2017. The dividend of domestic shares will be paid in RMB, whereas that of H shares will be paid in HK$. As to the record date of H share dividend payment and the relevant dates when the registration of the H shares of the Company will be closed, details will be set out in the letter from the Board to be published by the Company on 25 April 2017.

LAST FIVE-YEAR FINANCIAL SUMMARY

A financial summary of the results, assets and liabilities of the Group for the last five years ended 31 December 2012 to 31 December 2016 is set out on page 5. This summary does not form part of the Financial Statements.

SHARE CAPITAL

Details of changes in share capital of the Company for the year ended 31 December 2016 are set out in note 23 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's distributable reserves amounted to RMB33.61 million. Details of the movements in the reserves of the Group in 2016 are set out in the Financial Statements on page 55.

PRINCIPAL RISKS AND UNCERTAINTIES

(1) Suppliers and the quality of products provided

As a pharmaceutical distributor, the Group has limited or no control over the operation and quality of products of the suppliers. The suppliers may not always be able to provide products which are satisfied with the quality standard of the Group and with no defects.

As such, in the case that there are no damage in packaging and relevant documentation including inspection report that are properly attached, the Group would not be able to know whether there are any problem in the internal quality of the products and hence could be subject to administrative punishment for selling interior drugs if the suppliers of the Group fail to supply goods that meet the quality standard.

(2) Low gross profit margin and net profit margin

As a pharmaceutical distributor, the Group has low profit margins. Any increase in procurement cost or decrease in selling price would therefore significantly affect our profits. In addition, we earn purchase discounts directly or indirectly from our manufacturer suppliers and such purchase discounts are significant to our gross profit. If there is a decrease in the amount of purchase discounts received which result in a decrease in gross profit margin and net profit margin, the results of operation of the Group may be adversely affected.

MAJOR RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group believes that the core staff of the Group is the key to the future development of the Group. The Group is able to maintain its market competitiveness with their knowledge of the industry and the understanding of market as well as their sincere services. The Group puts great emphasis on individual ability enhancement and career development of staff and provides corresponding training courses for the staff.

The Group maintains a close and stable relationship with existing and potential customers and suppliers. As a bridge between the pharmaceutical manufacturers and the customers, the Group is familiar with the market trend and the diversified demand of customers, which would extend the sales network coverage for the pharmaceutical manufacturing enterprises in a more cost effective way. Enriched product portfolio would be able to be provided for satisfying different demand of customers and ensuring a stable supply in a timely manner.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers were 8.29% of the Group's total turnover for the year ended 31 December 2016, and sales to the largest customer accounted for 2.14% of the Group's total turnover during the year thereof. The aggregate purchases attributable to the Group's five largest suppliers were 21.93% of the Group's total procurement cost for the year ended 31 December 2016, and purchases from the largest supplier accounted for 11.63% of the Group's total procurement cost during the year thereof.

The largest supplier of the Group is a subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited. To the knowledge of the Directors, Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited, the wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, owned more than 5% of the issued share capital of the Company as at the date of this annual report. Save for the above, to the best knowledge of the Directors, none of the Directors, their associates or any Shareholders who own more than 5% of the Company's issued share capital had any beneficial interests in any of the Group's five largest customers or suppliers during the year.

SUBSIDIARY

Details of the subsidiary of the Company for the year ended 31 December 2016 are set out in note 24 to the Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company for the year ended 31 December 2016 are set out in note 15 to the Financial Statements.

FIXED ASSETS

For the year ended 31 December 2016, the Group's total capital expenditure amounted to approximately RMB21.96 million (2015: approximately RMB30.31 million) which was used for addition of property, plant and equipment. The details of movements in property, plant and equipment and the prepaid land use right of the Group during the year 2016 are set out in notes 15 to 16 to the Financial Statements.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2016 are set out in note 21 to the Financial Statements. As at 31 December 2016, the Group's property, plant and equipment, prepaid land use right and inventories with total carrying amount of approximately RMB432.68 million have been pledged to secure banking facilities granted to the Group (2015: approximately RMB376.97 million).

ENVIRONMENTAL PROTECTION

The Group, with its long-term focus on protecting the environment, is committed to making contribution to environmental protection. Apart from its strict compliance with the PRC laws and regulations on environmental protection, the Group tries to minimize its environmental impact during business operations and remind its staff of following such minimization practice. Furthermore, the Group has adopted the diesel vehicles that comply with the National IV emission standard in pharmaceutical logistics and the control of electricity and water consumption during operation; the Group also has other measures in place, such as reducing paper consumption, to mitigate the environmental impact.

COMPLIANCE WITH LAWS AND REGULATIONS

The Board is concerned about the policies and practices to comply with the requirements of laws and regulations in relation to the Group. The Group has engaged external compliance consultants, legal advisors to PRC and Hong Kong laws to ensure the transactions and business of the Group are conducted subject to the applicable laws. The Group has included the related laws and regulations into the internal management system in order to supervise the staff to comply on an ongoing basis.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

The Directors of the Company who held office during the year and up to the date of this report are:

Executive Directors

Yao Chuanglong *(Chairman)*
Zheng Yuyan
Fan Jianbo
Lin Zhixiong

Non-executive Director

You Zeyan

Independent non-executive Directors

Wan Chi Wai Anthony
Zhou Tao
Guan Jian (also known as Guan Suzhe)

Each of the executive Directors has entered into a service contract with the Company for a term of three years from the Listing Date and subject to termination by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company on 26 November 2015 for a term of three years from 1 December 2015 and subject to termination by not less than three months' notice in writing served by either party on the other.

None of the Directors has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation on independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all of them are considered to be independent.

The Supervisors of the Company who hold office during the year and up to the date of this report are as follows:

Supervisors

Ms. Zhang Ling *(Chairlady)*
Ms. Zheng Xiyue
Ms. Zhang Hanzi

The Board of Supervisors of the Company was set up on 25 May 2015 and held two meetings during 2016. Details of the meetings and events conducted by the Board of Supervisors during 2016 are set out in the Board of Supervisors' report of this annual report.

Each of the Supervisors has entered into a service contract with the Company for a term of three years and may be re-elected.

No Supervisor has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND EMPLOYEES

Details of the emoluments of Directors and Supervisors and the five highest paid individual of the Company are set out in note 13 to the Financial Statements.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company and approved by the Board, as authorized by Shareholders in the annual general meeting of the Company, having regard to their time commitment and responsibilities in the Group, the salaries paid by comparable companies, employment conditions elsewhere in the Group and performance-based remuneration. No Directors are involved in deciding their own remuneration.

REMUNERATION POLICY

The Group's remuneration policies are formulated on the performance of individual employee and on the basis of the salary trends in PRC, and will be reviewed regularly. Subject to its profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group.

DIRECTORS AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as otherwise disclosed, there was no material transaction, arrangement or contract of significance to which the Company or its holding company or any of its subsidiary was a party and in which a Director or Supervisor (or its connected entities) directly or indirectly had a material interest subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage the whole or any substantial part of any business of the Company during 2016.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management of the Group are disclosed in the section headed "Biographies of Directors, Supervisors and Senior Management" on pages 16 to 21 of this annual report.

