百信集团
PASHUN GROUP

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

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 574

Annual Report 2016

CONTENTS

CORPORATE INFORMATION

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

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

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

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

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

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

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

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

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

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit D-F, 15/F Neich Tower
128 Gloucester Road
Wanchai, Hong Kong

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

AUDITOR
CCTH CPA Limited
Certified Public Accountants
Unit 5-6, 7/F, Greenfield Tower, Concordia Plaza
1 Science Museum Road
Tsim Sha Tsui, Kowloon
Hong Kong

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

CORPORATE INFORMATION

STOCK CODE
00574

COMPANY'S WEBSITE
www.pashun.com.cn

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

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

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

FINANCIAL HIGHLIGHTS

A summary of the main financial data of Pa Shun Pharmaceutical International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 with comparative figures for the year ended 31 December 2015 is set out below:

	For the year ended 31 December		
	2016	2015	
	RMB'000	*RMB'000*	Change *(%)*
Revenue	**860,574**	867,963	(0.9)
Gross profit	**113,948**	165,265	(31.1)
Profit for the year	**7,675**	84,886	(91.0)
Profit attributable to equity shareholders of the Company	**7,675**	88,257	(91.3)
Basic earnings per share – RMB cent(s)	**0.77**	11.31	(93.2)
Diluted earnings per share – RMB cent(s)	**0.76**	5.74	(86.8)

The board (the "Board") of directors (the "Directors") of the Company does not recommend the payment of any final dividend for the year ended 31 December 2016.

FINANCIAL SUMMARY

	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016 RMB'000**
Revenue	712,111	794,349	847,193	867,963	**860,574**
Profit before tax	26,418	81,312	71,869	113,006	**28,441**
Income tax expense	(17,110)	(18,243)	(25,740)	(28,120)	**(20,766)**
Profit for the year	9,308	63,069	46,129	84,886	**7,675**
Earnings per share (RMB cent(s))					
Basic	1.3	9.0	8.7	11.31	**0.77**
Diluted	1.3	7.9	8.7	5.74	**0.76**
Assets and liabilities					
Non-current assets	72,998	154,420	138,811	192,582	**245,821**
Current assets	432,646	532,769	575,181	708,714	**854,666**
Current liabilities	(370,055)	(484,500)	(468,601)	(152,155)	**(218,441)**
Net current assets	62,591	48,269	106,580	556,559	**636,225**
Total assets less current liabilities	135,589	202,689	245,391	749,141	**882,046**
Non-current liabilities	(62,974)	(61,609)	(64,111)	(26,471)	**(157,278)**
Net Assets	72,615	141,080	181,280	722,670	**724,768**
Capital and reserves					
Share Capital	1	1	1	801	**801**
Reserves	71,737	140,203	180,218	724,179	**723,967**
Non-controlling interests	877	876	1,061	(2,310)	**–**
Total equity	72,615	141,080	181,280	722,670	**724,768**

CHAIRMAN'S STATEMENT

On behalf of the Board, I hereby present the audited annual results of the Group for the year ended 31 December 2016.

BUSINESS REVIEW

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

In 2016, the Group's revenue generated by the pharmaceutical distribution segment amounted to RMB774.2 million, representing an increase of approximately 4.6% as compared with RMB740.0 million in 2015. Such increase was primarily attributable to the increase of the revenue from the sales to other wholesalers as a result of the Group's increased effort made during the year under review to broaden its customer base, though the overall growth of this segment was offset by the reduction in revenue from the sales to franchise retail chain pharmacies and to the hospitals and other medical institutions in rural areas.

The Group's revenue generated by the self-operated retail pharmacies segment was RMB0.9 million in 2016, representing a decrease of approximately 89.2% as compared with RMB8.3 million in 2015. Such decrease was mainly attributable to (i) the sale of Hebei Chun Sheng Tang Chain Store Co., Ltd., a former subsidiary of the Company; and (ii) the closure of the Group's remaining Japanese-style cosmeceutical stores in Sichuan and regular self-operated retail pharmacies in Chengdu and Wuhan due to their underperformance upon assessment. As of 31 December 2016, no self-operated retail pharmacy store was in operation, although the Group's franchise retail pharmacy stores had increased during the year under review. The Group intends to develop the self-operated retail pharmacy business primarily in Sichuan through potential acquisition. As at the date of this annual report, the Group had not identified any acquisition target.

In 2016, the Group's revenue from the pharmaceutical manufacturing segment amounted to RMB85.4 million, representing a decrease of approximately 28.6% from RMB119.6 million in 2015. Such decrease was mainly attributable to the sluggish market for traditional embrocation products and the impact from healthcare reforms including the implementation of the "Two-Invoice System".

PROSPECTS

During the reporting period, China's economy continued to enter into the new normal (新常態). On the back of the full-scale advance of pharmaceutical and health system reforms by the Chinese government, the pharmaceutical industry ushered in new opportunities and challenges. In 2016, the Ministry of Commerce of China issued the National Development Plan for the Pharmaceutical Distribution Industry (2016-2020), aiming at guiding the reform and development of the pharmaceutical distribution industry and pushing the pharmaceutical distribution industry to accelerate transformation. In addition, the implementation of the "Two-Invoice System" in the PRC, which aims to reducing the number of layers between drug manufacturers and medical institutions, is expected to force the pharmaceutical distribution industry to integrate, resulting in concentration of the pharmaceutical distribution industry.

CHAIRMAN'S STATEMENT

The pharmaceutical industry is highly competitive but it also gives rise to new opportunities for development. Leveraging a solid foundation in the southwest region of China, the Group will further seek appropriate opportunities to consolidate its market position. China's business environment is constantly changing with rapid development of science and technology and the Group should make good use of its existing resources and networks to seize the opportunity of extending to other areas of innovation for development. Under the leadership of an experienced and dedicated management team, the Group will continue to implement the following business development strategies so as to maintaining growth and achieving better returns:

– accelerating the construction of an international logistics centre to improve the operational efficiency of the pharmaceutical distribution business;

– optimising the product structure to expand the range of products, including Chinese herbal medicines;

– strengthening online and offline publicity and marketing activities to enhance brand awareness; and

– continuing to identify potential mergers and acquisitions opportunities to improve the Group's profitability.

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

Chairman
Chen Yenfei
Hong Kong, 31 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2016, the Group recorded a total revenue of RMB860.6 million, representing a decrease of approximately 0.9% from RMB868.0 million for the year ended 31 December 2015. This decrease was primarily due to the growth in revenue from the Group's pharmaceutical distribution segment, offset by the decrease in revenue from the Group's self-operated retail pharmacies and pharmaceutical manufacturing segments.

COST OF SALES, GROSS PROFIT AND GROSS MARGIN

The Group's cost of sales increased by approximately 6.2% from RMB702.7 million for the year ended 31 December 2015 to RMB746.6 million for the year ended 31 December 2016. This increase was primarily due to increases in cost of sales for the Group's pharmaceutical distribution segment.

The Group's gross profit decreased by approximately 31.1% from RMB165.3 million for the year ended 31 December 2015 to RMB113.9 million for the year ended 31 December 2016. The Group's gross margin decreased from 19.0% for the year ended 31 December 2015 to 13.2% for the year ended 31 December 2016. Such decrease was primarily attributable to the higher contribution from the pharmaceutical distribution segment which had a lower margin than those of other segments.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses decreased by 44.9% from RMB25.6 million for the year ended 31 December 2015 to RMB14.1 million for the year ended 31 December 2016. This decrease was primarily due to a decrease in salary and welfare, rent and management fees and business promotion expenses due to the closure of some of the Group's retail pharmacy stores.

GENERAL AND ADMINISTRATIVE EXPENSES

The Group's general and administrative expenses decreased by approximately 3.2% from RMB53.1 million for the year ended 31 December 2015 to RMB51.4 million for the year ended 31 December 2016. This decrease was primarily due to absence of the professional fees in connection with the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2016, offset by an increase in expenses in relation to the grant of share options.

OTHER INCOME AND GAINS

Other income and gains increased by 11.1% from RMB22.5 million for the year ended 31 December 2015 to RMB25.0 million for the year ended 31 December 2016. This increase was primarily due to the gain on disposal of Hebei Chun Sheng Tang Chain Store Co., Ltd. ("Chunshengtang"), a former subsidiary of the Company, which was offset by the decrease in franchise fee income, in 2016.

OTHER NET LOSS

Other net loss increased from RMB28.5 million for the year ended 31 December 2015 to RMB42.5 million for the year ended 31 December 2016. This increase was primarily due to (i) the loss on issue of convertible bonds in 2016 and (ii) the impairment loss recognised in 2016 on amount due from Chunshengtang, which consisted entirely of a series of loans made by the Group for the acquisition and establishment of over 10 retail pharmacy stores in Hebei from 2012 through 2014. It arose from inter-company transactions within the Group until the Group disposed of its interests in Chunshengtang to a purchaser in January 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGE IN FAIR VALUE ON CONVERTIBLE REDEEMABLE PREFERRED SHARES

Upon the completion of the initial public offering ("IPO") of the Company in June 2015, the Company's convertible redeemable preferred shares had been automatically converted into the ordinary shares of the Company on a one-to-one basis, resulting in a fair value gain of RMB37.5 million recognised for the year ended 31 December 2015. There was no fair value gain or loss associated with the Company's convertible redeemable preferred shares for any financial period after the date of the listing of the ordinary shares of the Company on the Stock Exchange.

FINANCE COSTS

Finance costs decreased by approximately 32.4% from RMB3.7 million for the year ended 31 December 2015 to RMB2.5 million for the year ended 31 December 2016. This decrease was primarily due to the decrease in interest expense as a result of smaller average bank borrowing balance during the year ended 31 December 2016 and the decrease in bills charges and other bank charges resulting from the bills receivables of the Group.

PROFIT BEFORE TAX

Profit before tax decreased by approximately 74.9% from RMB113.0 million for the year ended 31 December 2015 to RMB28.4 million for the year ended 31 December 2016. This decrease was primarily due to (i) the significant gain from the change in fair value on convertible redeemable preferred shares in the amount of RMB37.5 million for the year ended 31 December 2015, (ii) the decrease in gross profit for the year ended 31 December 2016 and (iii) the increase in other losses disclosed above.

INCOME TAX EXPENSE

Income tax expense decreased by 26.0% from RMB28.1 million for the year ended 31 December 2015 to RMB20.8 million for the year ended 31 December 2016. This decrease was primarily due to the decrease in taxable income from the PRC subsidiaries of the Company.

PROFIT FOR THE YEAR AND NET PROFIT MARGIN

As a result of the foregoing, the Group's profit for the year decreased by approximately 90.9% from RMB84.9 million for the year ended 31 December 2015 to RMB7.7 million for the year ended 31 December 2016. The Group's net profit margin decreased from 9.8% for the year ended 31 December 2015 to 0.9% for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group actively and regularly reviews and manages its capital structure to enhance its financial strength for the Group's long-term development. There were no changes in the Group's approach to capital management during the year under review.

The Group funds its operations principally from cash generated from its operations, bank borrowings and other debt instruments and equity financing from investors. Its cash requirements relate primarily to operating activities, business expansion, repayment of liabilities as they become due, capital expenditures, interest and dividend payments.

The Group had total cash and cash equivalents of RMB148.7 million as at 31 December 2016 as compared with RMB116.3 million as at 31 December 2015.

The Group recorded net current assets of RMB636.2 million and RMB556.6 million as at 31 December 2016 and 31 December 2015 respectively. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 3.91 as at 31 December 2016, as compared with 4.66 as at 31 December 2015.

As at 31 December 2016, the total amount of bank borrowings was RMB14.0 million, as compared with RMB15.0 million as at 31 December 2015. The Group's gearing ratio is represented by net debts divided by total equity plus net debts. The Group's net debts include bank and other borrowings, corporate and convertible bonds, less cash and cash equivalents and pledged bank deposits. As at 31 December 2016, the Group's gearing ratio was -15.1% (2015: -37.4%).

Both current ratio and gearing ratio are the key performance indicators adopted by management of the Group to manage and control the Group's financial resources and liquidity. The higher the current ratio, the higher the ability of the Group to meet its current debt repayment obligations. The lower the gearing ratio, the lesser reliance of the Group on debt financing and the lower the cost of capital for the Group.

As at 31 December 2016, the total number of issued ordinary shares of the Company was 1,000,000,000 shares (31 December 2015: 1,000,000,000 shares) (the "Shares"). During the year under review, the Company has granted to certain eligible persons share options ("Options") to subscribe for an aggregate of 100,000,000 Shares under the share option scheme adopted by the Company by ordinary resolution of all shareholders of the Company passed on 26 May 2015. No share options of the Company were exercised during the year under review. Please refer to the announcement of the Company dated 8 July 2016 for details of the grant of the Options.

On 15 December 2016, the Company entered into a convertible bonds subscription agreement ("Subscription Agreement") with, among others, Chance Talent Management Limited ("Purchaser"), pursuant to which, on 29 December 2016, the Company has issued to the Purchaser (a) the 4% secured guaranteed convertible bonds in the principal amount of HK$72,000,000 which entitle the holders thereof to convert the outstanding principal amount of such bonds into Shares at the initial conversion price of HK$0.6 per Share ("Series 1 CB"); and (b) the 4% secured guaranteed convertible bonds in the principal amount of HK$48,000,000 which entitle the holders thereof to convert the outstanding principal amount of such bonds into Shares at the initial conversion price of HK$1.2 per Share ("Series 2 CB", collectively with Series 1 CB as the "Convertible Bonds"). Details of the Convertible Bonds are set out in the announcements of the Company dated 15 December 2016 and 29 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2016, the Company issued 8 batches of unsecured corporate bonds, with principal amount of HK$22.0 million, to various independent third parties at par value, bearing coupon rate of 7% per annum and with maturity periods from 3 to 7.5 years.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE RISKS

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

HUMAN RESOURCES

As at 31 December 2016, the Group had a total of 274 staff, primarily based in the PRC. The total staff cost was RMB33.0 million for the year ended 31 December 2016.

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

USE OF NET PROCEEDS FROM THE IPO

The Shares are listed on the Main Board of the Stock Exchange on 19 June 2015 (“Listing Date”) with net proceeds (“Net Proceeds”) from the global offering of approximately HK$249.5 million (after deducting underwriting commissions and related expenses). Part of the Net Proceeds were applied during the year under review in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 9 June 2015 (the “Prospectus”). As at 31 December 2016, the Group had utilised HK$133.7 million of the Net Proceeds and the unutilised Net Proceeds amounted to HK$115.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Use of net proceeds	Available to use HK$ million	Utilised (as at 31 December 2016) HK$ million	Unutilised (as at 31 December 2016) HK$ million
Logistics center and related expenses	121.3	121.0	0.3
Acquisition or establishment of self-operated retail pharmacy stores	116.2	0.7	115.5
Working capital and other general corporate purposes	12.0	12.0	–
	249.5	133.7	115.8

The Net Proceeds which have not been utilised have been deposited into interest bearing bank accounts with licensed commercial banks in China and Hong Kong. As at the date of this annual report, the Directors intended to continue to apply the unutilised Net Proceeds in the manner as set out in the Prospectus, and, in particular, the Company has been continuously seeking and exploring on potential retail pharmacy acquisition targets, in the hope of materialising certain transactions in 2017.

ISSUE OF THE CONVERTIBLE BONDS

On 15 December 2016, the Company has entered into the Subscription Agreement, pursuant to which, on 29 December 2016, the Company issued to the Purchaser the Series 1 CB in the principal amount of HK$72,000,000 and the Series 2 CB in the principal amount of HK$48,000,000.

Assuming the exercise in full of the conversion rights attached to the Convertible Bonds ("Conversion Rights") at the initial conversion price of HK$0.6 per Share in respect of the Series 1 CB and the initial conversion price of HK$1.2 per Share in respect of the Series 2 CB, an aggregate of 160,000,000 Shares would be issued. As at the date of the Subscription Agreement, the closing price of the Share as quoted on the Stock Exchange amounted to HK$0.51.

The Directors considered the issue of the Convertible Bonds as an appropriate means of raising additional capital for the Company since (i) they will not have an immediate dilution effect on the shareholding of existing Shareholders; and (ii) if the Conversion Rights are exercised, the shareholder base of the Company will be enlarged by bringing in new investor(s) and it is expected that the financial position of the Group will be improved to provide for the existing and future business of the Group.

The net proceeds from the issue of the Convertible Bonds, after deducting related transaction costs, was approximately HK$113.1 million, which remained unutilised as at 31 December 2016.

Details of the Convertible Bonds are set out in the announcements of the Company dated 15 December 2016 and 29 December 2016 and the paragraph headed "Issue of the Convertible Bonds" in the section headed "Report of Directors" in this annual report.

DIVIDEND

No interim dividend was declared by the Company for the year ended 31 December 2016. The Board does not recommend the payment of any final dividend for the year ended 31 December 2016.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE CODE

After reviewing the Company's corporate governance practices and the relevant regulations of the Corporate Governance Code and Corporate Governance Report (the "CG code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which have been adopted as the Company's code of corporate governance, the Board is satisfied that the Company complied with the CG code provisions (each a "Code provision") for the year ended 31 December 2016, except for the deviation from the Code provision A.2.1, which stipulates that the role of chairman and chief executive officer should be separated. Mr. Chen Yenfei is currently the chairman of the Board as well as the chief executive officer of the Company.

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

BOARD OF DIRECTORS

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

The Board currently comprises three executive Directors, namely Mr. Chen Yenfei, Mr. Shen Shun and Mr. Zhou Jian, three non-executive Directors, namely, Mr. Li Ho Tan, Mr. Masahiro Honna and Mr. Zhang Xiongfeng and three independent non-executive Directors, namely, Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng. Save that Mr. Zhang Xiongfeng was appointed as a non-executive Director with effect from 1 July 2016, all other Directors were Directors during the year ended 31 December 2016. For the year ended 31 December 2016, Mr. Su Si was an executive Director until he resigned with effect from 28 January 2016.

Their biographical details and (where applicable) their family relationships are set out in the section headed "Directors and Senior Management" on pages 23 to 25 in this annual report. A list of the Directors identifying their roles and functions is available on the Company's website.

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

DIRECTORS' AND OFFICERS' INSURANCE

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

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

All directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors to ensure compliance and enhance their awareness of good corporate governance practices. In addition, in March 2016, all Directors (save for Mr. Zhang Xiongfeng), namely, Mr. Chen Yenfei, Mr. Shen Shun, Mr. Zhou Jian, Mr. Li Ho Tan, Mr. Masahiro Honna, Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng, attended a refreshment training session in connection with, among other things, the duties of directors under the Listing Rules and the applicable laws and regulations provided by the Company's legal advisers.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

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

BOARD COMMITTEES

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

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

Audit Committee

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

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

The members of audit committee reviewed and discussed with the external auditors of the Company the consolidated financial statements of the Group for the year ended 31 December 2016, including the accounting principles and practices adopted by the Group and report prepared by the external auditors covering major findings in the course of the audit. During the year ended 31 December 2016 and up to the date of this report, the audit committee held four meetings in March 2016, August 2016, February 2017 and March 2017, respectively, and all members of the audit committee attended such meetings.

Remuneration Committee

The remuneration committee consists of one executive Director, namely Mr. Chen Yenfei and two independent non-executive Directors, namely Mr. Liu Liangzhong and Mr. Wong Tak Shing. Mr. Liu Liangzhong is the chairman of the remuneration committee.

The primary functions of the remuneration committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and, adopting the approach under Code provision B.1.2(c)(ii), make recommendations to the Board on the remuneration package of individual executive Director and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No executive Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, performance, responsibilities, job complexity and the Group's performance are taken into account.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2016, the remuneration committee held two meetings in February 2016 and July 2016, respectively, and reviewed the remuneration policy and structure relating to the Directors and senior management of the Company. All members of the remuneration committee attended such meetings.

The remuneration of the members of the senior management of the Group by bands for the year ended 31 December 2016 is set out below:

Remuneration bands (HK$)	Number of persons
Nil to HK$1,000,000	4
HK$1,000,001 to HK$1,500,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 9 and 10 to the consolidated financial statements.

Nomination Committee

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

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

During the year ended 31 December 2016, the nomination committee held one meeting in June 2016, and reviewed the structure, size and composition of the Board and assessed independence of the independent non-executive Directors. All members of the nomination committee attended such meeting.

Corporate Governance Committee

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

CORPORATE GOVERNANCE REPORT

The corporate governance committee also performs annual assessment of the anti-fraud, anti-corruption and anti-bribery measures and the channels for handling complaints and investigations ("Annual Assessment"), and submits the assessment results to the audit committee and the Board for review. During the year ended 31 December 2016, all members of the corporate governance committee attended a meeting held in December 2016 to review the Annual Assessment, and no incident of non-compliance with the Company's anti-fraud, anti-corruption, and anti-bribery policies that has significant impact to its operations was reported.

BOARD PROCEEDINGS

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the chairman or any of the joint company secretaries of the Company (the "Joint Company Secretaries") to include matters in the agenda for regular board meetings.

For the year ended 31 December 2016, the Board held nine Board meetings. Subsequent to the year ended 31 December 2016 and up to the date of this report, the Board held another Board meeting in March 2017 for the main purposes of approving the annual results of the Group for the year ended 31 December 2016, and formulating business development strategies of the Group. One annual general meeting was held by the Company during the year ended 31 December 2016 ("2016 AGM").

Attendance at the Board meetings and the 2016 AGM held within the financial year ended 31 December 2016 by each of the Directors are set out below:

Name of Director	Attendance at Board meetings	Attendance at the 2016 AGM
Mr. Chen Yenfei	9/9	1/1
Mr. Shen Shun	9/9	1/1
Mr. Zhou Jian	9/9	1/1
Mr. Su Si (resigned with effect from 28 January 2016)	0/0	0/0
Mr. Li Ho Tan	8/9	1/1
Mr. Masahiro Honna	8/9	1/1
Mr. Zhang Xiongfeng (appointed with effect from 1 July 2016)	7/9	0/0
Mr. Liu Liangzhong	9/9	1/1
Mr. Wong Tak Shing	8/9	1/1
Mr. Min Feng	9/9	1/1

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

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

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

CORPORATE GOVERNANCE REPORT

MEETING WITH INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2016, the chairman of the Company had one meeting with the independent non-executive Directors without the executive Directors present to review and discuss, among other things, the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views in Board meetings without restrictions.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract, and each of the non-executive Directors (save for Mr. Zhang Xiongfeng) and independent non-executive Directors has entered into a letter of appointment, with the Company for a term of three years commencing from the Listing Date. Mr. Zhang Xiongfeng, a non-executive Director, has entered into a letter of appointment with the Company for a term of three years commencing from 1 July 2016. All Directors are subject to retirement and re-election at annual general meeting in accordance with the Company's articles of association.

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

BOARD DIVERSITY POLICY

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("Securities Dealing Code"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code for the year ended 31 December 2016.

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

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

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

Mr. Tsoi Yuen Hoi is the other Joint Company Secretary.

During the year ended 31 December 2016, the Joint Company Secretaries have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of the Joint Company Secretaries are set out in the section headed "Directors and Senior Management" on page 27 of this annual report.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROLS

Financial Reporting

The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

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

Risk Management and Internal Controls

The Board acknowledges that it is the responsibility of the Board for establishing and maintaining appropriate and effective risk management and internal control systems. Also, the Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing its effectiveness on an annual basis. The established systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended 31 December 2016, the Board, through the audit committee of the Board, has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering financial, operational, compliance and risk management aspects. The systems were considered effective and adequate.

CORPORATE GOVERNANCE REPORT

The Group adopts a complete process style of risk management in a functional bottom up manner, including risk identification, assessment, evaluation and treatment. The functional areas across the Group provide input of risks with treatments, which are appraised and maintained. The risk management system, as well as the internal control system, are continuous, proactive and systematic processes.

The internal audit function of the Group is governed by an appointed professional with Certified Internal Auditor qualification. With the appointment of chief audit executive, the effectiveness of the risk management and internal control systems is reviewed by conducting internal audit assignments. Recommendations for major observations of control weaknesses from the audits will be provided, so as to resolve material internal control defects.

Policies and procedures for releasing information to external parties had been established and are in place, which covers the handling and dissemination of inside information, with an aim to provide accurate, complete and timely information to all stakeholders of the Group. These policies and procedures define the class and form of the information to be disclosed, the procedures for dissemination and disclosure of information, and communication with investors, financial analysts and media. They also include the policies for communication with shareholders, and the information management for subsidiaries and associated companies of the Company.

EXTERNAL AUDITORS

CCTH CPA was appointed as the external auditor of the Company on 11 January 2017 upon the resignation of Crowe Horwath (HK) CPA Limited ("Crowe Horwath") with effect from the same date. The independence of the external auditor is recognised and annually reviewed by the Board and the audit committee of the Board. For the year ended 31 December 2016, the fees paid and payable to CCTH CPA and PRC statutory auditors in respect of their audit services provided to the Group were RMB0.88 million and RMB0.12 million, respectively. For the year ended 31 December 2016, the fees paid to Crowe Horwath in respect of non-audit service assignment (agreed-upon procedures regarding interim financial information for the six months ended 30 June 2016) amounted to RMB0.20 million.

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

NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders. Each of the Controlling Shareholders has confirmed in writing to the Company that he/it has complied with the Deed of Non-competition for the year ended 31 December 2016. Based on such written confirmation from the Controlling Shareholders and other appropriate queries made by the independent non-executive Directors, the independent non-executive Directors considered that the Controlling Shareholders have complied with all the undertakings under the Deed of Non-competition for the financial year ended 31 December 2016.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

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

(i) Participation at general meeting

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. Prior notices of meetings with appropriate notice period in compliance with the articles of association of the Company and the Listing Rules and circulars containing details on proposed resolutions will to be sent to the Shareholders before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors. One general meeting was held during the year ended 31 December 2016.

(ii) Enquiries and proposals to the Board

The Company encourages shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the principal place of business of the Company in Hong Kong currently situated at Unit D-F, 15/F, Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong or via email to ir@pashunholding.com.

CORPORATE GOVERNANCE REPORT

(iii) Convening extraordinary general meeting

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the principal place of business of the Company in Hong Kong currently situated at Unit D-F, 15/F, Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

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

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

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

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

CONSTITUTIONAL DOCUMENTS

There was no change in the amended and restated memorandum and articles of association of the Company for the year ended 31 December 2016.

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

CHEN YENFEI, or CHEN YEN FEI, **(陳燕飛)**, aged 69, was appointed as an executive Director on 3 May, 2011. He is the founder of the Group, the chairman of the Board and the chief executive officer of the Company. He is mainly responsible for the overall business management and strategic planning of the Group. Mr. Chen has approximately 30 years of experience in the pharmaceutical industry. He has been the chairman of Chengdu Toyot Pa Shun Pharmacy Co. Ltd. ("Chengdu Pashun") since 1995, and has been the chairman of Toyot Pa Shun Medicine Factory Company Limited since 1989. Mr. Chen graduated from Zhongnan University of Economics (中南財經大學) (predecessor of Zhongnan University of Economics and Law (中南財經政法大學)) with a bachelor degree in July 1987, majoring in statistics and Hubei Traditional Chinese Medical Science College (湖北中醫學院) (predecessor of Hubei University of Chinese Medicine (湖北中醫藥大學)) in June 1998, majoring in traditional Chinese medicine, respectively. Mr. Chen also was elected as one of the members of the first session of the standing committee of China Association of Traditional Chinese Medicine (中國中藥協會). He was the vice-president of Wuhan Pharmaceutical Profession Association (武漢醫藥行業協會) in 2003, vice-president of Hubei Guangcai Association (湖北光彩學會) since 2006 and the executive committee vice chairman of Hong Kong Chamber of Commerce in China-Wuhan (中國香港地區商會—武漢) since 2010, respectively. Mr. Chen is the chairman of each of the nomination committee and the corporate governance committee of the Board and a member of the remuneration committee of the Board.

Mr. Chen is the sole shareholder and sole director of Praise Treasure Limited (a company which was interested in the Shares as at the date of this annual report, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO), and Mr. Chen and Praise Treasure Limited are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

SHEN SHUN (沈順), aged 44, was appointed as an executive Director on 27 February 2012. Mr. Shen is mainly responsible for the sales and internal control of the Group. He has over 15 years of experience in the pharmaceutical industry. Mr. Shen has been appointed as a vice general manager of Chengdu Kexun Pharmaceutical Co., Ltd. ("Chengdu Kexun") since 1998, responsible for the sales of Chengdu Kexun. Mr. Shen obtained a master degree of business administration from a course jointly cooperated by Southwest Jiaotong University (西南交通大學) and University of South Australia in May 2011. He graduated from Southwest Jiaotong University (西南交通大學), majoring in business administration in June 2006 by long-distance online education (網絡教育學院).

ZHOU JIAN (周建), aged 60, was appointed as an executive Director on 27 February 2012. Mr. Zhou is mainly responsible for medicines supply and internal control of the Group. He has over 30 years of experience in the pharmaceutical industry. Mr. Zhou has been appointed as the general manager of Chengdu Kexun since 1999, responsible for the purchase and sale business and overall management of Chengdu Kexun. Prior to joining the Group, Mr. Zhou worked for the Shenzhen Hua Chen Pharmaceuticals Co., Ltd (深圳華辰藥業有限公司) as a manager from 1991 to 1998, responsible for management and operation of the company. He also worked for Chongqing Yong Zhou Chinese Herbal Medicine Company (重慶市永州區中藥材公司) as an assistant manager from 1979 to 1991, responsible for the purchase and sale business. Mr. Zhou graduated from Yuzhou University (渝州大學) in February 1992, majoring in enterprise management. In addition, Mr. Zhou obtained the qualification of economist in entrepreneurial management (企業管理經濟師) granted by Qualification Evaluation Committee of Intermediate-level Profession of the China National Group Corporation of Traditional and Herbal Medicine (中國藥材公司中級專業技術職務評審委員會) in November 1996. Mr. Zhou is a member of the corporate governance committee of the Board.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

LI HO TAN, aged 52, was appointed as a non-executive Director on 27 February 2012, mainly responsible for the overall supervision of compliance, corporate governance and business development of the Group. Mr. Li has worked as the chief executive officer of Fujian Red Bridge Capital Management Co., Ltd（福建紅橋創業投資管理有限公司）since June 2009. Mr. Li graduated from University of International Relations（國際關係學院）with a bachelor degree in July 1984, majoring in Japanese language and culture.

MASAHIRO HONNA（本名正博）, aged 43, was appointed as a non-executive Director on 27 February 2012. Mr. Masahiro has been a chief executive officer of Kygo Investment Limited after its establishment in 2009. He also worked for Goldman Sachs Gao Hua Securities Company Limited as an executive director from June 2007 to January 2009, for Goldman Sachs Japan Co., Ltd from January 2001 to June 2007, and for Nomura Securities Co., Ltd from April 1997 to December 2000. Mr. Masahiro graduated from the College of Arts and Sciences (Kyoyo-Gakubu) of the University of Tokyo with a diploma of bachelor of liberal arts in international relations in March 1997.

ZHANG XIONGFENG（張雄峰）, aged 49, was appointed as a non-executive Director with effective from 1 July 2016. Mr. Zhang holds a bachelor's of arts degree in German Language awarded by Shanghai International Studies University（上海外國語大學）in July 1990. Mr. Zhang has extensive experience in the investment banking industry, specialising in the area of corporate finance. From December 2004 to September 2010, Mr. Zhang was employed by Daiwa Capital Markets Hong Kong Limited. From October 2010 to May 2012, Mr. Zhang was the joint head of corporate finance department of Oriental Patron Asia Limited. Mr. Zhang is currently an independent non-executive director of Fire Rock Holdings Limited (Stock code: 8345), a company whose shares are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange, and an executive director and the chairman of the board of directors of Interactive Entertainment China Cultural Technology Investments Limited (Stock code: 8081), a company whose shares are listed on the GEM of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LIU LIANGZHONG（劉良忠）, aged 53, was appointed as an independent non-executive Director on 26 May 2015. He is mainly responsible for the overall supervision of compliance and corporate governance of the Group. Mr. Liu has about 30 years of experience in the food science and engineering industry. He has worked as a professor in Wuhan Polytechnic University（武漢輕工大學）since 2004, specialising in food science and engineering. He worked as a lecturer and associated professor from 1992 to 2001 and as a teaching assistant from 1986 to 1989 in Yangtze University（長江大學）. Mr. Liu obtained a doctor degree in processing and storage of agricultural products from Huazhong Agricultural University（華中農業大學）on 17 June 2004. In addition, he graduated from Beijing Agricultural University（北京農業大學）in July 1992, majoring in storage and processing of agricultural products and obtained a bachelor degree in meat product safety from Hangzhou School of Commerce（杭州商學院）(predecessor of Zhejiang Gongshang University（浙江工商大學）) in July 1986. Mr. Liu is the chairman of each of the audit committee and the remuneration committee of the Board and a member of the nomination committee of the Board.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

WONG TAK SHING（黃德盛）, aged 54, was appointed as an independent non-executive Director on 26 May 2015. Mr. Wong is graduated from the University of New England, Australia with a Postgraduate Diploma in Financial Management and from the University of Southampton, U.K. with a Bachelor of Social Science in Business Economics and Accounting. Mr. Wong is currently an associate member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 27 years of experience in corporate finance, accounting, personnel and administration. Mr. Wong is also an independent non-executive director of China Digital Culture (Group) Limited (Stock code: 8175), a company whose shares are listed on the GEM of the Stock Exchange. Mr. Wong was previously an executive director of China Ocean Fishing Holdings Limited (Stock code: 8047), a company listed on the GEM of the Stock Exchange and an independent non-executive director of Digital Domain Holdings Limited (Stock code: 547), a company listed on the Main Board of the Stock Exchange. Mr. Wong is also a company secretary of L'sea Resources International Holdings Limited (Stock code: 195), a company listed on the Main Board of the Stock Exchange. Mr. Wong is a member of each of the audit committee and the remuneration committee of the Board.

MIN FENG（閔鋒）, aged 66, was appointed as an independent non-executive Director on 26 May 2015. He is mainly responsible for the overall supervision of compliance, corporate governance and business development of the Group. He has about 30 years of experience in legal business. Mr. Min has been employed by Hubei No. 6 Law Firm（湖北省第六律師事務所）(later renamed as the Hubei Zhengyuan Law Firm（湖北正苑律師事務所）) since 1994 and become the partner since 2001. In addition, he worked for Zhongnan College of Political Science and Law（中南政法學院）(predecessor of Zhongnan University of Economics and Law（中南財經政法大學）) as a civil law associate professor since June 1992 and was appointed as a deputy director of the economic law department. Mr. Min obtained a master degree in civil law from Zhongnan College of Political Science and Law（中南政法學院）on December 20, 1998 and a bachelor degree in law from Hubei College of Finance and Economics（湖北財經學院）in January 1982. Mr. Min was qualified as a senior lawyer（一級律師）by Qualification Evaluation Committee of Senior Lawyer in Hubei Province（湖北省高級律師職務評審委員會）on August 18, 2000. Mr. Min is a member of each of the audit committee, the nomination committee and the corporate governance committee of the Board.

SENIOR MANAGEMENT

HUANG QI（黃奇）, aged 55, a general executive manager of the Group in charge of retail pharmacy store business. He joined the Group in 2011 and is mainly responsible for the development of self-operated retail pharmacy stores and franchise retail pharmacy stores and the arrangement for the daily business of the Group. Mr. Huang has over 30 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Huang worked as the general manager of the Hebei Jin Tian Yan Xiao Medicine Company（河北金天燕霄醫藥有限公司）from 2007 to 2011. He worked for Shijiazhuang Huanxiang Environment Equipment Co., Ltd.（石家莊環祥環境設備有限公司）as a deputy general manager from 2005 to 2007. He also worked for North China Pharmaceutical Group Huayi Pharmacy Limited（華北製藥集團華益大藥房有限公司）as a general manager from 1978 to 2005. Mr. Huang graduated from Hebei Medical University（河北醫科大學）in June 2006, majoring in pharmacy. In addition, he graduated from Correspondence Institute of the Party School of Central Committee of the Communist Party of China（中共中央黨校函授學院）in 1997, majoring in economic management by correspondence course and graduated from Hebei Youth Officials College（河北青年管理幹部學院）in June 1990, majoring in politics.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Continued)*

LI XIAODUO (李小多), aged 48, is a manager in charge of the manufacturing of the Group. Mr. Li joined the Group in 1998 and is mainly responsible for the production and quality control of the Group. Mr. Li has over 18 years of experience in the pharmaceutical industry. Mr. Li was appointed as the deputy general manager of Wuhan Baixin Holdings Group Limited (武漢百信控股集團有限公司) since March 1998 in charge of manufacturing. Prior to joining the Group, he was the workshop supervisor and chief of biotech of Chengdu Di Kang Pharmaceuticals Limited (成都迪康製藥公司) from February 1996 to February 1998. He also worked for Chongqing Oriental Pharmaceutical Co., Limited (重慶東方藥業股份有限公司) from July 1994 to February 1996, responsible for developing new products. Mr. Li graduated from Chengdu College of Traditional Chinese Medicine (成都中醫學院) in July 1994, majoring in traditional Chinese medicine.