DEED OF NON-COMPETITION BY CONTROLLING SHAREHOLDER

To better safeguard the Group from any potential competition, Mr. Yao Chuanglong has entered into the deed of non-competition with the Company whereby Mr. Yao Chuanglong irrevocably and unconditionally, undertakes with the Company that with effect from the Listing Date and for as long as our H Shares remain listed on the Stock Exchange and (i) Mr. Yao is, directly or indirectly, interested in not less than 30% of our Shares in issue; or (ii) Mr. Yao Chuanglong remains as our executive Director, Mr. Yao Chuanglong shall, and shall procure that his respective associates shall:

(a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of the Group or any business activities which the Group may undertake in the future;

(b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of the Group including, but not limited to, solicitation of customers, suppliers and staff of the Group;

(c) keep our Board informed of any matter of potential conflicts of interests between Mr. Yao Chuanglong (including his associates) and the Group, in particular, a transaction between Mr. Yao Chuanglong (including his associates) and the Group; and

(d) provide as soon as practicable upon the Company's request a written confirmation in respect of compliance by it with the terms of the deed of non-competition and their respective consent to the inclusion of such confirmation in the Company's annual report and all such information as may be reasonably requested by the Company for its review.

In addition, Mr. Yao Chuanglong hereby irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of the Group (the "**Business Opportunity**") is made available to him or his associates (other than members of the Group), he will direct or procure the relevant associate to direct such Business Opportunity to the Group with such required information to enable the Group to evaluate the merits of the Business Opportunity.

Mr. Yao Chuanglong shall provide or procure his associates to provide all such reasonable assistance to enable the Group to secure the Business Opportunity. If he (or his associates) plans to participate or engage in any new activities or new business which may, directly or indirectly, compete with the existing business activities of the Group, he shall give the Company a first right of refusal to participate or engage in the Business Opportunity and will not participate or engage in these activities unless with the prior written consent of the Company. None of Mr. Yao Chuanglong and his associates (other than members of the Group) will pursue the Business Opportunity unless the Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of the Company will have to be approved by our independent non-executive Directors taking into consideration the prevailing business and financial resources of the Group, the financial resources required for the Business Opportunity and, where necessary, any expert opinion on the commercial viability of the Business Opportunity. Mr. Yao Chuanglong further irrevocably and unconditionally undertakes that he will (i) provide to the Group all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to the Company on an annual basis as to whether he complies with such undertakings.

The deed of non-competition will cease to have any effect on the earliest of the date on which:

(a) the Company becomes wholly-owned by Mr. Yao Chuanglong and/or his associates;

(b) the aggregate beneficial shareholding (whether direct or indirect) of Mr. Yao Chuanglong and/or his associates in the Shares in issue falls below 30% of the number of Shares in issue and Mr. Yao Chuanglong shall cease to be our executive Director; or

(c) the H Shares cease to be listed on the Stock Exchange.

Mr. Yao Chuanglong, the controlling shareholder, has confirmed to the Company of his compliance with the deed of non-competition provided to the Company for the year ended 31 December 2016.

The independent non-executive Directors of the Company had reviewed the status of compliance and received confirmation by the controlling shareholders of the Company and, on the basis of such confirmation, are of the view that the controlling shareholders of the Company have complied with the deed of non-competition and such deed of non-competition has been enforced by the Company in accordance with its terms.

CONNECTED TRANSACTIONS

We had not conducted any transactions which constitute non-exempt continuing connected transactions within the meaning of the Listing Rules for the year ended 31 December 2016.

Details of connected party transactions entered into in the ordinary course of business of the Group during the Reporting Period are set out in note 25 to the Financial Statements. Save as disclosed above, no connected party transactions set out in note 25 to the Financial Statements constitute discloseable connected transactions or continuing connected transactions under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of its connected transactions and continuing connected transactions.

INTERESTS OR SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES, AND DEBENTURES

As at 31 December 2016, the interests of the Directors, Supervisors and Chief Executives in the Shares, underlying Shares and debentures of the Company, its members of the Group and/or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Capacity/ Nature of interest	Class and number of Shares[8]	Approximate shareholding percentage in the relevant class of Shares[1]	Approximate percentage of the total issued share capital of our Company[2]
Mr. Yao Chuanglong	Beneficial owner	70,000,000 Domestic Shares (L)[9]	87.50%	64.81%
	Interest of spouse	1,800,000 Domestic Shares (L)[3][9]	2.25%	1.67%
Ms. You Zeyan	Interest of spouse	70,000,000 Domestic Shares (L)[4]	87.50%	64.81%
	Interest of a controlled corporation	1,800,000 Domestic Shares (L)[5][9]	2.25%	1.67%
Ms. Zheng Yuyan	Interest of a controlled corporation	1,700,000 Domestic Shares (L)[6][9]	2.13%	1.57%
Mr. Lin Zhixiong	Interest of a controlled corporation	3,200,000 Domestic Shares (L)[7][9]	4.00%	2.96%

Notes:

(1) The calculation is based on the total number of 80,000,000 domestic shares in issue of the Company as at 31 December 2016.

(2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2016.

(3) Mr. Yao Chuanglong is the spouse of Ms. You Zeyan, our non-executive Director, and is deemed to be interested in these Share under the SFO.

(4) Ms. You Zeyan is the spouse of Mr. Yao Chuanglong, our Chairman and executive Director, and is deemed to be interested in these Shares under the SFO.

(5) These Shares are held by Shantou Zhichuang Investment Management Limited Partnership (汕頭市智創投資管理合夥企業（有限合夥）) ("**Zhichuang Investment**"). As Ms. You Zeyan is the general partner of Zhichuang Investment as at 31 December 2016, she is deemed to be interested in the Shares held by Zhichuang Investment under the SFO.

(6) These Shares are held by Shantou Youran Investment Management Limited Partnership (汕頭市悠然投資管理合夥企業（有限合夥）) ("**Youran Investment**"). Ms. Zheng Yuyan is deemed to be interested in the Shares held by Youran Investment under the SFO.

(7) These Shares are held by Shantou Meizhi Investment Management Limited Partnership (汕頭市美智投資管理合夥企業（有限合夥）) ("**Meizhi Investment**"). As Mr. Lin Zhixiong is the general partner of Meizhi Investment, he is deemed to be interested in the Shares held by Meizhi Investment under the SFO.

(8) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Share.

(9) As at 29 December 2016, Mr. Yao Chuanglong entered domestic share transfer agreements with Zhichuang Investment, Youran Investment, Meizhi Investment and an Independent third party to transfer 800,000 shares, 700,000 shares, 1,700,000 shares and 3,500,000 shares to the aforesaid parties respectively (the "**Share Transfers**"). The Share Transfers were completed on 6 January 2017. After the completion of the Share Transfers, the domestic shares held by Mr. Yao Chuanglong, Ms. You Zeyan, Ms. Zheng Yuyan and Mr. Lin Zhixiong were 65,100,000 shares, 65,100,000 shares, 1,700,000 shares and 3,200,000 shares respectively. The register under SFO was updated accordingly.

Save as disclosed above, as at 31 December 2016, none of the Directors, Supervisors and chief executives of the Company has any other interests or short positions in the Shares, underlying Shares or debentures of the Company, its members of the Group or any of its associated corporations (as defined in Part XV of the SFO) which have 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 he/she is taken or deemed to have under such provisions of the SFO) or which are required to be entered in the register referred to therein pursuant to section 352 of the SFO or which are required pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Interests or Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares, and Debentures", at no time during the year 2016, the Company, any of its subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors and Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, or any Directors, Supervisors or their spouses or children under 18 years of age was granted any right to subscribe for Shares or debentures of the Company or any other body corporate or exercised any such right.