ZHANG SUIHUI (張遂會), aged 54, manager in charge of the quality inspection department of the Group. She joined the Group in 2011 and is mainly responsible for product's quality inspection. Ms. Zhang has about 30 years of experience in the pharmaceutical industry. She has been the head of quality control department since she joined Chengdu Kexun in 2011. Prior to joining the Group, she was the head of quality assurance and quality control department of Sichuan Taichi Pharmacy Chain Limited Company (四川太極大藥房連鎖有限公司) from December 2000 to May 2011. In addition, she worked for Sichuan Petroleum Administration General Hospital (四川石油管理局總醫院) as a traditional Chinese pharmacist supervisor from 1993 to October 2000. Ms. Zhang graduated from Chengdu University of Traditional Chinese Medicine (成都中醫藥大學) by correspondence course in June 2000, majoring in traditional Chinese pharmacy. Ms. Zhang obtained the required qualifications for Licensed Pharmacist of Chinese Medicine (執業中藥師) in November 1999. Ms. Zhang was accredited as a biomedical senior engineer (生物醫藥高級工程師) in December 2012 by Chengdu Reform of Professional Title Leading Group Office (成都市職稱改革工作領導小組辦公室).

TANG ZAIXIU (唐再秀), aged 38, is the head of accounting department of the Group. She is mainly responsible for daily accounting. Ms. Tang has over 15 years of experience in accounting. She has worked as the cashier, accountant, financial supervisor and financial manager of Chengdu Kexun since 1999. Ms. Tang graduated from Chongqing Technology and Business University (重慶工商大學) on 30 June 2007, majoring in accounting.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Continued)*

PANG, PETER CHUN MING（彭浚銘）, aged 40, was appointed as the chief financial officer and one of the joint company secretaries of the Company in January 2015. He is responsible for the Group's financial reporting, investor relationship and assisting the Board on governance matters. He has about 15 years of experiences in accounting, auditing and finance. From April 2011 to December 2014, Mr. Pang was appointed as a chief financial officer and company secretary of Renjian Antong International Holdings Limited, a Fujian based logistics company, mainly responsible for accounting and finance and overall compliance. Prior to that, he worked in Deutsche Bank AG, Hong Kong Branch as an associate in global banking division from September 2010 to April 2011 and worked as an associate director in corporate finance department of BOCI Asia Limited, a subsidiary of BOC International Holdings Limited, from March 2008 to September 2010, respectively, during which he accumulated experience in banking and corporate finance. Mr. Pang worked in Ernst & Young LLP in the United States as a senior from July 2003 to February 2006 and as a senior in the assurance standards services group from February 2007 to October 2007. He worked in Ernst & Young in Hong Kong as a manager in the assurance and advisory business service department from November 2007 to March 2008. Mr. Pang received a master degree of accounting from the University of Southern California, the United States in May 2003 and completed a bachelor degree of arts majoring in economics from the University of California at Berkeley, the United States in August 1999. He has been a certified public accountant of the California Board of Accountancy of the United States since February 2006 and a chartered financial analyst (CFA) charterholder since November 2006.

JOINT COMPANY SECRETARIES

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

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

REPORT OF DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

BUSINESS REVIEW

A review of the business of the Group during 2016 and further discussion and analysis, including an indication of likely future developments in the Group's business are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. These discussions form part of this report of Directors.

CORPORATE INFORMATION AND GLOBAL OFFERING

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group primarily operates in three business segments in China, namely (1) pharmaceutical distribution, (2) self-operated retail pharmacies, and (3) pharmaceutical manufacturing. The analysis of the revenue of the principal activities of the Group during the year ended 31 December 2016 is set out in note 4 to the consolidated financial statements in this annual report.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 61 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the financial year ended 31 December 2016.

FINANCIAL SUMMARY

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

REPORT OF DIRECTORS

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

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

Business risks

(i) Slowdown of China's economic growth in particular in Southwestern China

The Group derived all of its revenue from sales in the PRC market, particularly in the southwestern region. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. There can be no assurance that current economic reform and policies adopted by the PRC government will continue to successfully create economic growth as in the past years.

(ii) Changing legal and regulatory requirements in the PRC pharmaceutical industry

The Group anticipates that revenue from sales in the PRC will continue to represent a substantial proportion of its total turnover in the near future. The Group's operations, financial condition and results of operations could be adversely affected by changes in political condition or relevant laws and regulations in the PRC pharmaceutical industry. In April 2016, the State Council of the PRC issued the 2016 List of Major Tasks in Furtherance of the Healthcare and Pharmaceutical Reforms(深化醫藥衛生體制改革2016年重點工作任務)that outlines several important targets for the current healthcare reform, including the introduction of the "Two-Invoice System"(兩票制)which only allows a single level of distributors for the sale of pharmaceutical products from the manufacturers to the hospitals. While such reform is expected to further improve the quality and efficiency of the healthcare industry in the long-run, if the "Two-Invoice System" is officially launched in Sichuan province, given the reliance of the Group on the Sichuan market, the "Two-Invoice System" could have a material adverse impact on the Group's sales to other distributors in its pharmaceutical distribution and pharmaceutical manufacturing businesses.

REPORT OF DIRECTORS

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS *(Continued)*

Operational risks

(i) Non-compliance with, changes in, or amendments to, the applicable PRC regulatory licensing requirements may have a material adverse effect on the Group's business operations

The Group is required to obtain certain permits, approvals and certificates from various PRC governmental authorities for its business operations, such as Good Manufacturing Practices ("GMP") certificates for pharmaceutical manufacturing and Good Supply Practices ("GSP") certificates for pharmaceutical distribution and retail pharmacy operations.

The Good Manufacturing Practices (2010 Revision), which was promulgated by the Ministry of Health of the PRC on 17 January 2011 and effective on 1 March 2011, is a set of detailed basic guidelines on the manufacture and quality control of pharmaceutical products, with the purpose of ensuring that pharmaceutical products are consistently and appropriately manufactured to their intended use as well as statutory registration requirements for the pharmaceutical products, by minimising the risks of contamination, cross contamination, mix-ups and/or errors during the manufacture process.

According to the Administrative Measures of Good Supply Practices (《藥品經營質量管理規範》), which was promulgated by the China Food and Drug Administration on 25 June 2015 and was amended on 13 July 2016 and became effective on the same day, drug distributors should take quality control measures in the processes of procurement, storage, sale and transportation to ensure drug quality and establish drug trace system, intensifying the requirements regarding the management of pharmaceutical trade in terms of both software and hardware of the enterprises in this industry.

As of the date of this annual report, the Group had obtained all material requisite permits, approvals and certificates for its business operations, and intends to apply for the renewal of these certificates when required by applicable laws, rules and regulations. However, the conditions for such renewal may change from time to time. There is no assurance that the Group will be able to successfully renew all of these permits, approvals and certificates, including GMP and GSP. In addition, the more stringent requirements may also affect the Group's plan to identify potential acquisition target.

REPORT OF DIRECTORS

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS *(Continued)*

(ii) Any disruption or termination of or material change in supplier relationships may have a negative impact on the Group's operation

The Group's business is dependent to a large extent upon the stable supply of products from its suppliers. If the Group fails to maintain stable relationship with its suppliers, it may not be able to secure a stable supply of products, which, in turn, may materially and adversely affect its business, financial condition and results of operations.

(iii) Reliance on key personnel and business and growth may be disrupted if the Group is not able to retain the key personnel

The Group's future success depends heavily upon the continued services of its senior executives and key sales and marketing personnel. The Group's ability to attract and retain key personnel is a critical factor in its competitiveness. If the Group is unable to attract or retain the personnel required to achieve its business objectives, its business could be severely disrupted.

Financial risks

(i) Foreign currency exchange risk
(ii) Interest rate risk
(iii) Credit risk
(iv) Liquidity risk
(v) Price risk

Details of the financial risk management are set out in note 37 to the consolidated financial statements.

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

CHARGES OF ASSETS

Details of charges of the Group's assets during the year ended 31 December 2016 are set out in note 23 to the consolidated financial statements in this annual report.

GEARING RATIO

The Group's gearing ratio is represented by net debts divided by total equity plus net debts. The Group's net debts include bank and other borrowings, corporate and convertible bonds, less cash and cash equivalents and pledged bank deposits. As at 31 December 2016, the Group's gearing ratio was -15.1% (2015: -37.4%).

USE OF NET PROCEEDS FROM THE IPO

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

REPORT OF DIRECTORS

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

As a responsible corporation, the Group is committed to maintain the highest environmental and social standards to ensure sustainable development of its business.

The Group is subject to the following major PRC laws and regulations:

i) **Business operation**

- Administrative Measures for the Registration of Pharmaceuticals 《藥品註冊管理辦法》
- Administrative Measures for Pharmaceutical Supply Permit 《藥品經營許可證管理辦法》
- Good Supply Practise Rules for Pharmaceuticals 《藥品經營質量管理規範》
- Measures for the Certification of Good Supply Practise of Pharmaceutical Operations 《藥品經營質量管理規範認證管理辦法》
- Good Manufacturing Practices (2010 Revision) 《藥品生產質量管理規範(2010年修訂)》

ii) **Environmental and social standards**

- the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》
- the Labor Law of the PRC 《中華人民共和國勞動法》
- the Law of the PRC on the Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》
- the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste 《中華人民共和國固體廢物污染環境防治法》
- the Law of the PRC on Safe Production 《中華人民共和國安全生產法》
- the PRC Labor Contract Law 《中華人民共和國勞動合同法》

During the year under review, the Group has complied with all relevant laws and regulations in relation to its business including production, health and safety, workplace conditions, employment and the environment that have a significant impact on the Group.

The Group strives to minimise its impact on the environment by reducing its electricity consumption and encouraging recycle of office supplies and other materials.

Further information about the Company's environmental policies and performance will be disclosed in the environmental, social and governance report to be issued by the Company in due course.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 24.8% of the total sales for the year ended 31 December 2016 and sales to the largest customer included therein amounted to 6.0% of the total sales for the year. The credit terms granted to major customers are 30 to 180 days which are in line with those granted to other customers. Purchases from the Group's five largest suppliers accounted for approximately 52.5% of the total purchases for the year ended 31 December 2016 and purchases from the Group's largest supplier included therein amounted to 14.9% of the total purchases for the year.

REPORT OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

The Group has established a business relationship with its five largest customers and suppliers for more than five years. Management of the Company conducts review on customer and supplier composition on a regular basis to monitor whether there is over-reliance on certain counterparty.

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2016 are set out in note 14 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2016 are set out in note 31 to the consolidated financial statements in this annual report.

ISSUE OF THE CONVERTIBLE BONDS

Definitions

For the purpose of this paragraph, the defined terms have the following meaning:

"Bondholders' Approval" means the written approval of Bondholder(s) (as defined in the sub-paragraph headed "Specific performance obligations on Mr. Chen and the Chargor" below) holding more than 50% of the then outstanding principal amount of the Convertible Bonds.

"Chargor" means Praise Treasure Limited, which is wholly-owned by Mr. Chen.

"Closing Price" means for the Shares for any Trading Day, the last traded price per Share as published in the daily quotation sheet of the Stock Exchange for such day.

REPORT OF DIRECTORS

ISSUE OF THE CONVERTIBLE BONDS *(Continued)*

Definitions *(Continued)*

"Collateral Coverage Ratio" means, for any Trading Day falling on or after the Closing Date (as defined in the sub-paragraph headed "Conditions precedent" below), the amount equal to A x B/C, where:

A = the number of Shares being part of the Security (as defined in the sub-paragraph headed "Security" below) after trading of the Shares closes on the Stock Exchange on such Trading Day;

B = the Closing Price on such Trading Day; and

C = the aggregate outstanding principal amount of the Convertible Bonds after trading of the Shares closes on the Stock Exchange on such Trading Day.

"Initial Collateral Coverage Ratio" means for the Closing Date, the amount equal to A x B/C, where:

A = the number of Shares subject to Security at Closing (as defined in the sub-paragraph headed "Conditions precedent" below);

B = the lower of (i) the average Volume Weighted Average Price for the ten (10) Trading Days immediately preceding the Closing Date, or (ii) the Closing Price for the Trading Days immediately preceding the Closing Date; and

C = the aggregate principal amount of the Convertible Bonds to be issued at Closing.

"Material Adverse Change" means (a) any material adverse change in, or any change in circumstances that has a material adverse effect on, the business, operations, financial position (including any material increase in provisions), earnings, condition or prospects of each Obligor or each member of the Group; and (b) any change in any relevant laws in any of the jurisdictions or sectors in which each Obligor or each member of the Group does business (coming into effect between the date of the Subscription Agreement and the Closing Date) that could reasonably be expected to materially and adversely affect the Company or the Group taken as a whole.

"Obligor(s)" means the Company, Mr. Chen and the Chargor.

"Mr. Chen" means Mr. Chen Yenfei, the Chairman, an executive Director and a controlling shareholder (within the meaning of the Listing Rules) of the Company.

"Trading Day" a day when the Stock Exchange is open for dealing business, provided that if no Closing Price is reported for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days.

REPORT OF DIRECTORS

ISSUE OF THE CONVERTIBLE BONDS *(Continued)*

Definitions *(Continued)*

"Transaction Documents" means (a) the Subscription Agreement, (b) the deeds to be executed by the Company which will constitute the Convertible Bonds and contain the terms and conditions of the Convertible Bonds ("CB Instruments"), (c) the certificate(s) in respect of the Convertible Bonds to be issued to the Purchaser pursuant to the terms of the applicable CB Instrument, (d) the Guarantee (as defined in the sub-paragraph headed "Security" below), (e) the document constituting the security granted in favour of the Purchaser from time to time under or in connection with the Transaction Documents, (f) the custodian supplemental deed entered into between CCB International Securities Limited as the safekeeping agent, the Purchaser and the Chargor in connection with the CCBI Account (as defined in the sub-paragraph headed "Security" below), and (g) any other document designated as a "Transaction Document" by the Purchaser and the Obligors.

"Volume Weighted Average Price" means, in respect of a Share on any Trading Day, the order book volume-weighted average price of a Share published by or derived from Bloomberg page "VWAP" (setting weighted average) or such other source as shall be determined to be appropriate by an independent investment bank on such Trading Day, provided that if on any such Trading Day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Share in respect of such Trading Day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding Trading Day on which the same can be so determined.

Subscription Agreement

On 15 December 2016, the Company has entered into the Subscription Agreement, pursuant to which, on 29 December 2016, the Company issued to the Purchaser the Series 1 CB in the principal amount of HK$72,000,000 and the Series 2 CB in the principal amount of HK$48,000,000.

Conversion Shares and Conversion Price

Assuming the exercise in full of the conversion rights attached to the Convertible Bonds ("Conversion Rights") at the initial conversion price of HK$0.6 per Share in respect of the Series 1 CB ("Series 1 CB Conversion Price") and the initial conversion price of HK$1.2 per Share in respect of the Series 2 CB ("Series 2 CB Conversion Price"), an aggregate of 160,000,000 Shares (with aggregate nominal value of HK$160,000) ("Conversion Shares") would be issued.

REPORT OF DIRECTORS

ISSUE OF THE CONVERTIBLE BONDS *(Continued)*

Assuming that there is no change in share capital of the Company since 31 December 2016 and the Convertible Rights are exercised in full at the initial Series 1 CB Conversion Price and the initial Series 2 Conversion Price, the number of issued shares of the Company will be increased by 160,000,000, representing 16.00% of the issued share capital of the Company as at 31 December 2016 (i.e. 1,000,000,000 Shares) and approximately 13.79% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. Such allotment and issue of the Conversion Shares will result in the respective shareholdings of the shareholders being diluted by approximately 13.79%.

Assuming there is no change in the shareholding of the substantial shareholders (within the meaning of the Listing Rules) of the Company since 31 December 2016, the shareholding of the substantial shareholders of the Company as at 31 December 2016 immediately before and after the exercise of the Conversion Rights is set out below for illustration purposes:

	Shareholding immediately before the exercise of the Conversion Rights		Shareholding immediately after the exercise of the Conversion Rights	
Name of Shareholder	**Number of Shares held**	**Approximate percentage of shareholding**	**Number of Shares held**	**Approximate percentage of shareholding**
Praise Treasure Limited *(Note 1)*	474,040,000	47.40%	474,040,000	40.87%
Advance Apex Limited *(Note 2)*	98,500,000	9.85%	98,500,000	8.49%

Notes:

1. Praise Treasure Limited is wholly owned by Mr. Chen.

2. Advance Apex Limited is owned as to 50% by Mr. Cheung Chi Mang and 47% by Mr. Li Ho Tan.

Assuming the Conversion Rights are exercised in full at the initial Series 1 CB Conversion Price and the initial Series 2 CB Conversion Price, the net subscription price for each Conversion Share under the Series 1 CB and the Series 2 CB is approximately HK$0.57 and HK$1.13 respectively. As at the date of the Subscription Agreement, the closing price of the Share as quoted on the Stock Exchange amounted to HK$0.51.

REPORT OF DIRECTORS

ISSUE OF THE CONVERTIBLE BONDS *(Continued)*

Purchaser

The Purchaser is a limited liability company incorporated in the British Virgin Islands. It is indirectly and wholly-owned by CCB International (Holdings) Limited. CCB International (Holdings) Limited is an investment services flagship which is indirectly and wholly-owned by China Construction Bank Corporation, a joint-stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (Stock code: 939) and the Shanghai Stock Exchange (Stock code: 601939).

Security

The Convertible Bonds are secured by (i) the share charge ("Share Charge") in respect of 474,040,000 Shares ("Relevant Shares") held by the Chargor in favour of the Purchaser; and (ii) the personal guarantee executed by Mr. Chen in favour of the Purchaser ("Guarantee", together with the Share Charge, the "Security").

Pursuant to the Share Charge, the Chargor, as beneficial owner of the Relevant Shares and the additional Shares as may be transferred to the CCBI Account by the Chargor as a result of the granting of additional security over additional Shares (collectively as "Charged Shares"), shall charge to the Purchaser, by way of first fixed charge all of the rights which it now has and all of the rights which it obtains at any time in the future in (a) the Charged Shares; (b) the securities account of the Chargor established with CCB International Securities Limited (including any renewal or re-designation thereof)("CCBI Account"); and (c) any rights accruing to, derived from or otherwise connected with the Charged Shares (including dividends and proceeds of disposal).

Pursuant to the Guarantee, Mr. Chen has undertaken to the Purchaser that for so long as any Convertible Bonds remain outstanding, among others:

(a) he will at all times remain as the sole shareholder of the entire issued share capital of the Chargor and the sole director of the Chargor;

(b) he will ensure that the Chargor at all times remains as the Shareholder with the single largest direct shareholding in the Company; and

(c) he will at all times remain as the chairman of the Board.

The Share Charge, which subsisted in the year under review and as at the date of this annual report, is discloseable pursuant to Rule 13.17 of the Listing Rules. The Guarantee subsisted in the year under review and as at 31 December 2016.

Specific performance obligations on Mr. Chen and the Chargor

In addition to those disclosed above, the conditions of the Convertible Bonds ("Bond Conditions"), which subsisted in the year under review and as at the date of this annual report, also contain certain specific performance obligations on Mr. Chen and the Chargor, which require disclosure pursuant to Rule 13.18 of the Listing Rules.

REPORT OF DIRECTORS

ISSUE OF THE CONVERTIBLE BONDS *(Continued)*

Specific performance obligations on Mr. Chen and the Chargor *(Continued)*

It is an event of default ("Event of Default") under the Bond Conditions, if, amongst others:

(1) Change of control: (i) any person or persons, acting together, acquires control of the Company; (i) Mr. Chen ceases to be the single largest beneficial owner of the issued Shares; (iii) Mr. Chen ceases to be the chairman of the Board; (iv) the Chargor ceases to be the single largest Shareholder; or (v) unless with the Bondholders' Approval, the Company consolidates with or merges into or sells or transfers all or a substantial part exceeding 30% of the Company's total assets or 50% of the Company's net assets, whichever is higher, to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Company or the successor entity;

(2) Breach of terms or obligations: any Obligor defaults in the performance or observance of any term of any Transaction Document which is binding on it, or of its other obligations under or in respect of the Convertible Bonds or any Transaction Document, including but not limited to any obligations of the Chargor or Mr. Chen in relation to the grant of additional security over additional Shares in the event of the Collateral Coverage Ratio for any Trading Day falling below 1.6; or

(3) Cross-default of any of the Obligor: (i) an event of fefault under the conditions of the Series 1 CB or the conditions of Series 2 CB, as the case may be; (ii) any indebtedness of the Company or any other Obligor is not paid when due or (as the case may be) within any originally applicable grace period; (iii) indebtedness becoming (or becoming capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the relevant Obligor; or (iv) failure to pay when due any amount payable by it under any guarantee of any indebtedness by the Company or any other Obligor.

If an event of default has occurred, a holder of the Convertible Bonds ("Bondholder") shall have the right by notice to the Company to, among others, require the Company to, in addition to and without prejudice to any of its other payment obligations under the Bond Conditions, pay the default interest to such Bondholder in accordance with the Bond Conditions.

REPORT OF DIRECTORS

ISSUE OF THE CONVERTIBLE BONDS *(Continued)*

Conditions precedent

Closing of the issue of the Convertible Bonds ("Closing") are conditional upon the following conditions being satisfied (or, if applicable, waived):

(a) the Purchaser having been satisfied with the results of its commercial, financial and legal due diligence on the Company, the other Obligors and any other member of the Group in its sole discretion;

(b) the Purchaser having performed all necessary external, internal and corporate approvals and checks under all applicable laws regarding the Transaction Documents, including but not limited to its investment committee approval, anti-money laundering checks and know-your-client checks;

(c) all necessary regulatory filings, notifications, registrations, disclosure and/or announcement requirements, and approvals of the relevant governmental authorities to enter into the Transaction Documents and perform the Obligors' obligations thereunder having been made, fulfilled or obtained, and such filings, notifications, registrations, disclosures, announcements and approvals remaining valid and effective, and no governmental authority having taken or initiated any action which would prohibit the transactions contemplated under any of the Transaction Documents;

(d) a written approval having been granted by the Stock Exchange regarding the listing of, and a permission to deal in, the Conversion Shares;

(e) there not having been any further requirement imposed by the Stock Exchange for the shareholders of the Company to approve the issue of the Conversion Shares and all conditions relating thereto (if any) imposed by the Stock Exchange shall have been settled to the satisfaction of the Purchaser;

(f) all obligations under the Transaction Documents required to be performed by the Obligors on or before the date of Closing ("Closing Date") (including but not limited to the transfer of the Shares subject to Security to the CCBI Account having been performed, and no breach of any provision of any Transaction Document by any of the Obligors;

(g) the representations, warranties and covenants given or procured to be given by the Obligors under the Subscription Agreement remaining true, accurate and not misleading in each case in accordance with their terms;

REPORT OF DIRECTORS

ISSUE OF THE CONVERTIBLE BONDS *(Continued)*

Conditions precedent *(Continued)*

(h) since the date of the Subscription Agreement, there having been, in the opinion of the Purchaser, no Material Adverse Change;

(i) there having been no Event of Default, and no Event of Default resulting from the proposed issue of the Convertible Bonds by the Company to the Purchaser;

(j) all financial covenants set out in each of the terms and conditions of the Series 1 CB or the terms and conditions of the Series 2 CB having been complied with as at Closing;

(k) there being no suspension of trading of the Shares on the Stock Exchange from the date of the Subscription Agreement up to the Closing Date (save for as a result of the announcement(s) being made by the Company on the Stock Exchange in connection with the transactions contemplated under the Transaction Documents);

(l) Mr. Chen remaining as the chairman of the Board and the single largest beneficial owner of the issued Shares and the Chargor remaining as the single largest Shareholder;

(m) the Initial Collateral Coverage Ratio being not less than 2.0 as at the Closing Date;

(n) the entering into and duly execution (on or before the Closing Date) of the other Transaction Documents, each in a form satisfactory to the Purchaser, by the respective parties; and

(o) on the Closing Date, receipt by the Purchaser of:

  (i) a legal opinion as to the laws of Hong Kong issued by the Purchaser's Hong Kong legal counsel and addressed to the Purchaser, opining on, amongst other things, the legal, valid, binding and enforceable nature of the provisions of the Transaction Documents as governed by the laws of Hong Kong;

  (ii) a legal opinion as to the laws of the Cayman Islands issued by the Purchaser's Cayman legal counsel and addressed to the Purchaser, opining on, amongst other things, the due incorporation, capacity and authority of the Company; and

  (iii) a legal opinion as to the laws of the British Virgin Islands issued by the Purchaser's British Virgin Islands legal counsel and addressed to the Purchaser, opining on, amongst other things, the due incorporation, capacity and authority of the Chargor,

  each in a form satisfactory to the Purchaser,

provided, however, that the Purchaser may, at its discretion, waive satisfaction of any of the conditions above (except for condition (d)).

REPORT OF DIRECTORS

ISSUE OF THE CONVERTIBLE BONDS *(Continued)*

Reason for the issue

The Directors considered the issue of the Convertible Bonds as an appropriate means of raising additional capital for the Company since (i) they will not have an immediate dilution effect on the shareholding of existing Shareholders; and (ii) if the Conversion Rights are exercised, the shareholder base of the Company will be enlarged by bringing in new investor(s) and it is expected that the financial position of the Group will be improved to provide for the existing and future business of the Group.

Use of net proceeds

The net proceeds from the issue of the Convertible Bonds, after deducting related transaction costs, was approximately HK$113.1 million which remained unutilised as at 31 December 2016. It is expected that such net proceeds will be applied to general working capital, business development and any future merger and acquisition transactions of the Group.

Details of the Convertible Bonds are set out in the announcements of the Company dated 15 December 2016 and 29 December 2016.

During the year under review, none of the Conversion Rights was exercised.

ISSUE OF CORPORATE BONDS

For the year ended 31 December 2016, the Company issued 8 batches of unsecured corporate bonds, with principal amount of HK$22.0 million, to various independent third parties at par value, bearing coupon rate of 7% per annum and with maturity periods from 3 to 7.5 years. The net proceeds from the issue of the corporate bonds, after deducting related transaction costs, was approximately HK$17.2 million, of which HK$9.2 million was utilised as of 31 December 2016. The net proceeds were and will be utilised for general working capital purposes.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2016 are set out on page 65 in the consolidated statement of changes in equity of this annual report and in note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's accumulated losses amounted to RMB151,203,000 and the Company's share premium amounted to RMB447,331,000. By passing an ordinary resolution of the Company, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law of the Cayman Islands.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in note 25 to the consolidated financial statements in this annual report.

REPORT OF DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this annual report were:

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

Non-executive Directors:
Mr. Li Ho Tan
Mr. Zhang Xiongfeng (appointed on 1 July 2016)
Mr. Masahiro Honna

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

Each of the executive Directors has entered into a service contract, and each of the non-executive Directors (save for Mr. Zhang Xiongfeng) and independent non-executive Directors has entered into a letter of appointment, with the Company for a term of three years commencing from the Listing Date. Mr. Zhang Xiongfeng, a non-executive Director, has entered into a letter of appointment with the Company for a term of three years commencing from 1 July 2016. All Directors are subject to his retirement and re-election at the annual general meeting of the Company in accordance with the Company's articles of association. The details of the remuneration of each of the Directors are disclosed in note 8 to the consolidated financial statements in this annual report.

Details of the Directors' biographies are set out on pages 23 to 25 of this annual report. In accordance with article 84 of the Company's articles of association ("Articles of Association"), Mr. Li Ho Tan, Mr. Masahiro Honna and Mr. Liu Liangzhong will retire from the Board by rotation at the forthcoming annual general meeting of the Company ("AGM"). Mr. Masahiro Honna and Mr. Liu Liangzhong, being eligible, offer themselves for re-election at the AGM and Mr. Li Ho Tan will not offer himself for re-election at the AGM.

Further, according to article 83(3) of the Articles of Association, any Director appointed by the Board either to fill a casual vacancy on the Board or as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. As such, Mr. Zhang Xiongfeng, who was appointed as the non-executive Directors on 1 July 2016, shall hold office until the AGM and Mr. Zhang Xiongfeng, being eligible, will offer himself for re-election at the AGM.

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

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

REPORT OF DIRECTORS

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 23 to 27 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Other than those transactions disclosed in note 40 to the consolidated financial statements in this annual report and those disclosed under the paragraph headed "Issue of the Convertible Bonds" in this report of Directors above, no Director has any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies were a party subsisted at the end of the year or at any time during the year ended 31 December 2016.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Director's and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. A permitted indemnity provision (having its meaning under section 470 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) is in force for the benefit of the Directors when this Report of Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and was in force throughout the year ended 31 December 2016.

SHARE OPTION SCHEME

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

REPORT OF DIRECTORS

SHARE OPTION SCHEME *(Continued)*

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

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, i.e. 100,000,000 Shares. As at 31 December 2016, the total number of securities available for issue under the Share Option Scheme pursuant to its terms was 100,000,000 Shares, representing in aggregate 10% of the Company's issued share capital as at the date of this annual report. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

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

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

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

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

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

REPORT OF DIRECTORS

SHARE OPTION SCHEME *(Continued)*

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

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

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

			Number of share options					
Name	Date of grant	Vesting date	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2016
Non-executive Directors								
Mr. Zhang Xiongfeng	8 July 2016	8 July 2016	–	8,000,000 *(Note)*	–	–	–	8,000,000
Employees in aggregate	8 July 2016	8 July 2016	–	54,700,000 *(Note)*	–	–	–	54,700,000
Other eligible participates in aggregate	8 July 2016	8 July 2016	–	37,300,000 *(Note)*	–	–	–	37,300,000
Total			–	100,000,000	–	–	–	100,000,000

Note: The exercise price of these options is HK$0.60 and the exercise period is from 8 July 2016 to 31 December 2019, both dates inclusive. The closing price of the Shares immediately preceding the date of grant of these options was HK$0.59. The Company received HK$1 from each of the grantees of these options upon acceptance of the options granted.

REPORT OF DIRECTORS

EMOLUMENT POLICY

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

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence.

The Company has adopted the Share Option Scheme, of which share options may be granted to Eligible Persons. Details of the Share Option Scheme are set out in the paragraph headed "Share Option Scheme" in this report of Directors and note 32 to the consolidated financial statements in this annual report.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 9 and 10 to the consolidated financial statements in this annual report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Listing Rules for the year ended 31 December 2016.

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

As at 31 December 2016, the interests and short positions of the directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), Chapter 571 of the Laws of Hong Kong), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the Shares

Name of Director	**Capacity/ nature of interest**	**Number of Shares held**	**Approximate percentage of shareholding** *(Note 1)*
Mr. Chen Yenfei *(Note 2)*	Interest of a controlled corporation	474,040,000	47.40%
Mr. Shen Shun	Beneficial owner	2,500,000	0.25%
Mr. Zhou Jian	Beneficial owner	2,000,000	0.20%
Mr. Li Ho Tan *(Note 3)*	Interest of controlled corporations	98,900,000	9.89%
Mr. Zhang Xiongfeng	Beneficial owner	14,000,000	1.40%

REPORT OF DIRECTORS

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

Long positions in the Shares *(Continued)*

Notes:

1. The total number of Shares in issue as at 31 December 2016 (i.e. 1,000,000,000 Shares) has been used for the calculation of the approximate percentage of interest.

2. Mr. Chen Yenfei holds 100% of the issued share capital of Praise Treasure Limited and is therefore deemed to be interested in the 474,040,000 Shares held by Praise Treasure Limited in the Company.

3. Mr. Li Ho Tan is interested in 47% of the issued share capital of Advance Apex Limited and the entire issued share capital of Jumbo Success Holdings Limited, both incorporated in the British Virgin Islands, and therefore is deemed to be interested in the 98,500,000 Shares and 400,000 Shares which Advance Apex Limited and Jumbo Success Holdings Limited hold respectively.

Long positions in the underlying Shares

Name of Director	Capacity/nature of interest	Number of underlying Shares held *(Note1)*	Approximate percentage of shareholding *(Note 2)*
Mr. Zhang Xiongfeng	Beneficial owner	8,000,000	0.80%

Notes:

1. These are 8,000,000 Shares to be issued upon exercise of the unlisted physically settled share options granted to Mr. Zhang Xiongfeng on 8 July 2016 pursuant to the Share Option Scheme and can be exercised by Mr. Zhang Xiongfeng between 8 July 2016 to 31 December 2019 at the subscription price of HK$0.60 per Share.

2. The total number of Shares in issue as at 31 December 2016 (i.e. 1,000,000,000 Shares) has been used for the calculation of the approximate percentage of interest.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

REPORT OF DIRECTORS

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

As at 31 December 2016, so far as the directors and chief executive of the Company were aware, the following persons and corporations (excluding the directors and chief executive of the Company) had interests or short positions in any of the Shares or underlying Shares which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

Long positions in the issued Shares

Name of Shareholder	Capacity/nature of interest	Number of Shares held	Approximate percentage of issued share capital *(Note 1)*
Praise Treasure Limited *(Note 2)*	Beneficial owner	474,040,000	47.40%
Central Huijin Investment Ltd. *(Note 3)*	Person having a security interest in shares	474,040,000	47.40%
China Construction Bank Corporation *(Note 3)*	Person having a security interest in shares	474,040,000	47.40%
Advance Apex Limited *(Note 4)*	Beneficial owner	98,500,000	9.85%
Mr. Cheung Chi Mang *(Note 4)*	Interest of a controlled corporation	98,500,000	9.85%

Notes:

1. The total number of Shares in issue as at 31 December 2016 (i.e. 1,000,000,000 Shares) has been used for the calculation of the approximate percentage of interest.

2. Praise Treasure Limited directly holds 474,040,000 Shares representing approximately 47.40% of the issued share capital of the Company.

3. According to the corporate substantial shareholder notices dated 30 December 2016 filed by each of Central Huijin Investment Ltd. and China Construction Bank Corporation, Chance Talent Management Limited ("Chance Talent") is interested in 474,040,000 Shares. Chance Talent is a wholly-owned subsidiary of CCBI Investments Limited ("CCBII"). CCBII is a wholly-owned subsidiary of CCB International (Holdings) Limited ("CCBIH"). CCBIH is a wholly-owned subsidiary of CCB Financial Holdings Limited ("CCBFH"). CCBFH is a wholly-owned subsidiary of CCB International Group Holdings Limited ("CCBIGH"). CCBIGH is a wholly-owned subsidiary of China Construction Bank Corporation, which is owned as to 57.31% by Central Huijin Investment Ltd.

4. Advance Apex Limited directly holds 98,500,000 Shares, representing approximately 9.85% of the issued share capital of the Company. Mr. Cheung Chi Mang is interested in 50% of the issued share capital of Advance Apex Limited and is deemed to be interested in 98,500,000 Shares.

REPORT OF DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Long positions in the underlying Shares

Name of Shareholder	Capacity/nature of interest	Number of underlying Shares held	Approximate percentage of shareholding *(Note 1)*
Central Huijin Investment Ltd. *(Note 2)*	Beneficial owner	160,000,000	16.00%
China Construction Bank Corporation *(Note 2)*	Beneficial owner	160,000,000	16.00%

Notes

1. The total number of Shares in issue as at 31 December 2016 (i.e. 1,000,000,000 Shares) has been used for the calculation of the approximate percentage of interest.

2. According to the corporate substantial shareholder notices dated 30 December 2016 filed by each of Central Huijin Investment Ltd. and China Construction Bank Corporation, these underlying Shares are unlisted physically settled derivatives which are held by Chance Talent. Chance Talent is a wholly-owned subsidiary of CCBII. CCBII is a wholly-owned subsidiary of CCBIH. CCBIH is a wholly-owned subsidiary of CCBFH. CCBFH is a wholly-owned subsidiary of CCBIGH. CCBIGH is a wholly-owned subsidiary of China Construction Bank Corporation, which is owned as to 57.31% by Central Huijin Investment Ltd.

Save as disclosed above, as at 31 December 2016, the Company has not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in any of the Shares or underlying Shares which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

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

REPORT OF DIRECTORS

COMPETING BUSINESS

None of the Directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2016. Each of Mr. Chen Yenfei and Praise Treasure Limited (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 26 May 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2016.

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2016 is contained in note 40 to the consolidated financial statements in this annual report. Other than the transaction in relation to purchase of pharmaceutical products from an entity controlled by Mr. Chen which constituted fully-exempt connected transaction of the Company, the transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

CHARITABLE DONATIONS

There was no charitable donations made by the group during the year ended 31 December 2016 (2015: nil).

AUDIT COMMITTEE

The audit committee of the Board has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2016.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2016.

REPORT OF DIRECTORS

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 13 to 22 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORT PERIOD

Subsequent to the end of the reporting period, in January and February 2017, the Company entered into subscription agreements with certain independent third parties, pursuant to which the third parties subscribed for and the Company issued corporate bonds with the aggregate principal amount of HK$19,500,000 for the cash consideration of HK$19,500,000. These corporate bonds bear coupon rate of 7% per annum with maturity periods ranging from 3 to 7.5 years.