INTERESTS AND/OR SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN THE SHARE AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, so far as the Directors are aware, the following persons/entities (other than any Directors or chief executives of the Company) had or deemed to have an interest or short position in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature and Capacity of interest	Class and number of Shares[6]	Approximate shareholding percentage in the relevant class of Shares[1]	Approximate percentage of the total issued share capital of our Company[2]
Madam Yao Xizhen (姚惜真)	Beneficial owner	6,500,000 Domestic Shares (L)	8.13%	6.02%
Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited	Beneficial owner	7,906,500 H Shares (L)[3]	28.24%	7.32%
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	Interest of a controlled corporation	7,906,500 H Shares (L)[3]	28.24%	7.32%
Guangzhou Pharmaceutical Holdings Limited (廣州醫藥集團有限公司)	Interest of a controlled corporation	7,906,500 H shares (L)[3]	28.24%	7.32%
Xiangxue Group (Hong Kong) Company Limited (香雪（集團）香港有限公司)	Beneficial owner	3,488,000 H shares (L)[4]	12.46%	3.23%
Xiangxue Pharmaceutical Co., Ltd. (廣州市香雪制藥股份有限公司)	Interest of a controlled corporation	3,488,000 H shares (L)[4]	12.46%	3.23%
Kingworld Medicines Health Management Limited	Beneficial owner	2,302,000 H shares (L)[5]	8.22%	2.13%
Kingworld Medicines Group Limited	Interest of a controlled corporation	2,302,000 H shares (L)[5]	8.22%	2.13%

Notes:

(1) The calculation is based on the total number of 80,000,000 domestic shares in issue and the total number of 28,000,000 H shares in issue of the Company as at 31 December 2016.

(2) The calculation is based on the total number of 108,000,000 Shares in issue of the Company as at 31 December 2016.

(3) These shares are held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited. As Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited is a wholly-owned subsidiary of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, which in turn is held by Guangzhou Pharmaceutical Holdings Limited as to 45.23%. Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and Guangzhou Pharmaceutical Holdings Limited are deemed to be interested in the shares of the Company held by Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited.

(4) These shares are held by Xiangxue Group (Hong Kong) Company Limited. As Xiangxue Group (Hong Kong) Company Limited is a wholly-owned subsidiary of Xiangxue Pharmaceutical Factory Co., Ltd. Xiangxue Pharmaceutical Co., Ltd. is deemed to be interested in the shares of the Company held by Xiangxue Group (Hong Kong) Company Limited.

(5) These shares are held by Kingworld Medicines Health Management Limited. As Kingworld Medicines Health Management Limited is a wholly-owned subsidiary of Kingworld Medicines Group Limited. Kingworld Medicines Group Limited is deemed to be interested in the shares of the Company held by Kingworld Medicines Health Management Limited.

(6) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Shares.

Save as disclosed herein, our Directors are not aware of any person who will, as at 31 December 2016, have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Save as disclosed above, as at 31 December 2016, none of the Directors was aware that any other persons/entities (other than any Directors or chief executives of the Company) had an interest or short position in the Shares or underlying Shares of the Company, its members of the Group or associated corporations which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETITIONS AND CONFLICTS OF INTERESTS

For the year ended 31 December 2016, save as disclosed in the Prospectus, none of the Directors or substantial Shareholders of the Company or any of their respective associates conducted any business which competes, or is likely to compete, with the business of the Group or had any other conflicts of interests with the Group.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance (Cap. 622)) for the benefit of the Directors of the Company is currently in force.

MATERIAL CONTRACTS

For the year ended 31 December 2016, the Company and its subsidiary did not enter into any contracts of significance with any controlling shareholders or any of its subsidiaries.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There was no contract of significance or contract of significance for provision of services, to which the Company or any of its subsidiary was a party and in which any controlling shareholder or its subsidiaries had a material interest subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2016, the Company and its subsidiary have not purchased, sold or redeemed any listed securities of the Company.

TAX REDUCTION

Directors were not aware any details concerning the tax reduction due to any Company's securities held by the Shareholders.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the PRC's law applicable to the incorporation place of the Company.

SUFFICIENT PUBLIC FLOAT

According to the information publicly available to the Company and so far as the Directors are aware, the Company has maintained the public float stipulated under the Listing Rules as at the date of this annual report.

IMPORTANT EVENTS AFTER THE END OF REPORTING PERIOD

On 13 March 2017, the Company entered into a capital contribution agreement with the owner of Zhuhai Hengxiang Pharmaceutical, to increase the Company's contribution to the registered capital of Zhuhai Hengxiang Pharmaceutical to 70% of its equity interest and become its controlling shareholder, at a consideration of RMB18.00 million (the "**Investment**"). In respect of the Investment, Zhuhai Hengxiang Pharmaceutical has completed its registration at Zhuhai Administration of Industry and Commerce (Xiangzhou Branch) (珠海市工商行政管理局香洲分局) on 30 March 2017, to change the name to "Zhuhai Charmacy Hengxiang Pharmaceutical Limited" ("珠海創美恒祥醫藥有限公司").

CORPORATE GOVERNANCE REPORT

The details of the corporate governance practices of the Group are set out in the corporate governance report on pages 22 to 33 of this annual report.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the members of the Company to attend the forthcoming AGM to be held on 10 June 2017, the register of members of the Company will be closed from 11 May 2017 to 10 June 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 pm on 10 May 2017.

AGM

The AGM will be held on 10 June 2017. The Shareholders should refer to the circular to be issued by the Company on 25 April 2017 regarding the details of the AGM and the enclosed AGM notice and proxy form.

AUDIT COMMITTEE

The Audit Committee, together with the management of the Company and the external auditor, had conducted review on the accounting principles and policies adopted by the Group and the Financial statements for the year ended 31 December 2016.

AUDITORS

The Company will propose a resolution regarding the change of auditors and the engagement of SHINEWING Certified Public Accountants (LLP) as the auditors of the Group for the year 2017, to be approved at the forthcoming AGM. Please refer to the announcement of the Company dated 13 April 2017.

By order of the Board
Charmacy Pharmaceutical Co., Ltd.

Yao Chuanglong
Chairman and Executive Director

Hong Kong, 21 March 2017

Board of Supervisors' Report

In 2016, the Board of Supervisors fully performed its supervisory duties on members of the Board, managers and other senior executives of the Company as authorised at the general meeting in accordance with the Company laws of the PRC (the "**Company Law**") and the Articles.

DAILY WORK OF THE BOARD OF SUPERVISORS

On 23 March 2016, it considered and approved the proposal on the work report of the Board of Supervisors of the Company for 2015, the Financial Statements for 2015, the result announcement for 2015, the Annual Report for 2015.

On 22 August 2016, the Board of Supervisors approved the proposed resolutions on the Company's 2016 interim report and the declaration of its 2016 interim dividend proposed by the Board.

LAWFUL OPERATION OF THE COMPANY

The Board of Supervisors of the Company attended all meetings of the Board during the year, and fully performed its supervisory duties on the lawful production and operation of the Company. It earnestly performed its duties of supervision and inspection, and effectively discharged its supervisory duties on the development strategies and the significant decisions of the Company on a timely basis, thus exerting its functions in a better way and fully delivering its duties in the development of the Company during the year.

In the opinion of the Board of Supervisors:

1. In 2016, with care and strong support from all the Shareholders of the Company, as well as the diligent work of all its staff, the operation of the Company was in compliance with the Company Law and the Articles of Association, and the procedures for making decisions on production and operation of the Company are lawful and normative, thus making satisfactory achievements in the business.