AUDITOR

CCTH CPA Limited ("CCTH CPA") was appointed as the auditor of the Company on 11 January 2017 upon the resignation of Crowe Horwath (HK) CPA Limited. The consolidated financial statements of the Company for the year ended 31 December 2016 were audited by CCTH CPA. CCTH CPA will retire as auditor of the Company at the conclusion of the AGM and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of CCTH CPA as auditor of the Company will be proposed at the AGM.

On behalf of the Board
Chen Yenfei
Chairman

Hong Kong, 31 March 2017

INDEPENDENT AUDITOR'S REPORT

CCTH CPA LIMITED
中正天恆會計師有限公司

TO THE SHAREHOLDERS OF
PA SHUN PHARMACEUTICAL INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Pa Shun Pharmaceutical International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 61 to 148, 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 HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Revenue recognised from sales of pharmaceutical products	
Note 4 to the consolidated financial statements	
Revenue from sales of pharmaceutical products is recognised when the pharmaceutical products are delivered and title passed. The accounting policy for revenue recognition is disclosed in note 2(m)(i) to the consolidated financial statements. The Group recognised revenue of approximately RMB860.6 million from sales of pharmaceutical products for the year ended 31 December 2016. We have identified revenue recognised from sales of pharmaceutical products as a key audit matter as the revenue recognised is quantitatively significant to the consolidated statement of profit or loss and is one of the key performance of the Group.	Our procedures in relation to revenue recognised from sales included: • We obtained an understanding of the revenue business process regarding sales of pharmaceutical products. • We evaluated and tested the key controls over the recognition of sales of pharmaceutical products. • We checked, on a sample basis, the terms set out in the sales and purchase agreements, and assessed whether the significant risks and rewards of ownership of the related pharmaceutical products sold have been transferred to the customers by reviewing the relevant documents, including the delivery notes and acknowledgement to receipts. • We tested the recognition of material sales transactions closed to the end of the reporting period to assess whether those sales transactions were recorded in appropriate accounting period in accordance with the Group's revenue recognition policy.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

How our audit addressed the key audit matter

Recoverability of refundable deposits paid for proposed acquisition of company

Note 18(a) to the consolidated financial statements

During the year, deposits were paid by the Group amounted to approximately RMB52.3 million as at 31 December 2016 for the proposed acquisition of Chengdu Yiming Investment Management Company Limited ("Chengdu Yiming").

The proposed acquisition is yet to be finalised pending the conclusion with the People's Republic of China ("PRC") local government regarding details of the change of land usage of the land held by the Group and Chengdu Yiming for the proposed property development project of a logistic centre as detailed in note 18 (c) to the consolidated financial statements. The deposits paid by the Group are secured by the pledge of the 100% equity interest of Chengdu Yiming in favour of the Group.

We identified the recoverability of the deposits paid for the acquisition as a key audit matter as the magnitude of the deposits is significant and the recoverability of such deposits is based on management judgment and estimation.

Our procedures in relation to the recoverability of the deposits paid for the proposed acquisition included:

- We reviewed the memorandum of understanding entered into by the Group and other relevant documentation in relation to the proposed acquisition and the pledge of the equity interest in Chengdu Yiming in favour of the Group.
- We obtained an understanding of the management's estimation and judgment about the proposed acquisition of equity interest in Chengdu Yiming and the recoverability of the deposits paid by the Group.
- We reviewed the management accounts and other financial information of Chengdu Yiming to assess its financial position.
- We performed procedures regarding impairment assessment of the property development project as detailed in the following section headed "Impairment assessment of the proposed property development project".

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the proposed property development project	
Note 18(c) to the consolidated financial statements	
As at 31 December 2016, the Group had made payments amounted to approximately RMB82.6 million to Chengdu Yiming in connection with a proposed property development project of a logistic centre. Management conducted impairment assessment of the property project and concluded that no impairment loss is required to be made based on the fair value of the properties upon their completion of development, as valued by an external property valuer. We identified the impairment assessment of the proposed property development project as a key audit matter due to significant payments made by the Group for the project up to 31 December 2016 and the estimation and judgment involved in the assessments of the budgeted development costs for the project and the fair value of the properties upon their completion of development as valued by the external property valuer.	Our procedures in relation to the impairment assessment of the property development project included: • We interviewed with management of the Group regarding the status of the project and update of the project development. • We obtained an understanding of the management's internal control of the preparation of budgeted costs for the development of the property project. • We assessed the reasonableness of the individual components of the budgeted costs by reference to the feasibility study report prepared by management and other corroborative evidence. • We evaluated the competence, capabilities and objectivity of the external property valuer regarding the project under development. • We obtained an understanding from the property valuer about the valuation techniques, performance of the property markets, significant assumptions adopted, critical judgmental areas, key inputs and data used in the valuation. • We evaluated the reasonableness of the key inputs used in the valuation by comparing the rentals, capitalisation rate and market observable transactions for valuation with other similar properties, market trend and management assumptions. • We interviewed with management of Chengdu Yiming regarding the development progress of the project to assess whether the project development is in line with the planned time schedule and any significant obstacles are expected to hinder the project completion.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Net realisable value of inventories Note 19 to the consolidated financial statements As 31 December 2016, the Group had inventories amounted to approximately RMB77.5 million, net off impairment provision amounted to approximately RMB2.4 million. Recoverability of the inventories involved management judgment in assessing the net realisable value ("NRV") for individual inventories. The management's estimation of the NRV is primarily based on the latest selling prices and current market conditions. The Group conducted the inventory review and made allowance on obsolete and slow moving items to write off or write down such inventories to their NRV. We have identified the NRV of inventories as a key audit matter due to the magnitude of inventories and the significant degree of judgment by the management associated with determining the NRV.	Our procedures in relation to assessing the net realisable value of the inventories included: • We obtained an understanding of the control procedures performed by management in estimating the NRV of the inventories and conducting periodic review of inventory obsolescence. • We observed the Group's inventory counts to identify whether there is any damaged or obsolete inventories. • We tested, on a sample basis, the accuracy of the ageing profile of individual inventory items by checking to the underlying procurement correspondence and invoices. • We tested, on a sample basis, the NRV of selected inventory items, by comparing the selling prices subsequent to the year end, against the carrying amounts of these individual finished goods. Where there are no subsequent sales of the respective finished goods after the year end, we discussed with management as to the assessment of net realisable value of the products, corroborating explanations with the inventory ageing, sales orders, historical margins, and current market conditions by using our industry knowledge and external market analysis, as appropriate.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade and bills receivables Note 21 to the consolidated financial statements At 31 December 2016, the Group had gross trade and bills receivables amounted to approximately RMB310.5 million, of which impairment provision of RMB22.8 million has been made. Recoverability of the trade and bills receivables involved management judgment in assessing the allowance for doubtful debts for individual trade receivables. The ability of the debtors to repay to the Group depends on customer specific and market conditions which involve inherent uncertainty. We have identified impairment assessment of trade and bills receivables as a key audit matter due to the magnitude of the receivables and the estimation and judgment involved in the determination of the recoverable amounts of these receivables.	Our procedures in relation to the recoverability of trade and bills receivables included: • We obtained an understanding of the design, implementation and operating effectiveness of management's internal controls relating to credit control, debt collection and making provisions for doubtful debts. • We assessed the classification and accuracy of individual balances in trade and bills receivables ageing report by testing the underlying invoices on a sample basis. • We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgment about the recoverability of the outstanding receivables and assessed the allowance for doubtful debts made by management for these individual balances. • We assessed the historical accuracy of the estimates made by the management for the allowance for doubtful debts.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Recoverability of other receivables	
Note 21 to the consolidated financial statements	
As at 31 December 2016, the Group had other receivables amounted to approximately RMB55.6 million which included receivables of grants and taxes refund from local government and outstanding balances due from other parties. The ability of the debtors to repay to the Group depends on debtor's specific and market conditions and the financial position of the debtors. We have identified impairment assessment of the other receivables as a key audit matter due to the magnitude of the receivable balances and the estimation and judgment of management involved in the determination of the recoverable amounts of these receivables.	Our procedures in relation to the recoverability of other receivables included: • We obtained an understanding of the Group's processes and controls relating to monitoring of the recoverability of the other receivables and identifying any impairment indicators. • We assessed the classification and accuracy of individual receivables by testing relevant corroborative evidence on a sample basis. • We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to year end date, we obtained an understanding of the basis of management's judgment about the recoverability of the outstanding receivables and assessed the impairment loss made by management for doubtful recovery of the receivable balances.

OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unqualified opinion on those consolidated financial statements on 31 March 2016.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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.

INDEPENDENT AUDITOR'S REPORT

- 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.

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 31 March 2017

Lee Tak Fai, Thomas
Practising certificate number: PO6077

Unit 5-6, 7/F., Greenfield Tower, Concordia Plaza,
1 Science Museum Road, Tsim Sha Tsui,
Kowloon, Hong Kong

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

		Year ended 31 December	
	NOTES	**2016 RMB'000**	2015 RMB'000
Revenue	*4*	**860,574**	867,963
Cost of sales		**(746,626)**	(702,698)
Gross profit		**113,948**	165,265
Other income and gains	*5(a)*	**24,985**	22,534
Other net loss	*5(b)*	**(42,460)**	(28,539)
Selling and distribution expenses		**(14,083)**	(25,569)
General and administrative expenses		**(51,433)**	(53,118)
Gain on change in fair value of convertible redeemable preferred shares	*28*	**–**	37,471
Impairment loss on goodwill	*16*	**–**	(1,295)
Finance costs	*6*	**(2,516)**	(3,743)
Profit before tax	*7*	**28,441**	113,006
Income tax expense	*8*	**(20,766)**	(28,120)
Profit for the year		**7,675**	84,886
Attributable to:			
Equity shareholders of the Company		**7,675**	88,257
Non-controlling interests		**–**	(3,371)
Profit for the year		**7,675**	84,886
Earnings per share (in RMB cent(s))	*12*		
Basic		**0.77**	11.31
Diluted		**0.76**	5.74

The notes on pages 68 to 148 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit for the year	**7,675**	84,886
Other comprehensive income for the year		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside the PRC	**(284)**	8,373
Total comprehensive income for the year	**7,391**	93,259
Attributable to:		
Equity shareholders of the Company	**7,391**	96,630
Non-controlling interests	**–**	(3,371)
Total comprehensive income for the year	**7,391**	93,259

The notes on pages 68 to 148 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**56,853**	59,451
Prepaid land lease payments	15	**2,214**	2,249
Goodwill	16	**–**	–
Other intangible assets	17(a)	**3,103**	814
Prepayments for intangible assets	17(b)	**20,000**	29,000
Other non-current assets	18	**159,683**	94,895
Deferred tax assets	29	**3,968**	6,173
		245,821	192,582
CURRENT ASSETS			
Inventories	19	**77,497**	67,894
Financial assets at fair value through profit or loss	20	**–**	2,619
Trade and other receivables	21	**343,281**	329,620
Prepayments and deposits paid	22	**185,192**	82,174
Derivative financial instruments	27	**7,567**	–
Amounts due from related parties	40(b)	**357**	–
Pledged bank deposits	23	**92,122**	95,479
Cash and cash equivalents	23	**148,650**	116,334
		854,666	694,120
Assets of a disposal group classified as held-for-sale	13	**–**	14,594
		854,666	708,714
CURRENT LIABILITIES			
Trade and other payables	24	**193,309**	121,824
Bank borrowings	25	**14,009**	15,000
Convertible redeemable preferred shares	28	**–**	–
Amount due to a director	40(b)	**–**	222
Amounts due to related parties	40(b)	**176**	35
Corporate bonds payable	26	**135**	–
Income tax payable	29	**10,812**	13,346
		218,441	150,427
Liabilities of a disposal group classified as held-for-sale	13	**–**	1,728
		218,441	152,155
NET CURRENT ASSETS		**636,225**	556,559
TOTAL ASSETS LESS CURRENT LIABILITIES		**882,046**	749,141

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Convertible redeemable preferred shares	28	–	–
Deferred income – government grant	30	25,588	26,471
Corporate bonds payable	26	15,484	–
Convertible bonds	27	116,206	–
		157,278	26,471
NET ASSETS		724,768	722,670
CAPITAL AND RESERVES			
Share capital	31	801	801
Reserves	33	723,967	724,179
Total equity attributable to equity shareholders of the Company		724,768	724,980
Non-controlling interests		–	(2,310)
TOTAL EQUITY		724,768	722,670

The consolidated financial statements on pages 61 to 148 were approved and authorised for issue by the board of directors of the Company on 31 March 2017 and are signed on its behalf by:

Chen Yenfei
Director

Shen Shun
Director

The notes on pages 68 to 148 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity shareholders of the Company										
	Share capital RMB'000	Share premium RMB'000	PRC statutory reserve RMB'000	Convertible bonds reserve RMB'000 (Note 27)	Share option reserve RMB'000 (Note 32)	Exchange reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	1	–	31,905	–	–	3,534	(28,150)	172,929	180,219	1,061	181,280
Profit for the year	–	–	–	–	–	–	–	88,257	88,257	(3,371)	84,886
Other comprehensive income for the year											
– Exchange differences on translation of financial statements of entities outside the PRC	–	–	–	–	–	8,373	–	–	8,373	–	8,373
Total comprehensive income for the year	–	–	–	–	–	8,373	–	88,257	96,630	(3,371)	93,259
Conversion of convertible redeemable preferred shares	–	219,317	–	–	–	–	–	–	219,317	–	219,317
Capitalization issue	600	(600)	–	–	–	–	–	–	–	–	–
Issue of shares	200	244,073	–	–	–	–	–	–	244,273	–	244,273
Share issue expenses	–	(15,459)	–	–	–	–	–	–	(15,459)	–	(15,459)
Appropriation to PRC statutory reserve	–	–	5,089	–	–	–	–	(5,089)	–	–	–
At 31 December 2015 and 1 January 2016	801	447,331	36,994	–	–	11,907	(28,150)	256,097	724,980	(2,310)	722,670
Profit for the year	–	–	–	–	–	–	–	**7,675**	**7,675**	–	**7,675**
Other comprehensive income for the year											
– Exchange differences on translation of financial statements of entities outside the PRC	–	–	–	–	–	**(284)**	–	–	**(284)**	–	**(284)**
Total comprehensive income for the year	–	–	–	–	–	**(284)**	–	**7,675**	**7,391**	–	**7,391**
Recognition of equity-settled share-based payments	–	–	–	–	**11,997**	–	–	–	**11,997**	–	**11,997**
Recognition of the equity component of convertible bonds	–	–	–	**7,395**	–	–	–	–	**7,395**	–	**7,395**
Adjustment to non-controlling interests arising on disposal of subsidiary (note 35)	–	–	–	–	–	–	–	–	–	**2,310**	**2,310**
Dividend paid	–	–	–	–	–	–	–	**(26,995)**	**(26,995)**	–	**(26,995)**
Appropriation to PRC statutory reserve	–	–	**5,285**	–	–	–	–	**(5,285)**	–	–	–
At 31 December 2016	**801**	**447,331**	**42,279**	**7,395**	**11,997**	**11,623**	**(28,150)**	**231,492**	**724,768**	**–**	**724,768**

The notes on pages 68 to 148 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before tax		**28,441**	113,006
Adjustments for:			
Depreciation of property, plant and equipment	14	**6,879**	9,017
Amortisation of prepaid land lease payments	15	**72**	110
Amortisation of intangible assets	17	**779**	576
Government grant recognised to profit or loss	30	**(883)**	(883)
Impairment loss on inventories	5(b)	**2,380**	–
Impairment loss on trade receivables	5(b)	**4,680**	8,953
Impairment loss on other receivables	5(b)	**6,941**	16,047
Impairment loss on amount due from a former subsidiary	5(b)	**17,079**	–
Gain on disposal of property, plant and equipment	5(a)	**(3)**	–
Loss on disposal of property, plant and equipment	5(b)	**590**	1,852
Impairment loss on goodwill	16	**–**	1,295
Gain on disposal of a subsidiary	35	**(9,765)**	–
Gain on change in fair value of derivative financial instruments	5(a)	**(54)**	–
Gain on change in fair value of convertible redeemable preferred shares	28	**–**	(37,471)
Loss on change in fair value of financial assets at fair value through profit or loss	5(b)	**2,619**	537
Loss on issue of convertible bonds	5(b)	**8,171**	–
Bank interest income	5(a)	**(187)**	(2,182)
Finance costs	6	**2,516**	3,743
Equity-settled share-based payments	32	**11,597**	–
Net foreign exchange gains		**(8,900)**	(323)
Operating cash flows before movements in working capital		**72,952**	114,277
(Increase)/decrease in inventories		**(12,483)**	457
Increase in trade and other receivables and prepayments and deposits paid		**(112,453)**	(67,475)
(Increase)/decrease in amounts due from related parties		**(357)**	340
Increase/(decrease) in trade and other payables		**72,740**	(54,237)
(Decrease)/increase in amount due to a director		**(222)**	12
Increase/(decrease) in amounts due to related parties		**141**	(197)
Cash generated from/(used in) operations		**20,318**	(6,823)
Income tax paid	29	**(21,095)**	(27,758)
Net cash used in operating activities		**(777)**	(34,581)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	**2016 RMB'000**	2015 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(4,878)**	(3,589)
Proceeds from disposal of property, plant and equipment		**10**	5,058
Payments for purchase of intangible assets		**(2,068)**	(9,000)
Decrease/(increase) in deposits paid for acquisition of property, plant and equipment		**483**	(8,571)
Payments in connection with a property development project		**(54,929)**	(27,667)
Deposits for acquisition of companies:			
– paid		**(52,342)**	(42,000)
– refunded		**42,000**	–
Disposal of subsidiary	*35*	**(123)**	–
Payment for financial assets at fair value through profit or loss		**–**	(3,156)
Decrease/(increase) in pledged bank deposits		**5,066**	(21,298)
Repayment from controlling shareholder		**–**	675
Bank interest received		**187**	2,182
Net cash used in investing activities		**(66,594)**	(107,366)
Financing activities			
Drawn down of new bank loans		**14,009**	15,000
Repayment of bank loans		**(15,000)**	(50,000)
Proceeds from issue of ordinary shares		**–**	244,273
Share issue expenses		**–**	(15,459)
Proceeds from issue of corporate bonds		**19,797**	–
Corporate bonds issue expenses		**(4,319)**	–
Proceeds from issue of convertible bonds		**108,389**	–
Convertible bonds issue expenses		**(508)**	–
Dividend paid		**(26,995)**	–
Finance costs paid		**(2,345)**	(3,743)
Net cash generated from financing activities		**93,028**	190,071
Net increase in cash and cash equivalents		**25,657**	48,124
Cash and cash equivalents at 1 January		**116,401**	67,059
Effect of changes in foreign exchange rate		**6,592**	1,218
Cash and cash equivalents at 31 December	*23*	**148,650**	116,401

The notes on pages 68 to 148 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

Pa Shun Pharmaceutical International Holdings Limited (the "Company", together with its subsidiaries, the "Group") was incorporated in the Cayman Islands on 3 May 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 June 2015. The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Unit D-F, 15/F, Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong respectively.

The functional currency of the Company is Hong Kong dollar ("HK$"). The consolidated financial statements of the Company are presented in Renminbi ("RMB") for easy reference of international investors.

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 42.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group, comprising the Company and its subsidiaries, have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong and are in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

New and revised HKFRSs applied in current year

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

HKFRS 14	Regulatory Deferral Accounts
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 and Amortisation
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 Acquisition of Interests in Joint Operations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
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]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

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 for annual periods beginning on or after a date to be determined

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are 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 and give rise on specific 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, 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 requires that 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 changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types or transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

The directors of the Company ("Directors") anticipate that the application of HKFRS 9 in the future may have significant impacts on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. 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.

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. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Other than disclosed above, the Directors do not anticipate that the application of the new and revised HKFRSs in issue but not yet effective will have material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared on the historical basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial assets at fair value through profit or loss;

– derivative financial instruments; and

– convertible redeemable preferred shares.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below:

(a) Subsidiaries and non-controlling interests

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group has power over the entity, the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to use its power to affect those returns. The Group reassesses whether or not it controls an entity if facts and circumstances indicated that there were changes to one or more of the aforementioned three elements of control.

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets, however, the choice of measuring non-controlling interests is limited to those types of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the subsidiary's net assets in the event of liquidation. All other types of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by HKFRSs.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Subsidiaries and non-controlling interests *(Continued)*

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any identified impairment losses.

(b) Goodwill

Goodwill represents the excess of

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

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

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

Goodwill is stated at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent period.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement 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 (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL") and 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 debt instrument 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 and points 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 debt instrument, 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, other than those financial assets classified as at fair value through profit or loss, of which interest income is included in other income and gains.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

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

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

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

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

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

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

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, amounts due from related parties, pledged bank deposits and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see note 2(g)(i) below).

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

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.

Convertible redeemable preferred shares

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

Convertible bonds

The convertible bonds contain three elements: liability component, derivative component and equity component which are classified in accordance with the substance of the contractual arrangements and the definitions of a financial liability, a derivative financial instrument and an equity instrument. Early redemption option that entitles the Company to redeem the convertible bonds before their maturity is regarded as derivative financial instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The derivative component is measured at fair value at the date of issue and subsequent to that date with any change in fair value recognised in profit or loss. The fair value of the equity component at the date of issue is recognised and included in equity, net of income tax effects, if any, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Financial instruments *(Continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Other financial liabilities

Other financial liabilities (including trade and other payables, corporate bonds payable, bank borrowings, and amounts due to a director and related parties) 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 premiums 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.

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.

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 expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses, if any.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Intangible assets (other than goodwill)

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

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives from the date they are available for use and their estimated useful lives are as follows:

Patent	20 years
Computer software	5–20 years

Both the period and method of amortisation are reviewed annually.

(f) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets

(i) Impairment of loans and receivables

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(i) Impairment of loans and receivables (Continued)

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

(ii) Impairment of other assets (other than goodwill)

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

- Property, plant and equipment;
- Prepaid land lease payments;
- Intangible assets;
- Other non-current assets; and
- Prepayments.

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

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(ii) Impairment of other assets (other than goodwill) *(Continued)*

– *Recognition and reversal of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior reporting periods. Reversals of impairment losses are credited to profit or loss in the reporting period in which the reversals are recognised.

(h) Inventories

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

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

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

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

(i) Cash and cash equivalents

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

(j) Employee benefits

(i) Short term employee benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Employee benefits *(Continued)*

(ii) Defined contribution retirement benefits

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

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

(iii) Share-based payments

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

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

(iv) Termination benefits

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

(k) Income tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Income tax *(Continued)*

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Income tax *(Continued)*

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(l) Provisions and contingent liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition

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

(i) Sales of goods

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

(ii) Interest income

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

(iii) Rental income from operating leases

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

(iv) Franchise fee income

Franchise fee income is recognised when services are rendered.

(v) Government grants

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity shareholders of the Company are reclassified to profit or loss.

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

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

(o) Borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Borrowing costs *(Continued)*

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

(p) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in note 2(p)(a).

(vii) A person identified in note 2(p)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Non-current assets held for sale

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

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

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

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

(r) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information and are provided regularly to the Group's executive Directors for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(a) Impairment of property, plant and equipment, prepaid land lease payments, other intangible assets, prepayments for intangible assets and other non-current assets (Carrying amount: RMB241,925,000 (2015: RMB186,518,000))

If circumstances indicate that the carrying amounts of property, plant and equipment, prepaid land lease payments, intangible assets, prepayments for intangible assets and other non-current assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised to reduce the carrying amounts to the recoverable amount in accordance with the accounting policy for impairment of these assets as described in note 2(g)(ii). The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgment relating to level of future income and operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. Changes in these estimates could have a significant impact on the carrying amounts of the assets and could result in additional impairment charge or reversal of impairment in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Impairment of trade and other receivables (Carrying amount: RMB343,281,000 (2015: RMB329,620,000))

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

(c) Assessment of useful lives of property, plant and equipment (Carrying amount: RMB56,853,000 (2015: RMB59,451,000))

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

(d) Net realisable value of inventories (Carrying amount: RMB77,497,000 (2015: RMB67,894,000))

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling the products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior periods.

(e) Recognition of deferred tax assets (Carrying amount: RMB3,968,000 (2015: RMB6,173,000))

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are pharmaceutical distribution, self-operated retail pharmacies and manufacture of pharmaceutical products in the People's Republic of China ("PRC").

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

	2016	2015
	RMB'000	RMB'000
Pharmaceutical distribution	**774,230**	740,092
Self-operated retail pharmacies	**934**	8,321
Pharmaceutical manufacturing	**85,410**	119,550
	860,574	867,963

(b) Segment reporting

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

– Pharmaceutical distribution: this segment generates revenue primarily from sales of pharmaceutical products to (i) wholesalers, (ii) franchise retail pharmacy chain stores and (iii) hospitals and other medical institutions in rural areas.

– Self-operated retail pharmacies: this segment generates revenue primarily from sales of pharmaceutical and healthcare products, cosmetic products and daily necessities in self-operated retail pharmacies.

– Pharmaceutical manufacturing: this segment generates revenue primarily from sales of pharmaceutical products manufactured by the Group.

The Group's revenue and profit from operations were entirely derived from activities of pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing in the PRC for the years ended 31 December 2016 and 2015 and the principal assets employed by the Group were located in the PRC as at 31 December 2016 and 2015. Accordingly, no analysis by geographical information is provided for the years ended 31 December 2016 and 2015.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision maker for review during the years ended 31 December 2016 and 2015 for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

The Group's customer base is diversified, thus no single customer of the Group contributed 10% or more of the Group's revenue for the years ended 31 December 2016 and 2015.

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

(i) Segment revenue and results

Segment information regarding the Group's revenue and results as provided to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

	Year ended 31 December 2016						
	Pharmaceutical distribution						
	Sales to wholesalers RMB'000	Sales to franchise retail pharmacy chain stores RMB'000	Sales to hospitals and other medical institutions in rural areas RMB'000	Sub-total RMB'000	Self-operated retail pharmacies RMB'000	Pharmaceutical manufacturing RMB'000	Total RMB'000
Revenue from external customers	592,960	109,589	71,681	774,230	934	85,410	860,574
Inter-segment revenue	–	1,184	–	1,184	–	1,234	2,418
Reportable segment revenue	592,960	110,773	71,681	775,414	934	86,644	862,992
Reportable segment profit/(loss)	25,220	24,255	17,842	67,317	(326)	46,891	113,882
Other segment information							
Depreciation and amortisation	–	–	–	–	–	585	585

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

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

	2016 RMB'000	2015 RMB'000
Revenue		
Reportable segment revenue	**862,992**	873,582
Elimination of inter-segment revenue	**(2,418)**	(5,619)
Consolidated revenue *(note 4(a))*	**860,574**	867,963
Profit		
Reportable segment profit	**113,882**	165,486
Elimination of inter-segment loss/(profit)	**66**	(221)
Gross profit derived from external customers	**113,948**	165,265
Other income and gains	**24,985**	22,534
Other net loss	**(42,460)**	(28,539)
Selling and distribution expenses	**(14,083)**	(25,569)
General and administrative expenses	**(51,433)**	(53,118)
Gain on change in fair value of convertible redeemable preferred shares	**–**	37,471
Impairment loss on goodwill	**–**	(1,295)
Finance costs	**(2,516)**	(3,743)
Consolidated profit before tax	**28,441**	113,006
Other items		
Depreciation and amortisation		
Reportable segment total	**585**	493
Unallocated total	**7,145**	9,210
Consolidated total	**7,730**	9,703

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. OTHER INCOME AND GAINS AND OTHER NET LOSS

(a) Other income and gains

	2016 RMB'000	2015 RMB'000
Franchise fee	10,464	17,414
Bank interest income	187	2,182
Net foreign exchange gains	2,210	–
Gain on disposal of property, plant and equipment	3	–
Gain on disposal of subsidiary *(note 35)*	9,765	–
Gain on change in fair value of derivative financial instruments *(note 27)*	54	–
Rental income	–	465
Deferred income – government grant *(note 30)*	883	883
Others	1,419	1,590
	24,985	22,534

(b) Other net loss

	2016 RMB'000	2015 RMB'000
Impairment loss on:		
Inventories	2,380	–
Trade receivables *(note 21(a))*	4,680	8,953
Other receivables	6,941	16,047
Amount due from a former subsidiary	17,079	–
Loss on change in fair value of financial assets at fair value through profit or loss *(note 20)*	2,619	–
Loss on disposal of property, plant and equipment	590	1,852
Loss on issue of convertible bonds *(note 27)*	8,171	–
Recovery of other receivables written off in prior years	–	(66)
Net foreign exchange loss	–	1,753
	42,460	28,539

The Directors considered it appropriate to recognise impairment loss on other receivables of RMB6,941,000 (2015: RMB16,047,000) in light that these receivables remained long outstanding for over one year without any settlement during the year and that certain of these receivables were due from debtors with financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on:		
Bank borrowings	1,349	2,721
Bank overdrafts	6	–
Corporate bonds payable *(note 26)*	135	–
Convertible bonds *(note 27)*	36	–
Other borrowings	240	–
Bills charges and other bank charges	750	1,022
	2,516	3,743

7. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	2016 RMB'000	2015 RMB'000
Cost of inventories *(note i)*	746,626	702,698
Salaries, wages and other benefits	31,163	21,906
Contributions to contribution retirement plans	1,837	3,919
Total staff costs *(note ii)*	33,000	25,825
Amortisation of intangible assets	779	576
Amortisation of prepaid land lease payments	72	110
Depreciation of property, plant and equipment	6,879	9,017
Auditors' remuneration		
Audit services	1,000	1,500
Non-audit services	204	42
Operating lease charges in respect of property rentals	3,459	8,243
Research and development expenses	1,299	16,047
Equity-settled share-based payments *(note iii)*	10,683	–

Notes:

(i) Cost of inventories include staff costs, depreciation and amortisation charges totalled RMB1,476,000 (2015: RMB1,513,000) which are also included in the respective total amounts disclosed separately above.

(ii) The total staff costs include directors' emoluments as disclosed in note 9.

(iii) Equity-settled share-based payments exclude such payments included in directors' emoluments amounted to RMB914,000 (2015: Nil) disclosed in note 9. Equity-settled share-based payments are also included in total staff costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. INCOME TAX EXPENSE

	2016 **RMB'000**	2015 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	**18,048**	28,242
Underprovision for PRC Enterprise Income Tax in prior years	**513**	–
Deferred tax *(note 29(b))*		
Origination and reversal of temporary differences	**2,205**	(122)
	20,766	28,120

Notes:

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

(ii) Pursuant to rules and regulations of the Cayman Islands and the British Virgin Island ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(iii) No provision for Hong Kong Profits Tax has been made in the consolidated statement of profit or loss as the Group has no assessable profits arising in Hong Kong for both of the years presented.

(iv) The Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25% (2015: 25%).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. INCOME TAX EXPENSE *(Continued)*

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

	2016 RMB'000	2015 RMB'000
Profit before tax	**28,441**	113,006
Tax charge on profit before tax, calculated at the statutory tax rates applicable to the profits in the jurisdictions concerned	**5,925**	17,509
Effect of non-deductible expenses	**12,026**	10,146
Effect of non-taxable income	**(3,594)**	(635)
Effect of unused tax losses/deductible temporary difference not recognised	**5,896**	503
Others	**–**	597
Underprovision in respect of prior years	**513**	–
Income tax expense	**20,766**	28,120

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

An analysis of the directors' emoluments by individual Director is as follows:

For the year ended 31 December 2016

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive Directors					
Chen Yenfei *(Chairman and Chief Executive Officer)*	–	672	–	–	672
Su Si *(note b)*	–	–	–	–	–
Zhou Jian	–	251	–	–	251
Shen Shun	–	2,315	–	–	2,315
Non-executive Directors					
Li Ho Tan	50	–	–	–	50
Masahiro Honna	50	–	–	–	50
Zhang Xiongfeng *(note c)*	21	–	–	914	935
Independent non-executive Directors					
Liu Liangzhong *(note a)*	101	–	–	–	101
Wong Tak Shing *(note a)*	157	–	–	–	157
Min Feng *(note a)*	101	–	–	–	101
	480	3,238	–	914	4,632

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

For the year ended 31 December 2015

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

Notes:

(a) Liu Liangzhong, Wong Tak Shing and Min Feng were appointed as independent non-executive Directors on 26 May 2015.

(b) Su Si resigned as an executive Director on 28 January 2016.

(c) Zhang Xiongfeng was appointed as a non-executive Director with effective from 1 July 2016.

(d) During the two years ended 31 December 2016 and 2015, there were no amounts paid or payable by the Group to the Directors or any of the highest paid individuals set out in note 10 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any emoluments for the two years ended 31 December 2016 and 2015.

During the year ended 31 December 2016, a Director was granted share options, in respect of his services to the Group under the share option scheme of the Company. Details of the share option scheme of the Company are set out in note 32 to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2015: two) is Director whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other emoluments	**5,608**	2,458
Retirement scheme contributions	**23**	40
	5,631	2,498

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

	2016 Numbers of individuals	2015 Numbers of individuals
Nil to HK$1,000,000 (equivalent to RMB857,000) (2015: equivalent to RMB850,000)	**–**	2
HK$1,000,001 (equivalent to RMB857,001) (2015: equivalent to RMB850,001) to HK$1,500,000 (equivalent to RMB1,286,000) (2015: equivalent to RMB1,275,000)	**3**	1
HK$2,000,001 (equivalent to RMB1,714,001) (2015: equivalent to RMB1,700,001) to HK$2,500,000 (equivalent to RMB2,143,000) (2015: equivalent to RMB2,125,000)	**1**	–

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as distributions during the year:		
2015 final dividend of HK3 cents per share paid (2015: Nil)	**26,995**	–
	26,995	–

No interim dividend was declared by the Company during the year under review (2015: Nil). The Board does not recommend the payment of any final dividend in respect of the year ended 31 December 2016 (2015: final dividend of HK3 cents per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB7,675,000 (2015: RMB88,257,000) and 1,000,000,000 ordinary shares (2015: weighted average of approximately 780,319,000 shares) in issue.

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

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB7,643,000 and RMB50,786,000 and the weighted average of approximately 1,001,311,000 ordinary shares (2015: 884,246,000 ordinary shares) in issue and issuable, as follows:

(i) Earnings

	2016 RMB'000	2015 RMB'000
Earnings for the purpose of basic earnings per share	**7,675**	88,257
Effect of diluted potential ordinary shares:		
Interest on convertible bonds	**22**	–
Gain on change in fair value of derivative financial instruments	**(54)**	–
Gain on change in fair value of convertible redeemable preferred shares	**–**	(37,471)
Earnings for the purpose of diluted earnings per share	**7,643**	50,786

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share *(Continued)*

(ii) Number of shares

	2016 Number of shares '000	2015 Number of shares '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,000,000**	780,319
Effect of conversion of convertible bonds	**1,311**	–
Effect of conversion of Series A convertible redeemable preferred shares	**–**	89,343
Effect of conversion of Series B convertible redeemable preferred shares	**–**	14,584
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,001,311**	884,246

13. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Due to the challenging operating environment and poor operating performance of a former subsidiary of the Company, Hebei Chun Sheng Tang Chain Store Co., Ltd.（河北春生堂大藥房連鎖有限公司）("Chunshengtang"), the Directors decided to dispose of the subsidiary during the year ended 31 December 2015.

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

	31 December 2015 RMB'000
Assets	
Plant and equipment (note 14)	9,116
Intangible assets (note 17(a))	4,634
Inventories	777
Cash and cash equivalents	67
Assets of a disposal group classified as held for sale	14,594
Liabilities	
Trade and other payables	1,118
Income tax payable (note 29(a))	610
Liabilities of a disposal group classified as held for sale	1,728

On 28 January 2016, the Group disposed of its equity interest in Chunshengtang to a third party for a consideration of RMB400,000 as detailed in note 35 and the Group ceased to hold any equity interest in Chunshengtang thereafter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and other office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2015	49,771	19,756	3,847	16,473	3,489	7,023	100,359
Additions	389	1,405	171	883	–	741	3,589
Transferred from construction in progress	4,569	1,570	–	–	–	(6,139)	–
Disposals	(1,165)	(10,456)	(182)	(528)	–	–	(12,331)
Transferred to assets held for sale *(note 13)*	–	(7,461)	–	(3,052)	(173)	–	(10,686)
At 31 December 2015 and 1 January 2016	53,564	4,814	3,836	13,776	3,316	1,625	80,931
Additions	–	1,268	–	560	323	2,727	4,878
Transferred from construction in progress	470	–	–	–	–	(470)	–
Disposals	–	(709)	–	(113)	(210)	–	(1,032)
At 31 December 2016	54,034	5,373	3,836	14,223	3,429	3,882	84,777
Accumulated depreciation							
At 1 January 2015	5,638	2,790	2,981	5,266	2,779	–	19,454
Depreciation for the year	1,918	2,386	100	4,321	292	–	9,017
Eliminated on disposals	(1,165)	(3,695)	(167)	(394)	–	–	(5,421)
Eliminated on transfer to assets held for sale *(note 13)*	–	(317)	–	(1,094)	(159)	–	(1,570)
At 31 December 2015 and 1 January 2016	6,391	1,164	2,914	8,099	2,912	–	21,480
Depreciation for the year	2,423	733	110	3,426	187	–	6,879
Eliminated on disposals	–	(212)	–	(37)	(186)	–	(435)
At 31 December 2016	8,814	1,685	3,024	11,488	2,913	–	27,924
Carrying amount							
At 31 December 2016	**45,220**	**3,688**	**812**	**2,735**	**516**	**3,882**	**56,853**
At 31 December 2015	47,173	3,650	922	5,677	404	1,625	59,451

(a) The Group's buildings are located on land with medium-term land use rights in the PRC.