2. During the Reporting Period, each member of the Board, manager and other senior executives of the Company diligently performed its jobs and duties in the Company and, for the benefit of the Company, strictly observed relevant laws, regulations and the Articles of Association, and regulated the work procedures for production, operation and management of the Company, thereby protecting the interest of the Company and its shareholders.

INSPECTION ON FINANCIAL STATUS OF THE COMPANY

The Board of Supervisors reviewed the 2016 Audit Report to be submitted. In the opinion of the Board of Supervisors, the financial report of the Company reflects its financial position and operating results that are complete, objective and fair. The annual operating results of the Company have been audited by SHINEWING (HK) CPA Limited who has also issued an audit report which is true, objective and fair.

INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON CONNECTED TRANSACTIONS OF THE COMPANY

The Board of Supervisors is of the view that the Group had no connected transaction in 2016 which were subject to the reporting, annual review, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

REVIEW OF THE BOARD OF SUPERVISORS ON THE INTERNAL CONTROL SELF-ASSESSMENT REPORT

The Board of Supervisors has conducted a review on the Company, and considered that the Company has established an appropriate internal control system in all important aspects and the internal control management system has operated effectively, thus ensuring its consistent implementation and normal production and operation.

IMPLEMENTATION OF RESOLUTIONS PASSED AT THE GENERAL MEETINGS

The members of the Board of Supervisors had no objection to the contents of resolutions submitted to the general meetings. The Board of Supervisors supervised the implementation of resolutions passed at the general meetings, and considered that the Board was able to implement the relevant resolutions earnestly.

Convinced of the Company's development prospects, the Board of Supervisors will remain consistent in performing its supervisory function for the operation of the Company and safeguarding its interest and that of the Shareholders as a whole.

Zhang Ling
Chairlady of the Board of Supervisors

Hong Kong, 21 March 2017

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHARMACY PHARMACEUTICAL CO., LTD.
(a joint stock limited liability company established in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Charmacy Pharmaceutical Co., Ltd (the "**Company**") and its subsidiaries ("**the Group**") set out on pages 53 to 92, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IMPAIRMENT OF TRADE RECEIVABLES

Refer to note 18 to the consolidated financial statements and the accounting policies on page 66 and 67.

The key audit matter	How the matter was addressed in our audit
The carrying amount of the Group's trade receivables amounted to approximately RMB864,944,000 as at 31 December 2016. Impairment losses amounted to HK$2,286,000 on those balances were recognised as at 31 December 2016 and represented management's best estimates of the recoverability on these amounts. The impairment of trade receivable was identified as a key audit matter due to the significance of the balance and impairment of trade receivables is based on management judgment and may be subject to management bias. Any irrecoverable trade receivables may have a material impact on the Group's financial positions and financial performance.	Our audit procedures were designed to challenge the application of the Group's impairment assessment on trade and other receivables and the management estimations or judgements on the recoverability on the outstanding balances. We have checked the subsequent settlement status on these amounts up to the date of the this report and discussed with the management in respect of the adequacy of the provision of impairment made by the management based on ageing analysis.

VALUATION OF INVENTORY

Refer to note 17 to the consolidated financial statements and the accounting policies on page 66.

The key audit matter	How the matter was addressed in our audit
The Group had inventories amounted to approximately RMB356,939,000 as at 31 December 2016. The main product of the Group is medicine, which may have a limited shelf life. We have identified the valuation of inventory as a key audit matter because the net relisable value of inventory may be impacted by its remaining shelf life and the estimation and assumption of its net relisable value are based and such entail a significant degree of management judgment and may be subject to management bias.	Our audit procedures were designed to challenge the management estimations or judgements on the net realisable value of inventory. We have checked with the subsequent sales of major products to confirm its net relisable value, obtained ageing analysis based on product expiry date and discussed with the management in respect of the adequacy of the write-downs made by the management based on such ageing analysis and assessment for obsolete goods.

OTHER INFORMATION

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

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

OTHER INFORMATION (Continued)

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Chuen Fai.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Chuen Fai
Practising Certificate Number: P05589

Hong Kong
21 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Turnover	7	3,668,928	3,397,133
Cost of sales		(3,488,629)	(3,232,431)
Gross profit		180,299	164,702
Other income	7	11,787	5,514
Selling and distribution expenses		(48,122)	(40,296)
Administrative expenses		(47,471)	(64,246)
Finance costs	9	(16,607)	(24,099)
Profit before taxation		79,886	41,575
Income tax expense	10	(20,538)	(15,216)
Profit for the year and total comprehensive income attributable to the owners of the Company	11	59,348	26,359
Earnings per share			
Basic and diluted (RMB cents)	12	54.95	32.30

Consolidated Statement of Financial Position

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	15	**130,010**	117,667
Prepaid land use rights	16	**93,572**	96,350
Deferred taxation	22	**573**	840
		224,155	214,857
Current assets			
Inventories	17	**356,939**	318,465
Prepaid land use rights	16	**2,778**	2,778
Trade and other receivables	18	**1,169,604**	1,025,871
Pledged bank deposits	19	**357,747**	345,370
Bank balances and cash	19	**119,570**	155,629
		2,006,638	1,848,113
Current liabilities			
Trade and other payables	20	**1,352,802**	1,355,631
Bank borrowings	21	**421,362**	290,650
Income tax payables		**4,164**	2,433
		1,778,328	1,648,714
Net current assets		**228,310**	199,399
Total assets less current liabilities		**452,465**	414,256
Capital and reserves			
Share capital	23	**108,000**	108,000
Reserves		**344,465**	306,256
		452,465	414,256

The consolidated financial statements on page 53 to 92 were approved and authorised for issue by the board of directors on 21 March 2017 and are signed on its behalf by:

Yao Chuanglong
Director

Lin Zhixiong
Director

Consolidated Statements of Changes in Equity

For the year ended 31 December 2016

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note a)	Statutory reserve RMB'000 (Note b)	Retained profits RMB'000	Total RMB'000
At 1 January 2015	80,000	–	57,120	11,481	96,964	245,565
Profit and total comprehensive income for the year	–	–	–	–	26,359	26,359
Shares reform (Note 23(a))	–	–	82,530	(11,257)	(71,273)	–
Issuance of ordinary shares in connection with the listing of shares of the Company (Note 23(b))	28,000	172,662	–	–	–	200,662
Appropriation	–	–	–	4,713	(4,713)	–
Shares issue expenses	–	(12,330)	–	–	–	(12,330)
Dividends paid	–	–	–	–	(46,000)	(46,000)
At 1 January 2016 and 31 December 2015	108,000	160,332	139,650	4,937	1,337	414,256
Profit and total comprehensive income for the year	–	–	–	–	59,348	59,348
Appropriation	–	–	–	5,936	(5,936)	–
Dividends paid	–	–	–	–	(21,139)	(21,139)
At 31 December 2016	108,000	160,332	139,650	10,873	33,610	452,465

Notes:

(a) The amount represented the surplus amount of shareholder contributions to Company over the registered capital of Company and amounts transferred from retained profits and statutory reserve as a result of share reform of the Company.

(b) As stipulated by regulations in the PRC, the Company and its subsidiary established and operated in the PRC are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

Consolidated Statements of Cash Flow

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	79,886	41,575
Adjustments for:		
Finance costs	16,607	24,099
Interest income	(3,342)	(4,650)
Depreciation of property, plant and equipment	9,428	8,982
Impairment loss reversed in respect of trade receivables	–	(610)
Government grant	(2,694)	–
Amortisation of prepaid land use rights	2,778	2,496
Loss on disposal of property, plant and equipment	29	80
Reversal of provision on inventories	(533)	(128)
Operating cash flows before movements in working capital	102,159	71,844
Increase in inventories	(37,941)	(73,402)
Increase in trade and other receivables	(143,733)	(160,866)
(Decrease) increase in trade and other payables	(2,829)	374,068
Cash (used in) generated from operations	(82,344)	211,644
PRC Enterprise Income Tax paid	(18,540)	(17,974)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(100,884)	193,670
INVESTING ACTIVITIES		
Placement of pledged bank deposit	(2,028,312)	(1,592,414)
Purchase of property, plant and equipment	(21,958)	(2,153)
Withdrawal of pledged bank deposits	2,015,935	1,450,175
Interest received	3,342	4,650
Sales proceeds from disposal of property, plant and equipment	158	30
Payment for a land use right	–	(28,158)
NET CASH USED IN INVESTING ACTIVITIES	(30,835)	(167,870)
FINANCING ACTIVITIES		
New bank borrowings raised	457,362	312,650
Government grant received	2,694	–
Proceed of global offering shares, net of share issue expenses	–	188,332
Repayment of bank loans	(326,650)	(323,350)
Dividend paid	(21,139)	(46,000)
Interest paid	(16,607)	(24,099)
NET CASH FROM FINANCING ACTIVITIES	95,660	107,533
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(36,059)	133,333
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	155,629	22,296
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	119,570	155,629

Notes to the Financial Statements

For the year ended 31 December 2016

1. GENERAL

Charmacy Pharmaceutical Co., Ltd. (the "**Company**") was established as a 全民所有制企業 (enterprise owned by the whole people in the PRC) under the name of 汕頭市醫藥聯合公司物資站 (Shantou Pharmaceutical Supplies Company*) on 18 February 1984. Pursuant to an approval granted by the relevant PRC authorities on 28 May 2015, the Company was transformed into a joint stock company with limited liability and changed to its current name. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with effect from 14 December 2015. The address of the registered office and principal place of business of the Company is No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, PRC.

The Company and its subsidiary (collectively referred to as the "**Group**") are engaged in trading of pharmaceutical products and provision of related services.

The consolidated financial statements are presented in RMB, which is also the functional currency of the Company.

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

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("**HKAS(s)**"), amendments and interpretations ("**Int(s)**"), issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosure set out in these consolidated financial statements.

* English name for identification purpose only

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

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective.

HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Lease[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

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

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("**FVTOCI**") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

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

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments (Continued)

- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 (2014) in the future may have an impact on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in HKAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. HKFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. It is not practicable to provide a reasonable estimate of the effect of HKFRS 9 (2014) until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

(i) Identify the contract with a customer;
(ii) Identify the performance obligations in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to the performance obligations; and
(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that the application of HKFRS 15 in the future may have result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15. More disclosures relating to revenue are also required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until a detail review is completed.

Amendment to HKAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

Amendments to HKAS 7 become effective for annual periods beginning on or after 1 January 2017 with early application permitted.

The directors of the Company anticipate that the application of Amendments to HKAS 7 will result in additional disclosures on the Group's financing activities, especially reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide guidance on how an entity should determine future taxable profits to support the recognition of a deferred tax asset arising from a deductible temporary difference.

Amendments to HKAS 12 become effective for annual periods beginning on or after 1 January 2017 with early application permitted. The amendments are to be applied retrospectively.

The directors of the Company anticipate that the application of Amendments to HKAS 12 will have a material effect on the Group's consolidated financial statements in relation to the recognition of deferred tax effect from allowance for impairment of trade receivables.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entity controlled by the Company and its subsidiary. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statement of profit of loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group assets and liabilities, equity, income and expenses are eliminated in full on consolidation.

Investment in a subsidiary

Investment in a subsidiary is stated on the statement of financial position of the Company at cost less accumulated impairment.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from services is recognised when the services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the supply of goods or services or for administrative purposes other than construction in progress as described below are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and carrying amount of the asset and is recognised in profit or loss.

Leases

All leases of the Group are operating leases. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Interest in leasehold land that is accounted for as an operating lease is presented as prepaid land use rights in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Retirement benefits costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 'profit before taxation' as reported in the consolidated statements of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)
For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 0 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables, where the carrying amounts are reduced through the use of allowance accounts. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivables and other receivables are considered uncollectible, it is written off against the respective allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liabilities
Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise bank deposits with original maturity of three months or less, cash at banks and on hand. For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generation units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the entity's accounting policies

The followings are the critical judgements, apart from those involving estimations that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred tax assets

Deferred tax assets are recognised for certain deductible temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the estimated timing and level of future taxable profits. Further details of which are disclosed in Note 22.

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involves management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year/period and the estimate will be changed in the future period.

Estimated net realisable value of inventories

The management of the Group reviews an ageing analysis at the end of the reporting period and writes down the amount of obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group writes down the amount of inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest selling prices and current market conditions. As at 31 December 2016, the carrying amounts of inventories of the Group were approximately RMB356,939,000 (2015: RMB318,465,000), net of accumulated write-down of inventories of RMB nil in 2016 (2015: RMB1,068,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment of trade receivables and other receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit Statements. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2016, the carrying amounts of trade receivables and other receivables of the Group were approximately RMB1,067,243,000 (2015: RMB976,686,000), net of allowance for impairment losses of trade receivables and other receivables of approximately RMB2,286,000 (2015: RMB2,286,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consists of bank borrowings, pledged bank deposits and bank balances and cash, and equity attributable to the owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, issuance of new shares as well as the issue of new debts or the redemption of borrowings.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)	**1,544,562**	1,477,685
Financial liabilities		
At amortised cost	**1,746,996**	1,594,426

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group mainly operates in the PRC. Majority of its revenue and operating costs and cost of sales are denominated in RMB. Certain bank balances and cash of the Group are denominated in the Hong Kong Dollars ("**HKD**") as at 31 December 2016. Such HKD denominated bank balances and cash are exposed to fluctuations in the value of RMB against HKD in which these bank balances and cash are denominated. Any significant appreciation/depreciation of the RMB against the HKD may result in significant exchange loss/gain which would be recorded in the consolidated statement of profit or loss and other comprehensive income.

At the end of the reporting period, included in the bank balances and cash are the following amount denominated in HKD which is other than the functional currency of the relevant group entities to which it relates.

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

	2016 RMB'000	2015 RMB'000
Bank balances and cash	**53,765**	94,186

The Group currently does not have foreign currency hedging policy. However, the directors of the Company monitors currency risk and will consider hedging significant currency risk exposure should the need arise.

Sensitivity analysis
The following details the Group's sensitivity to a 10% increase and decrease in RMB against HKD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

As of 31 December 2016 if RMB had strengthened/weakened 10% (2015: 10%) against HKD, with all other variables held constant, the Group's profit for the year would have been approximately RMB5,377,000 lower/higher (2015: RMB9,418,000 lower/higher), mainly as a result of foreign exchange losses/gains on translation of the HKD denominated bank balances and cash.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits (Note 19) and fixed-rate bank borrowings (Note 21). As of 31 December 2016, the Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 19) (2015: variable-rate bank balances and variable-rate bank borrowings (Notes 19 and 21)) carried at prevailing market rates for the year. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

Sensitivity analysis
The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of reporting period. The analysis is prepared assuming the amount of variable-rate bank balances (2015: variable-rate bank balances and variable-rate bank borrowings) outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point (2015: 50 basis point) increase or decrease is used for the year when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2015: 50 basis points) higher and all other variables were held constant, the Group's post-tax profit for the year would increase by approximately RMB437,000 (2015: RMB105,000). This is mainly attributable to the Group's exposure to cash flow interest rate risk on its variable-rate bank balances (2015: variable-rate bank balances and variable-rate bank borrowings).