(b) The buildings with the carrying amount of RMB45,220,000 (2015: RMB47,173,000) are situated on a parcel of land that the application of land use rights certificate is still under progress (note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. PREPAID LAND LEASE PAYMENTS

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

	2016 RMB'000	2015 RMB'000
Cost		
At 1 January and 31 December	**3,779**	3,779
Accumulated amortisation		
At 1 January	**1,421**	1,311
Charge for the year	**72**	110
At 31 December	**1,493**	1,421
Carrying amount		
At 31 December	**2,286**	2,358

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
Current asset (included in prepayments and deposits paid)	**72**	109
Non-current asset	**2,214**	2,249
	2,286	2,358

Note:

At 31 December 2016, the application of land use rights certificate of a parcel of land with the carrying amount of RMB862,000 (2015: RMB892,000) is still under progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. GOODWILL

	2016 RMB'000	2015 RMB'000
Cost		
At 1 January	**6,009**	6,009
Disposal of a subsidiary	**(17)**	–
At 31 December	**5,992**	6,009
Accumulated impairment losses		
At 1 January	**6,009**	4,714
Impairment loss recognised for the year	**–**	1,295
Eliminated on disposal of a subsidiary	**(17)**	–
At 31 December	**5,992**	6,009
Carrying amount		
At 31 December	**–**	–

Impairment tests for cash-generating units containing goodwill

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

	2016 RMB'000	2015 RMB'000
Hebei Chun Sheng Tang Chain Store Co., Ltd. (河北春生堂大藥房連鎖有限公司) ("Chunshengtang") *(note a)*	**–**	–
Hubei Baixintang Pharmacy Chain Store Co., Ltd. (湖北百信堂大藥房連鎖有限公司) ("Baixintang") *(note b)*	**–**	–
	–	–

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

For the year ended 31 December 2015, after considering the poor operating performance relating to the Group's retail business activities based in Hebei and the recoverable amount for this group of CGUs has been reduced to RMBnil, the Directors considered it appropriate to make additional impairment for the goodwill of RMB17,000 for that year.

This goodwill attributable to Chunshengtang, which was fully impaired in prior years, was released during the current year following the disposal of Chunshengtang (note 35).

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

For the year ended 31 December 2015, since the operating performance relating to the Group's retail business activities based in Hubei was further deteriorated and the recoverable amount of this group of CGUs has been reduced to RMBnil, the Directors considered that the goodwill was fully impaired, accordingly additional impairment of goodwill of RMB1,278,000 was recognised for that year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. OTHER INTANGIBLE ASSETS AND PREPAYMENTS FOR INTANGIBLE ASSETS

(a) Other intangible assets

	Patent RMB'000	Computer software RMB'000	Total RMB'000
Cost			
At 1 January 2015	2,000	7,263	9,263
Transferred to assets held for sale *(note 13)*	–	(5,891)	(5,891)
At 31 December 2015 and 1 January 2016	2,000	1,372	3,372
Transferred from prepayments for intangible assets *(note 17(b))*	–	3,000	3,000
Additions	–	68	68
At 31 December 2016	**2,000**	**4,440**	**6,440**
Accumulated amortisation			
At 1 January 2015	1,750	1,489	3,239
Charge for the year	100	476	576
Transferred to assets held for sale *(note 13)*	–	(1,257)	(1,257)
At 31 December 2015 and 1 January 2016	1,850	708	2,558
Charge for the year	100	679	779
At 31 December 2016	**1,950**	**1,387**	**3,337**
Carrying amount			
At 31 December 2016	**50**	**3,053**	**3,103**
At 31 December 2015	150	664	814

The amortisation charges of RMB779,000 (2015: RMB174,000) and RMBnil (2015: RMB402,000) are included in "general and administrative expenses" and "selling and distribution expenses" respectively in the consolidated statement of profit or loss.

The carrying amounts of patent and computer software will be amortised over the remaining useful lives of 0.5 year (2015: 1.5 years) and 5 to 9 years (2015: 6 to 10 years) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. OTHER INTANGIBLE ASSETS AND PREPAYMENTS FOR INTANGIBLE ASSETS *(Continued)*

(b) Prepayments for intangible assets

	2016 RMB'000	2015 RMB'000
Prepayments for intangible assets		
– Patented technology *(note i)*	**20,000**	28,000
– Right to use electronic platform *(note ii)*	**–**	1,000
	20,000	29,000

Notes:

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

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

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

During the year, the prepaid development costs to the extent of RMB8,000,000 (2015: Nil) were reclassified and included in prepayments and deposits paid under current assets (note 22).

Up to the date of approval of these consolidated financial statements, the installation and testing of production plant and equipment was not yet approved by Beijing Runbofude.

(ii) On 15 October 2015, the Group entered into an agreement with Tianfu Mercantile Exchange Company Limited ("Mercantile Exchange"), an independent third party, to acquire the right to use the electronic platform of Mercantile Exchange for 10 years commencing from 15 January 2016. The acquisition consideration amounted to RMB3,000,000 of which RMB1,000,000 was paid during the year ended 31 December 2015 with the remaining balance of RMB2,000,000 paid by the Group during the current year. During the current year, this right to use electronic platform amounted to RMB3,000,000 was reclassified and included in other intangible assets (note 17(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. OTHER NON-CURRENT ASSETS

	2016 RMB'000	2015 RMB'000
Deposits paid for acquisition of:		
– companies *(note a)*	**52,342**	42,000
– property, plant and equipment *(note b)*	**19,745**	20,228
Payments in connection with a property development project *(note c)*	**82,596**	27,667
Guarantee deposit *(note d)*	**5,000**	5,000
	159,683	94,895

Notes:

(a) During the year ended 31 December 2015, the Group entered into two agreements with two groups of independent third parties to acquire two companies which are holding retail pharmacy chain stores in the PRC. In accordance with the agreements, the Group paid RMB20,000,000 and RMB22,000,000 respectively as deposits which would be refunded if the Group did not acquire these two companies finally. During the year ended 31 December 2016, the Directors considered that such potential acquisitions may not give benefits to the Group. Accordingly, on 29 March 2016, the Group and the two groups of independent third parties entered into agreements to cancel such potential acquisitions and deposits of RMB42,000,000 were refunded to the Group.

In addition, during the current year, the Group entered into a memorandum of understanding with a PRC individual, who is the equity owner of Chengdu Yiming Investment Management Company Limited ("Chengdu Yiming") (note (c) below) for the proposed acquisition of equity interest in Chengdu Yiming. In accordance with the memorandum of understanding, the consideration and other terms for the acquisition together with the percentage of the equity interest to be acquired are yet to be finalised pending the conclusion with the PRC local government regarding details of the change of land usage of the land held by the Group and Chengdu Yiming for the property development project as referred to in note (c). As at the end of the reporting period, the Group had made payments of refundable deposits for the acquisition amounted to RMB52,342,000 (2015: Nil), which are secured by the pledge of the 100% equity interest of Chengdu Yiming in favour of the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. OTHER NON-CURRENT ASSETS *(Continued)*

(c) As at the end of the reporting period, a subsidiary of the Company had made payments to Chengdu Yiming, amounted to approximately RMB82,596,000 (2015:RMB27,667,000) for the property development project of a logistic centre in the PRC. The land use rights of the land of the property project is currently registered in the name of the subsidiary and Chengdu Yiming. It is the understanding of management of the Group and Chengdu Yiming that the development costs of the property project, including any land premium of the land for the project arising from change of land usage, are initially financed as to 30% and 70% by the subsidiary and Chengdu Yiming respectively and the subsidiary and Chengdu Yiming are entitled to initially share 30% and 70% of the gross floor area of the properties after the completion of development. Detailed terms of the property development project are yet to be finalised by the Group and Chenghu Yiming.

Up to the date of approval of the consolidated financial statements, the property project is in preliminary stage and negotiation with the PRC local government regarding the land premium and other terms for the change of land usage of the land for the property project are in progress which are yet to be finalised.

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

19. INVENTORIES

	2016 **RMB'000**	2015 RMB'000
Raw materials	**4,061**	2,819
Work in progress	**483**	491
Finished goods	**72,936**	64,567
Consumables	**17**	17
	77,497	67,894

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 **RMB'000**	2015 RMB'000
Equity securities listed in Hong Kong, at fair value – held for trading *(note 37(e))*	**–**	2,619

Trading of these equity securities listed in Hong Kong has suspended since 20 January 2016. In the opinion of the management of the Company, the fair value of such equity securities is minimal. Loss on change in fair value of the equity securities recognised in profit or loss for the year amounted to RMB2,619,000 (2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. TRADE AND OTHER RECEIVABLES

	2016 **RMB'000**	2015 RMB'000
Trade and commercial bills receivables *(note a)*	**287,698**	273,861
Bank bills receivables *(note b)*	**6**	1,444
Other receivables *(note c)*	**55,577**	54,315
	343,281	329,620

Notes:

(a) **Trade and commercial bills receivables**

(i) ***Ageing analysis of trade and commercial bills receivables***

An ageing analysis of trade and commercial bills receivables, based on the dates of goods delivery and net of allowance for doubtful debts, is as follows:

	2016 **RMB'000**	2015 RMB'000
Within 1 month	**82,524**	88,896
1 to 3 months	**101,697**	108,512
4 to 6 months	**58,500**	62,231
Over 6 months	**44,977**	14,222
	287,698	273,861

An average credit period of 30 to 180 days is granted by the Group to its customers.

(ii) ***Impairment loss on trade and commercial bills receivables***

	2016 **RMB'000**	2015 RMB'000
Trade and commercial bills receivables		
– Gross amount	**310,534**	292,068
– Allowance for doubtful debts	**(22,836)**	(18,207)
– Amount net of allowance for doubtful debts	**287,698**	273,861

Impairment losses in respect of trade and commercial bills receivables are recorded using an allowance account unless the Group considers that recovery of the amount is remote, in which case the impairment loss is written off against trade and commercial bills receivables directly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

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

(ii) Impairment loss on trade and commercial bills receivables *(Continued)*

Movements of the allowance for doubtful debts are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**18,207**	9,254
Impairment losses recognised *(note 5(b))*	**4,680**	8,953
Uncollectible amounts written off	**(51)**	–
At 31 December	**22,836**	18,207

As at 31 December 2016, the Group's trade and commercial bills receivables totalled RMB22,836,000 (2015: RMB18,207,000) were individually determined to be impaired. The individually impaired receivables relate to customers that are in financial difficulties and are doubtful. The Group does not hold any collateral or other credit enhancements over these balances.

(iii) Trade and commercial bills receivables that are not impaired

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

	2016 RMB'000	2015 RMB'000
Not past due	**164,006**	163,041
Less than 1 month past due	**43,770**	48,831
1 to 3 months past due	**32,223**	45,241
4 to 6 months past due	**32,856**	15,863
Over 6 months past due	**14,843**	885
	123,692	110,820
	287,698	273,861

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Bank bills receivables

The bank bills receivables is aged within 180 days (2015: 180 days).

(c) Other receivables

An analysis of other receivables is as follows:

	2016 RMB'000	2015 RMB'000
Amount due from a former subsidiary	**6,148**	–
Government grant receivable	**7,000**	7,000
Other taxes recoverable	**20,149**	20,213
Others	**22,280**	27,102
	55,577	54,315

22. PREPAYMENTS AND DEPOSITS PAID

	2016 RMB'000	2015 RMB'000
Advance payments to suppliers *(note a)*	**170,765**	79,094
Other deposits and prepayments *(note b)*	**14,427**	3,080
	185,192	82,174

Notes:

(a) The amount represents deposits paid to suppliers for purchases of goods in relation to the business undertaken by the Group. Management expects that these purchases will be completed within one year after the end of the reporting period.

(b) Included in other deposits and prepayments are prepaid development costs amounted to RMB8,000,000 (2015: Nil) which were reclassified from prepayments for intangible assets (note 17(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2016 **RMB'000**	2015 RMB'000
Pledged bank deposits *(notes a, b, c and d)*	**92,122**	95,479
Cash and cash equivalents in the consolidated statement of financial position		
– Cash at banks and on hand	**148,650**	116,334
	240,772	211,813

Reconciliation of the cash and cash equivalents presented in the consolidated statement of financial position and the consolidated statement of cash flows is set out as below:

	2016 **RMB'000**	2015 RMB'000
Cash and cash equivalents presented in the consolidated statement of financial position	**148,650**	116,334
Cash and cash equivalents included in the assets of a disposal group *(note 13)*	**–**	67
Cash and cash equivalents presented in the consolidated statement of cash flows	**148,650**	116,401

Notes:

(a) Bank deposits amounted to RMB40,823,000 (2015: RMB15,479,000) have been pledged to banks for bills facilities of RMB99,725,000 (2015: RMB53,901,000). The pledged bank deposits will be released upon the settlement of relevant bills payables. The bills facilities to the extent of RMB99,725,000 were utilized as at the end of the reporting period (2015: RMB53,901,000).

(b) Bank deposits of RMB10,000 (2015: RMB10,000,000) of the Group have been pledged to a bank for bank borrowings. This pledged bank deposit will be released upon the repayment of the bank borrowings.

(c) Bank deposits of the Group of RMB50,494,000 (2015: RMB70,000,000) have been pledged to bank for general banking facilities to an extent of RMB50,494,000 (2015: RMB70,000,000).

(d) Bank deposits of the Group of RMB795,000 (2015: Nil) have been pledged to Mercantile Exchange to allow the Group to sell and promote its licorice products on the internet platform operating by Mercantile Exchange.

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

(f) Cash and cash equivalents and pledged bank deposits placed with banks in the PRC amounted to RMB53,422,000 (2015: RMB203,828,000). Remittance of these funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. TRADE AND OTHER PAYABLES

	2016 **RMB'000**	2015 RMB'000
Trade creditors *(note)*	**61,447**	37,023
Bills payables	**99,725**	53,901
Salaries, wages and welfare payables	**9,426**	9,170
Other payables and accrued expenses	**11,623**	12,314
Deposits received from customers	**7,450**	5,382
Other tax payables	**3,638**	4,034
	193,309	121,824

Note:

An ageing analysis of trade creditors, based on the dates of goods delivery, is as follows:

	2016 **RMB'000**	2015 RMB'000
Within 1 month	**15,850**	13,915
1 to 3 months	**8,575**	4,812
Over 3 months	**37,022**	18,296
	61,447	37,023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank loans repayable within one year		
– secured by Group's assets *(note b(i) and (ii))*	**10,009**	10,000
– secured by guarantees given by a subsidiary and/or an independent third party *(note b(iii))*	**4,000**	5,000
	14,009	15,000

Notes:

(a) The bank loans to the extent of RMB4,000,000 (2015: RMB5,000,000) outstanding at the end of the reporting period bear interest at floating interest rates of 5.1% to 5.8% per annum (2015: 4.4% to 7.8% per annum) with the remaining bank loans of RMB10,009,000 (2015: RMB10,000,000, bearing interest at fixed interest rates of 4.8% to 5.2% per annum (2015: 5.5% per annum).

(b) Details of the security pledged and guarantees given for the bank loans are as follows:

(i) Bank loan amounted to RMB10,000,000 (2015: Nil) was guaranteed by a subsidiary of the Company and secured by (i) the land use rights held by a subsidiary of the Company and Chengdu Yiming (note 18(c)); and (ii) the Group's pledged bank deposit of RMB50,494,000.

(ii) Bank loan amounted to RMB9,000 (2015: RMB10,000,000) was secured by the pledged bank deposit of RMB10,000 (2015: RMB10,000,000).

(iii) Bank loan amounted to RMB4,000,000 outstanding at 31 December 2016 was guaranteed by an independent third party, 成都中小企融資擔保有限責任公司. Bank loan amounted to RMB5,000,000 outstanding at 31 December 2015 was guaranteed by a subsidiary and 成都中小企融資擔保有限責任公司.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. CORPORATE BONDS PAYABLE

	2016 RMB'000	2015 RMB'000
Carrying amount of corporate bonds due on:		
– 20 December 2019	3,018	–
– 24 May 2024	9,816	–
– 13 June 2024	1,394	–
– 20 June 2024	1,391	–
	15,619	–
Payable		
– Within one year	135	–
– In the second to fifth years	3,006	–
– More than five years	12,478	–
	15,619	–
Analysed for reporting purposes as:		
Current liability	135	–
Non-current liability	15,484	–
	15,619	–
Movements in corporate bonds payable are as follows:		
At beginning of the year	–	–
Proceeds received on issue of corporate bonds	19,797	–
Bonds issue expenses	(4,319)	–
Interest on bonds accrued *(note 6)*	135	–
Exchange realignment	6	–
At end of the year	15,619	–

During the year ended 31 December 2016, the Company issued unsecured corporate bonds with the aggregate principal amount of HK$22,000,000, giving rise to a total gross proceeds of HK$22,000,000 (equivalent to RMB19,797,000) before expenses.