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group review the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables as of 31 December 2016 consist of a large number of customers, spreading across diverse industries and geographical areas.

Liquidity risk

In management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	As at 31 December 2016		
	On demand or within 1 year RMB'000	**Total undiscounted cash flows** RMB'000	**Carrying amount** RMB'000
Trade and other payables	**1,325,634**	**1,325,634**	**1,325,634**
Bank borrowings			
– fixed rate	**431,305**	**431,305**	**421,362**
	1,756,939	**1,756,939**	**1,746,996**

	As at 31 December 2015		
	On demand or within 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	1,303,776	1,303,776	1,303,776
Bank borrowings			
– fixed rate	110,877	110,877	107,168
– variable rate	189,831	189,831	183,482
	1,604,484	1,604,484	1,594,426

(c) Fair value

The directors of the Company consider that the carrying amounts of current financial assets and current financial liabilities recorded at amortised cost using the effective interest rate method in the Financial Statements approximate to their fair values due to their immediate or short-term maturities.

7. TURNOVER, OTHER INCOME

Turnover represents the amounts received and receivable for goods sold and provision of services in the normal course of business, net of discounts and sales related taxes. Analysis of the Group's turnover for the year is as follows:

	2016 RMB'000	2015 RMB'000
Turnover		
Sales of goods	3,640,925	3,381,222
Services income	28,003	15,911
	3,668,928	3,397,133
Other income		
Bank interest income	3,342	4,650
Government grant (Note)	2,694	–
Impairment loss reversed on trade and other receivables	–	610
Exchange gain	5,445	–
Sundry income	306	254
	11,787	5,514

Note:

Included in the amount of government grants recognised for the year ended 31 December 2016 of approximately RMB2,694,000 (2015: Nil) was received from the government for subsidising the operations of the Group.

8. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. The Chief Executive Officer of the Company consider that there is only one operating and reportable segment for the Group: trading and promoting pharmaceutical products.

Geographical information

All the Group's operations are located in the PRC. All the Group's turnover from external customers are generated from the PRC and all the non-current assets of the Group are located in the PRC.

Information about major customers

No individual customer has contributed over 10% of the total turnover of the Group for both years ended 31 December 2016 and 2015.

9. FINANCE COSTS

	2016 **RMB'000**	2015 RMB'000
Interest expenses on bank borrowings	**13,205**	18,472
Interest expenses on discounted bills	**3,402**	5,627
	16,607	24,099

10. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current income tax		
– PRC Enterprise Income Tax	20,271	14,949
Deferred taxation (Note 22)	267	267
Total income tax expenses for the year	20,538	15,216

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the Group is 25% for the both years.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Profit before taxation	79,886	41,575
Tax at domestic income tax rate of 25%	19,972	10,394
Tax effect of expense not deductible for tax purposes	566	4,822
Utilisation of tax losses previously not recognised	–	–
Income tax expense for the year	20,538	15,216

Details of the deferred taxation are set out in Note 22.

11. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors', supervisors' and senior management's emoluments (Note 13)		
– Salaries and allowances	**2,214**	1,435
– Retirement benefit scheme contributions	**246**	157
	2,460	1,592
Other staff costs		
– Salaries and allowances	**32,514**	25,499
– Retirement benefit scheme contributions	**6,462**	5,235
	38,976	30,734
Total staff costs	**41,436**	32,326
Cost of inventories sold	**3,489,162**	3,232,559
Reversal of write-down of inventories (included in cost of sales)	**(533)**	(128)
Loss on disposal of property, plant and equipment	**29**	80
Allowance for impairment loss reversed in respect of trade receivables	**–**	(610)
Depreciation of property, plant and equipment	**9,428**	8,982
Amortisation of prepaid land use rights	**2,778**	2,496
Listing expense	**–**	23,866
Foreign exchange (gains) losses	**(5,445)**	1,297
Auditor's remuneration	**1,000**	844

12. EARNINGS PER SHARE

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

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share	**59,348**	26,359

	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**108,000**	81,611

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2016 and 2015.

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors', supervisors' and senior management's emoluments

Details of emoluments paid and payable to the directors, supervisors and senior management of the Group for the year are as follows:

Name	Year ended 31 December 2016 Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:				
Yao Chuanglong	50	434	55	539
Lin Zhixiong	50	213	38	301
Zheng Yuyan	50	217	24	291
Fan Jianbo	50	213	38	301
Non-executive director:				
You Zeyan	50	–	–	50
Independent non-executive directors:				
Wan Chi Wai, Anthony	121	–	–	121
Zhou Tao	50	–	–	50
Guan Jian (also known as Guan Suzhe)	50	–	–	50
Supervisors:				
Zhang Ling	40	–	–	40
Zheng Xiyue	40	117	20	177
Zhang Hanzi	40	162	23	225
Senior management:				
Lin Zhijie	–	164	24	188
Xiang Zhixiong	–	69	17	86
Dong Jianfeng	–	34	7	41
	591	1,623	246	2,460

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors', supervisors' and senior management's emoluments (Continued)

	Year ended 31 December 2015			
Name	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:				
Yao Chuanglong	–	433	41	474
Lin Zhixiong (Note 1)	–	223	24	247
Zheng Yuyan (Note 1)	–	225	17	242
Fan Jianbo (Note 1)	–	223	24	247
Non-executive director:				
You Zeyan (Note 1)	29	–	–	29
Independent non-executive directors:				
Wan Chi Wai, Anthony (Note 2)	10	–	–	10
Zhou Tao (Note 2)	4	–	–	4
Guan Jian (also known as Guan Suzhe) (Note 2)	4	–	–	4
Supervisors:				
Zhang Ling (Note 1)	24	–	–	24
Zheng Xiyue	–	87	17	104
Zhang Hanzi	–	88	17	105
Senior management:				
Lin Zhijie	–	85	17	102
	71	1,364	157	1,592

None of the directors waived or agreed to waive any emoluments during the year ended 31 December 2016 and 2015.

Mr. Yao Chuanglong is also the Chief Executive Officer of the Company and the emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

There were no performance related incentive payments to the directors, supervisors and senior management during the year ended 31 December 2016 and 2015.

Notes:

(1) Appointed on 25 May 2015.

(2) Appointed on 1 December 2015.

13. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, five (2015: four) were directors or supervisor of the Company for the year. The emoluments of the directors and supervisor are included in the disclosures in Note 13(a) above. The emoluments of the remaining one individual for the year ended December 2015 was as follows:

	2015 RMB'000
Salaries and other allowances	113
Retirement benefit scheme contributions	14
	127

There were no performance related incentive payments during the year (2015: Nil).

Their emoluments were within the following bands:

	2016	2015
Not more than HKD1,000,000 (equivalent to RMB894,510)	–	1

During the year, no emoluments were paid or payable by the Group to the directors, chief executive or the five highest paid individuals as inducements to join or upon joining the Group or as a compensation for loss of office (2015: Nil).

(c) Retirement benefit scheme

Pursuant to the regulations of the relevant authorities in the PRC, the Company and its subsidiary participate in respective government retirement benefit schemes (the "**Schemes**") whereby the Company and its subsidiary are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC.

14. DIVIDEND

An interim dividend of RMB0.2 per share totaling RMB16,000,000 was declared and paid by the Company on the Company's shares issued in the PRC ("**Domestics Shares**") and HK$0.229 per share at the time of approval by the Company's shareholders totaling approximately HK$6,423,000 was declared and paid by the Company on the overseas listed foreign shares ("**H Shares**") during 2016.

The board of Directors proposed the payment of a final dividend of RMB0.2 (tax inclusive) per share for the year ended 31 December 2016 (2015: Nil) subject to the Company's shareholders' approval on the upcoming annual general meeting.

A special dividend of RMB30,000,000 and RMB16,000,000 was declared and paid by the Company in March and October 2015 respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Plant and machineries RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Computer software RMB'000	Leasehold improvements RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2015	33,783	7,315	13,474	–	19,258	84,370	224	158,424
Additions	–	387	1164	–	–	429	173	2,153
Disposals	(41)	(514)	(4)	–	–	–	–	(559)
At 31 December 2015 and 1 January 2016	33,742	7,188	14,634	–	19,258	84,799	397	160,018
Additions	186	3,737	2,095	–	164	–	15,776	21,958
Transfer from CIP	–	–	3,950	12,223	–	–	(16,173)	–
Disposals	(74)	(647)	(517)	–	–	–	–	(1,238)
At 31 December 2016	33,854	10,278	20,162	12,223	19,422	84,799	–	180,738
ACCUMULATED DEPRECIATION								
At 1 January 2015	6,854	2,368	9,844	–	2,118	12,634	–	33,818
Provided for the year	3,058	802	1,153	–	963	3,006	–	8,982
Eliminated on disposals	(5)	(440)	(4)	–	–	–	–	(449)
At 31 December 2015 and 1 January 2016	9,907	2,730	10,993	–	3,081	15,640	–	42,351
Provided for the year	3,233	1,054	1,245	102	968	2,826	–	9,428
Eliminated on disposals	(21)	(589)	(441)	–	–	–	–	(1,051)
At 31 December 2016	13,119	3,195	11,797	102	4,049	18,466	–	50,728
CARRYING VALUES								
At 31 December 2016	20,735	7,083	8,365	12,121	15,373	66,333	–	130,010
At 31 December 2015	23,835	4,458	3,641	–	16,177	69,159	397	117,667

i) The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machineries	10%–25%
Motor vehicles	10%–33%
Office equipment	10%–20%
Computer software	20%
Leasehold improvements	5%–25%
Buildings	Over the shorter of term of the lease or 2.5%

ii) As at 31 December 2016, the Group's property, plant and equipment with carrying amounts of approximately RMB86,333,000 (2015: RMB55,721,000) have been pledged to secure bank borrowings granted to the Group (Note 21).

iii) As at 31 December 2016, all official property title certificates of the Group's building have been issued by the relevant local government authorities. Official property title certificates of the Group's building with carrying value of approximately RMB33,706,000 were not issued by the relevant local government authorities as at 31 December 2015.

16. PREPAID LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000
Prepaid land use right held in the PRC under medium-term lease and are analysed for reporting purposes as follows:		
Current asset	**2,778**	2,778
Non-current asset	**93,572**	96,350
	96,350	99,128

During the year ended 2015, a land use right was acquired by the Group at a consideration of approximately RMB28,158,000. (2016: nil).

During the year, the amortisation charged to profit or loss is approximately RMB2,778,000 (2015: RMB2,496,000).

As at 31 December 2016, prepaid land use right with carrying amounts of approximately RMB96,350,000 (2015: RMB71,250,000) has been pledged to secure bank borrowings granted to the Group (Note 21).

17. INVENTORIES

	2016 RMB'000	2015 RMB'000
Finished goods	**356,939**	318,465

As at 31 December 2016, certain written-down inventories were sold, as a result, a reversal of write-down of inventories of approximately RMB533,000 (2015: 128,000) have been recognised and included in cost of sales respectively.

As at 31 December 2016, included in the above figures are the Group's inventories of approximately RMB250,000,000 (2015: RMB250,000,000), which have been pledged as security for bank borrowings (Note 21).

18. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**867,230**	882,858
Less: Allowance for impairment	**(2,286)**	(2,286)
	864,944	880,572
Bills receivables (Note)	**199,205**	94,486
	1,064,149	975,058
Prepayment	**102,361**	49,185
Other receivables	**3,094**	1,628
	1,169,604	1,025,871

The Group generally allows an average credit period of 0 to 180 days to its trade customers. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables net of accumulated impairment losses presented based on the date of delivery of goods, which approximated the respective revenue recognition dates at the end of the reporting period.

	2016 RMB'000	2015 RMB'000
0 to 60 days	**623,564**	656,964
61 to 180 days	**192,611**	208,880
181 to 365 days	**10,378**	12,138
Over 365 days	**38,391**	2,590
	864,944	880,572

18. TRADE AND OTHER RECEIVABLES (Continued)

The movements of allowance for impairment of trade receivables are as follows:

	2016 RMB'000	2015 RMB'000
Balance at the beginning of the year	**2,286**	2,896
Impairment losses reversed	**–**	(610)
Balance at the end of the year	**2,286**	2,286

The Group has individually assessed all receivables and provided in full for all receivables that are considered not recoverable.

The analysis of trade receivables that were neither past due nor impaired and past due but not impaired are as follows:

			Past due but not impaired			
	Total RMB'000	Neither past due nor impaired RMB'000	Less than 30 days RMB'000	31 to 60 days RMB'000	61 to 180 days RMB'000	Over 180 days RMB'000
At 31 December 2016	**864,944**	**737,416**	**45,568**	**30,609**	**2,354**	**48,997**
At 31 December 2015	880,572	807,142	26,230	36,467	1,314	9,419

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history from those receivables of the Group which are past due but not impaired for the year, the directors of the Company consider that no allowance is necessary in respect of these balances.

Note:

All bills receivables are with ageing within one year. As at 31 December 2016, bills receivable of RMB157,060,000 (2015: RMB32,054,000) were discounted to banks for bank borrowings.

19. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The bank balances and cash comprised of cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carried interest at the prevailing market rate of 0.35% (2015: 0.35%) per annum. The pledged deposits carried fixed interest rate of 4.35% (2015: 4.35%) per annum.

Pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group (Note 21). As at 31 December 2016, the Group's deposits amounting to approximately RMB357,747,000 (2015: RMB345,370,000) had been pledged to secure bank loans and bills falling due within one year and are therefore classified as current assets.

The Group's bank balances and cash denominated in RMB and HKD. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations.

20. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables (Note (i))	**489,550**	514,955
Bills payables (Note (ii))	**823,857**	777,108
	1,313,407	1,292,063
Receipt in advance (Note (iii))	**4,408**	11,511
Other tax payables	**4,739**	1,933
Value-added tax payable	**18,020**	38,411
Accrued expenses and other payables	**12,228**	11,713
	1,352,802	1,355,631

20. TRADE AND OTHER PAYABLES (Continued)

Notes:

(i) An aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
0 to 30 days	326,814	393,912
31 to 60 days	117,099	69,164
61 to 180 days	29,033	40,139
181 to 365 days	12,880	7,441
Over 365 days	3,724	4,299
	489,550	514,955

The average credit period on purchase of goods is from 0 to 120 days. The Group has financial risk management policies or plans for its payables with respect to the credit timeframe.

(ii) All bills payables are with ageing within 180 days and all bills payables of the Group were secured by certain pledged bank deposits, property, plant and equipment and inventories held by the Group.

(iii) Receipt in advance represented advance payments from customers pursuant to the respective sales and purchase contracts.

21. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Secured	173,800	136,000
Unsecured	93,130	123,350
Bills discounted with recourse	154,432	31,300
	421,362	290,650
Carrying amount of bank borrowings that are repayable within one year	421,362	290,650

Notes:

(i) As at 31 December 2016, all bank borrowings are subject to fixed interest rate. The ranges of effective interest rates on the Group's fixed-rate bank borrowings are 3.6%–5.66%.

As at 31 December 2015, the Group had both fixed-rate and variable-rate bank borrowings. The ranges of effective interest rates on the Group's fixed-rate and variable-rate bank borrowings are 4.79%–7.2% and 6.00%–6.15% respectively.

(ii) The bank borrowings are all denominated in RMB as of each year ended 31 December 2016 and 2015.

(iii) As of year ended 31 December 2016, secured bank borrowings of RMB173,800,000 (2015: RMB136,000,000) were secured by certain property plant and equipment and inventories held by the Group.

22. DEFERRED TAXATION

The following is the analysis of the deferred tax balances of the Group for financial reporting purposes:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	573	840

The movements in deferred tax assets of the Group during the year are as follows:

	Impairment and allowances RMB'000
At 1 January 2015	1,107
Charged to consolidated statement of profit or loss and other comprehensive income during the year (Note 10)	(267)
At 31 December 2015 and 1 January 2016	840
Charged to consolidated statement of profit or loss and other comprehensive income during the year (Note 10)	(267)
At 31 December 2016	573

23. SHARE CAPITAL

	Paid-up capital RMB'000	Number of shares in issue '000	Par value per share RMB	Issued share capital RMB'000	Total RMB'000
As at 1 January 2015	80,000	–	N/A	–	80,000
Shares reform (Note (a))	(80,000)	80,000	1	80,000	–
Issue of shares (Note (b))	–	28,000	1	28,000	28,000
As at 31 December 2015, 1 January 2016 and 31 December 2016	–	108,000	1	108,000	108,000

Notes:

(a) It represents the effect of the shares reform of the Company and transformed into a joint stock company with limited liability.

(b) On 11 December 2015, the Company issued a total of 28,000,000 shares of RMB1.00 each at a price of HK$8.60 per share as a result of the completion of a global offering. Of the total gross proceeds, approximately of RMB200,662,000, RMB28,000,000 representing the par value was credited to the Company's share capital and RMB172,662,000, before the share issue expenses, was credited to the share premium account. The Company's total number of issued shares was increased to 108,000,000 shares upon completion of the global offering.

24. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Property, plant and equipment	91,993	80,745
Prepaid land use right	93,572	96,350
Deferred taxation	573	761
Investment in a subsidiary (Note (i))	150,000	50,000
	336,138	227,856
Current assets		
Inventories	128,709	122,257
Prepaid land use right	2,778	2,778
Trade and other receivables	616,723	579,332
Amount due from a subsidiary (Note (ii))	–	56,905
Pledged bank deposits	190,163	176,294
Bank balances and cash	106,916	138,332
	1,045,289	1,075,898
Current liabilities		
Trade and other payables	648,590	647,564
Bank borrowings	273,041	251,300
Amount due to a subsidiary (Note (ii))	47,173	–
Income tax payables	2,353	1,681
	971,157	900,545
Net current assets	74,132	175,353
Total assets less current liabilities	410,270	403,209
Capital and reserves		
Share capital	108,000	108,000
Reserves (Note (iii))	302,270	295,209
	410,270	403,209

24. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note (i):

Particulars of subsidiary of the Company:

Name of subsidiary	Place of establishment and operation	Class of shares held	Share capital		Proportion of ownership interest held by the Company Directly		Proportion of voting power held by the Company		Principal activities
			2016 RMB	2015 RMB	**2016 %**	2015 %	**2016 %**	2015 %	
佛山創美藥業有限公司 Foshan Chuangmei Medicine Co. Limited	The PRC	Ordinary	**150,000,000**	50,000,000	**100**	100	**100**	100	Trading of pharmaceutical products and provision of related services

Note (ii): The amount is unsecured, interest-free and repayable on demand.

Note (iii): Movements in reserves

	Share premium RMB'000	**Capital reserve** RMB'000	**Statutory reserve** RMB'000	**Retained profits/ (Accumulated losses)** RMB'000	**Total** RMB'000
At 1 January 2015	–	57,120	11,257	94,977	163,354
Profit and total comprehensive income for the year	–	–	–	17,523	17,523
Shares reform (Note (a))	–	82,530	(11,257)	(71,273)	–
Issuance of ordinary shares in connection with the listing of shares of the Company (Note (b))	172,662	–	–	–	172,662
Appropriation	–	–	2,757	(2,757)	–
Shares issue expenses	(12,330)	–	–	–	(12,330)
Dividends paid	–	–	–	(46,000)	(46,000)
At 31 December 2015	160,332	139,650	2,757	(7,530)	295,209
Profit and total comprehensive income for the year	–	–	–	28,200	28,200
Appropriation	–	–	2,821	(2,821)	–
Shares issue expenses	–	–	–	–	–
Dividends paid	–	–	–	(21,139)	(21,139)
At 31 December 2016	**160,332**	**139,650**	**5,578**	**(3,290)**	**302,270**

Notes:

(a) It represents the effect of the shares reform of the Company. The retained profits and statutory reserve as of 31 March 2015 are transferred to capital reserve.

(b) In connection with the Company's global offering, the Company issued 28,000,000 ordinary shares of RMB1.00 each at a price of HK$8.60 each for a total consideration (before expenses) of approximately RMB200,662,000. Dealing of the Company's shares on the Main Board of the Stock Exchange commenced on 14 December 2015.

25. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group has entered into the following significant transactions with related parties during the year.

Compensation of key management personnel

Other than the remuneration paid to the directors and employees of the Group as set out in Note 13, who are considered as the key management personnel of the Group, the Group did not have any other significant compensations to key management personnel.

The remuneration of the directors and key management personnel is determined by the board of directors of the Company having regard to the performance of individuals and market trends.

26. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets transferred to banks by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a bank borrowings (see Note 21). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	2016 **RMB'000**	2015 RMB'000
Bills receivable discounted to banks with full recourse:		
Carrying amount of transferred assets	**157,060**	32,054
Carrying amount of associated liabilities	**154,432**	31,300

All the discounted bills receivables have not yet due at the end of each reporting period. As the Group was still exposed to credit risk on these receivables at the end of each reporting period, the cash received from discounted bills discounted to banks for which the maturity dates have not yet been due are recognised as current liabilities in the consolidated statement of financial position.

27. EVENTS AFTER REPORTING PERIOD

Business combination

On 13 March 2017, the Company entered into a capital contribution agreement with the current owner (the "**Owner**") of Zhuhai Hengxiang Pharmaceutical Limited (the "**Target Company**"), to inject RMB18,000,000 into the Target Company (the "**Capital Injection**") for 70% equity interest in the Target Company.

Please refer to the Company's announcement dated 13 march 2017 for further details of the transaction.

The transaction was completed on the same date. The initial accounting for the acquisition of the Target Company remained incomplete, the assets and liabilities information of the Target Company as at acquisition date are not disclosed in the consolidated financial statements.