At 31 December 2016, the corporate bonds with the principal amount of HK$22,000,000 (2015: Nil) remained outstanding. Details of the corporate bonds outstanding at 31 December 2016 are as follows:

	Corporate bonds due on			
	20 December 2019	24 May 2024	13 June 2024	20 June 2024
Date of issue	21 December 2016	25 November 2016	14 December 2016	21 December 2016
Principal amount	HK$4,000,000	HK$14,000,000	HK$2,000,000	HK$2,000,000
Interest rate	4% per annum	4% per annum	4% per annum	4% per annum
Maturity period	3 years	7.5 years	7.5 years	7.5 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. CONVERTIBLE BONDS

	Liability component		Derivative component	
	2016 **RMB'000**	2015 RMB'000	**2016** **RMB'000**	2015 RMB'000
Carrying amount of convertible bonds at the end of the year	**116,206**	–	**(7,567)**	–
Analysed for reporting purpose as:				
Current asset	**–**	–	**(7,567)**	–
Non-current liability	**116,206**	–	**–**	–
	116,206	–	**(7,567)**	–

On 29 December 2016, the Company issued convertible bonds with the aggregate principal amount of HK$120,000,000 to a third party (the "Bondholder") for the aggregate consideration of HK$120,000,000 (before expenses). The convertible bonds comprise (i) the bonds of the principal amount of HK$72,000,000 which carry interest at 4% per annum with maturity period of two years from the date of issue (the "Series 1 CB") and (ii) the bonds of the principal amount of HK$48,000,000 which carry interest at 4% per annum with the maturity period of two years from the date of issue (the "Series 2 CB"). The Series 1 CB and the Series 2 CB entitle the holder thereof to convert the bonds into shares of the Company from date of issue to one date before the maturity date at the initial conversion prices of HK$0.60 and HK$1.20 per share respectively. In addition, the Company is required to pay to the Bondholder annual fees which are calculated at 1% of the principal amounts of the Series 1 CB and the Series 2 CB. Under the terms of the convertible bonds, the Company is entitled to redeem the outstanding Series 1 CB and Series 2 CB in full, but not in part, at any time after one year from the date of issue of the bonds at an amount which comprises the principal amount of the bonds redeemed together with any accrued and unpaid interests and annual fees and an internal rate of return of the bonds. The internal rate of return is calculated at 10% for redemption at maturity and 12% for early redemption of the principal amount of the bonds redeemed for the period from the date of issue of the bonds to the date on which the proceeds for the redemption of the bonds are settled.

The Series 1 CB and the Series 2 CB are secured by (i) the pledge of 474,040,000 shares of the Company held by Praise Treasure Limited, an entity which is wholly-owned by Mr. Chen Yenfei, the Chairman, an executive Director and a controlling shareholder of the Company; and (ii) the personal guarantee given by Mr. Chen Yenfei.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. CONVERTIBLE BONDS *(Continued)*

The fair value of the convertible bonds at the date of issue was estimated to be HK$129,533,000 as valued by Peak Vision Appraisals Limited, an independent firm of business and financial services valuers. The convertible bonds contain three components: liability, equity (conversion right) and derivatives (early redemption right) elements. The fair value of the liability component at the date of issue was calculated using the discount rate of 4.53% to 5.62% per annum, being the estimated market rates for a similar non-convertible bonds at that date. The fair value of the derivative component and equity component at the date of issue and the fair value of the derivative component at the end of the reporting period were valued using the Crank-Nicolson finite-difference method. The inputs into the model were as follows:

	At date of issue	At end of the reporting period
Risk free rate	1.921%	1.828%
Expected volatility	41.952%	42.014%
Expected life	1.998 years	1.995 years
Dividend yield	Nil	Nil

The risk-free rate was estimated by using interpolation with reference to the yield rate of Hong Kong government bonds and treasury bills.

The expected volatility was determined based on the historical volatility of the share prices of comparable companies with similar business scopes and operations to the Company.

The variables and assumptions used in calculating the fair value of the convertible bonds are based on the Directors' best estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. CONVERTIBLE BONDS *(Continued)*

Movements of the liability component, derivative component and equity component of the convertible bonds are set out below:

	Liability component RMB'000	**Derivative component** RMB'000	**Equity component** RMB'000	**Total** RMB'000
Fair value of convertible bonds at date of issue				
Series 1 CB	69,988	(5,617)	6,961	71,332
Series 2 CB	46,658	(1,893)	463	45,228
	116,646	(7,510)	7,424	116,560
Transaction costs incurred for issue of convertible bonds	(479)	–	(29)	(508)
Carrying amount at date of issue	116,167	(7,510)	7,395	116,052
Change in fair value of derivative financial instruments *(note 5(a))*	–	(54)	–	(54)
Interest expense accrued *(note 6)*	36	–	–	36
Exchange realignment	3	(3)	–	–
Carrying amount at 31 December 2016	116,206	(7,567)	7,395	116,034
Carrying amount at 31 December 2015	–	–	–	–

The effective interest rates in respect of the liability component of the convertible bonds at 31 December 2016 are 6.03% to 6.04% per annum (2015: Nil).

The loss on issue of convertible bonds amounted to RMB8,171,000 (2015: Nil), which represents the difference between the fair value of the convertible bonds at the date of issue of RMB116,560,000 and the cash proceeds of HK$120,000,000 (equivalent to RMB108,389,000) received, has been recognised in profit or loss in respect of the year and was included in other net loss (note 5(b)).

No convertible bonds were converted into new shares of the Company during the year under review. At 31 December 2016 and up to the date of approval of these consolidated financial statements, the convertible bonds with an aggregate principal amount of HK$120,000,000 remained outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. CONVERTIBLE REDEEMABLE PREFERRED SHARES

At 1 January 2015, the Company had in issue 257,280 Series A convertible redeemable preferred shares of par value of HK$0.001 each (the "Series A Shares") and 40,000 Series B convertible redeemable preferred shares of par value of HK$0.001 each (the "Series B Shares").

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

The Group elected to designate the Series A Shares and the Series B Shares with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition. The entire Series A Shares and the Series B Shares were measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arose.

The Series A Shares and the Series B Shares were all converted into ordinary shares of the Company upon the Company's IPO on 19 June 2015. Movements of the Series A Shares and Series B Shares during the year ended 31 December 2015 are as follows:

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

The fair values of the Series A Shares and Series B Shares at the date of conversions were estimated by the Directors with reference to the issue price of ordinary share of HK$1.22 (approximately RMB0.98) per share and the number of ordinary shares being converted (adjusted for the capitalization issue).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Income tax payable in the consolidated statement of financial position represents:

	2016 RMB'000	2015 RMB'000
PRC Enterprise Income Tax	**10,812**	13,346

Movements of the income tax payable in the consolidated statement of financial position are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**13,346**	13,472
Charge for the year	**18,048**	28,242
Underprovision in respect of prior years	**513**	–
Tax paid during the year	**(21,095)**	(27,758)
Reclassified to liabilities of a disposal group classified as held for sale *(note 13)*	**–**	(610)
At 31 December	**10,812**	13,346

(b) Deferred tax assets recognised:

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

	Provision for impairment RMB'000	**Provision for accrued expenses** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2015	2,162	1,899	1,990	6,051
Credited/(charged) to profit or loss	997	23	(898)	122
At 31 December 2015 and 1 January 2016	3,159	1,922	1,092	6,173
Charged to profit or loss	(194)	(7)	(2,004)	(2,205)
At 31 December 2016	2,965	1,915	(912)	3,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(c) Deferred tax assets and liabilities not recognised:

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profit earned by certain PRC subsidiaries to its direct holding company outside the PRC from 1 January 2008 onward. Deferred tax liabilities of RMB24,899,000 (2015: RMB44,633,000) was not provided for in the consolidated financial statements of the Group for the year ended 31 December 2016 in respect of undistributed profits of relevant PRC subsidiaries amounted to RMB497,987,000 (2015: RMB446,330,000) as the management of the Company confirmed that profits generated by the relevant PRC subsidiaries from 1 January 2008 onward will not be distributed to its direct holding company outside the PRC in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses and other deductible temporary differences totalled approximately RMB1,668,000 (2015: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of these deductible temporary differences due to the unpredictability of future profit streams. The tax losses will expire in one to five years after the end of the reporting period.

30. DEFERRED INCOME – GOVERNMENT GRANT

	2016 **RMB'000**	2015 RMB'000
At 1 January	**26,471**	27,354
Credited to profit or loss *(note 5(a))*	**(883)**	(883)
At 31 December	**25,588**	26,471

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. SHARE CAPITAL

	2016		2015	
	Number of shares '000	**HK$'000**	Number of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.001 each				
At 1 January	**2,000,000**	**2,000**	230,000	230
Addition *(note i)*	**–**	**–**	1,620,000	1,620
Shares reclassified from Series A convertible redeemable preferred shares *(note ii)*	**–**	**–**	100,000	100
Shares reclassified from Series B convertible redeemable preferred shares *(note ii)*	**–**	**–**	50,000	50
At 31 December	**2,000,000**	**2,000**	2,000,000	2,000

	2016		2015	
	Number of shares '000	**HK$'000**	Number of shares '000	HK$'000
Authorised:				
Series A convertible redeemable preferred shares of HK$0.001 each				
At 1 January	**–**	**–**	100,000	100
Reclassified from Series A convertible redeemable preferred shares to ordinary shares *(note ii)*	**–**	**–**	(100,000)	(100)
At 31 December	**–**	**–**	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. SHARE CAPITAL *(Continued)*

	2016 Number of shares '000	2016 HK$'000	2015 Number of shares '000	2015 HK$'000
Authorised:				
Series B convertible redeemable preferred shares of HK$0.001 each				
At 1 January	–	–	50,000	50
Reclassified from Series B convertible redeemable preferred shares to ordinary shares *(note ii)*	–	–	(50,000)	(50)
At 31 December	–	–	–	–

	2016 Number of shares '000	2016 Nominal value of shares HK$'000	2016 Carrying amount RMB'000	2015 Number of shares '000	2015 Nominal value of shares HK$'000	2015 Carrying amount RMB'000
Issued and fully paid:						
Ordinary shares of HK$0.001 each						
At 1 January	1,000,000	1,000	801	703	1	1
Conversion of Series A convertible redeemable preferred shares to ordinary shares *(note iii)*	–	–	–	257	–	–
Conversion of Series B convertible redeemable preferred shares to ordinary shares *(note iv)*	–	–	–	40	–	–
	–	–	–	297	–	–
	1,000,000	1,000	801	1,000	1	1
Capitalization issue *(note v)*	–	–	–	749,000	749	600
Issue of shares under IPO *(note vi)*	–	–	–	250,000	250	200
At 31 December	1,000,000	1,000	801	1,000,000	1,000	801

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. SHARE CAPITAL *(Continued)*

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

	2016		2015	
	Number of shares '000	**HK$'000**	Number of shares '000	HK$'000
Issued and fully paid:				
Series A convertible redeemable preferred shares of HK$0.001 each				
At 1 January	–	–	257	–
Conversion of Series A convertible redeemable preferred shares to ordinary shares	–	–	(257)	–
At 31 December	–	–	–	–

	2016		2015	
	Number of shares '000	**HK$'000**	Number of shares '000	HK$'000
Issued and fully paid:				
Series B convertible redeemable preferred shares of HK$0.001 each				
At 1 January	–	–	40	–
Conversion of Series B convertible redeemable preferred shares to ordinary shares	–	–	(40)	–
At 31 December	–	–	–	–

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. SHARE CAPITAL *(Continued)*

Notes:

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

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

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

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

(v) Pursuant to a written resolution of the shareholders of the Company dated 26 May 2015, the Directors were authorised to allot and issue a total of 749,000,000 ordinary shares of HK$0.001 each, by way of capitalisation of the sum of HK$749,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company immediately before the listing of the Company's shares on the Stock Exchange. The capitalization shares were allotted on 19 June 2015 and distributed, credited as fully paid at par.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

No share options were granted under the Scheme during the year ended 31 December 2015. Movements in the number of share options outstanding during the year ended 31 December 2016 and their exercise prices are as follows:

	2016					2015				
	Weighted average exercise price	Number of share options				Weighted average exercise price	Number of share options			
		Directors	Employees	Others	Total		Directors	Employees	Others	Total
	HK$	'000	'000	'000	'000	HK$	'000	'000	'000	'000
Granted during the year and at the end of the year	0.6	8,000	54,700	37,300	100,000	–	–	–	–	–
Exercisable at the end of the year	0.6	8,000	54,700	37,300	100,000	–	–	–	–	–

The options are exercisable during the period from 8 July 2016 to 31 December 2019.

The fair value of the share options at the date of grant is determined by using the trinomial option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Inputs into the model

Risk free rate	0.574%
Expected volatility	42.328%
Dividend yield	5.172%

The expected volatility may not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

Equity-settled share-based payments amounted to RMB11,597,000 has been recognised in profit or loss in respect of the current year (2015: Nil) relating to share options granted by the Company.

The weighted average exercise price of the share options granted and outstanding at the end of the reporting period is HK$0.6 (2015: Nil) per share. The weighted average remaining contractual life of outstanding share options granted and outstanding at the end of the reporting period is 3 years (2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. RESERVES

	2016 RMB'000	2015 RMB'000
Share premium *(note i)*	**447,331**	447,331
PRC statutory reserve *(note ii)*	**42,279**	36,994
Convertible bonds reserve *(note 27)*	**7,395**	–
Share option reserve *(note 32)*	**11,997**	–
Exchange reserve	**11,623**	11,907
Other reserve *(note iii)*	**(28,150)**	(28,150)
Retained profits	**231,492**	256,097
	723,967	724,179

Notes:

(i) Share premium

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

(ii) PRC statutory reserve

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

(iii) Other reserve

Other reserve comprises the following:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance (Chapter 57 of the Laws of Hong Kong). The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Group also participates in a state-managed retirement benefit scheme operated by the government of the PRC. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme. The subsidiaries are required to contribute certain portion of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

At 31 December 2016, there were no material forfeitures available to offset the Group's future contributions (2015: nil).

35. DISPOSAL OF SUBSIDIARY

Disposal took place during the year ended 31 December 2016

On 28 January 2016, the Company disposed of 80% equity interest in Chunshengtang to a third party, for a cash consideration of RMB400,000. Chunshengtang was engaged in self-operated retail pharmacies in the PRC.

Consideration for the disposal:

	RMB'000
Consideration receivable	400

Analysis of assets and liabilities at date of disposal over which control was lost:

	RMB'000
Assets classified as held for sale	
Plant and equipment	9,116
Intangible assets	4,634
Inventories	1,277
Trade receivables	687
Cash and cash equivalents	123
Liabilities classified as held for sale	
Trade and other payables	(2,489)
Income tax payable	(610)
Amounts due to group companies	(24,413)
Net liabilities disposed of	(11,675)

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35. DISPOSAL OF SUBSIDIARY *(Continued)*

Disposal took place during the year ended 31 December 2016 *(Continued)*

Gain on disposal of subsidiary:

	RMB'000
Consideration receivable	400
Net liabilities disposed of	11,675
Non-controlling interests	(2,310)
Gain on disposal of subsidiary *(note 5(a))*	9,765

Net cash outflow on disposal of subsidiary

	RMB'000
Consideration received	–
Less: Bank balances and cash disposed of	(123)
Net cash outflow on disposal of subsidiary	(123)

36. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of:

	2016 RMB'000	2015 RMB'000
EQUITY		
Equity attributable to equity shareholders of the Company		
– Share capital	**801**	801
– Reserves	**723,967**	724,179
LIABILITIES		
Bank borrowings	**14,009**	15,000
Bills payables	**99,725**	53,901
Corporate bonds payable	**15,619**	–
Convertible bonds	**116,206**	–

The Directors review the capital structure on a continuous basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through issue of new shares and convertible bonds as well as the additions and repayment of bank and other borrowings.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

(i) Trade and other receivables

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

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

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2016, 4% (2015: 9%) of the trade receivables were due from the Group's largest customer, and 14% (2015: 30%) of the trade receivables were due from the Group's five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(a) Credit risk *(Continued)*

(ii) Amounts due from related parties

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

(iii) Pledged bank deposits and cash at banks

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

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

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

(b) Liquidity risk

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

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

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information of these non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(b) Liquidity risk *(Continued)*

At 31 December 2016	Weighted average interest rate	Within 1 year RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial assets						
Trade and other receivables	–	343,281	–	–	343,281	343,281
Amounts due from related parties	–	357	–	–	357	357
Pledged bank deposits	1.0%-2.3%	92,636	10	–	92,646	92,122
Cash and cash equivalents	0.5%	148,650	–	–	148,650	148,650
		584,924	10	–	584,934	584,410
Non-derivative financial liabilities						
Trade and other payables	–	181,258	–	–	181,258	193,309
Bank borrowings	4.8%-5.8%	14,307	9	–	14,316	14,009
Amounts due to related parties	–	176	–	–	176	176
Corporate bonds payable	7%	1,144	9,828	18,081	29,053	15,619
Convertible bonds (note)	(note)	6,479	123,760	–	130,239	116,206
		203,364	133,597	18,081	355,042	339,319

Note:

This is categorised based on contractual term of redemption at maturity on the assumption that there were no redemption or conversion of the convertible bonds outstanding at the end of the respective reporting periods before the maturity date. The interest and other charges on the convertible bonds are detailed in note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(b) Liquidity risk *(Continued)*

At 31 December 2015	Weighted average interest rate	Within 1 year RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial assets						
Trade and other receivables	–	329,620	–	–	329,620	329,620
Pledged bank deposits	0.3%	96,645	–	–	96,645	95,479
Cash and cash equivalents	0.5%	116,334	–	–	116,334	116,334
		542,599	–	–	542,599	541,433
Non-derivative financial liabilities						
Trade and other payables	–	109,380	–	–	109,380	121,824
Bank borrowings	4.4%-7.8%	15,404	–	–	15,404	15,000
Amount due to a director	–	222	–	–	222	222
Amounts due to related parties	–	35	–	–	35	35
		125,041	–	–	125,041	137,081

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, pledged bank deposits, bank borrowings, corporate bonds payable and convertible bonds. Cash at banks and pledged bank deposits issued at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Corporate bonds payable and convertible bonds were issued at fixed interest rates which expose the Group to fair value interest risk.

The Group does not anticipate significant impact to cash at banks and the pledged bank deposits arising from change in interest rates because the interest rates of bank deposits are not expected to change significantly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(c) Interest rate risk *(Continued)*

The interest rates and terms of repayment of bank loans of the Groups are disclosed in note 25. The Group normally borrows short-term bank loans which have short-term maturity within one year in order to limit its exposure to interest rate risk. The Group's interest rate profiles as monitored by the management are set out below.

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

	2016 RMB'000	2015 RMB'000
Fixed interest rate:		
Financial liabilities		
– bank loans	**(10,009)**	(10,000)
Variable interest rate:		
Financial liabilities		
– bank loans	**(4,000)**	(5,000)
Financial assets		
– cash at banks	**148,561**	116,276
– pledged bank deposits	**76,826**	95,479
	221,387	206,755
Total net deposits	**211,378**	196,755

Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank borrowings and cash at banks and pledged bank deposits, with all other variables held constant, would increase/decrease the Group's profit after tax (and retained profits) by approximately RMB2,126,000 (2015: RMB1,551,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments held by the Group which expose the Groups to cash flow interest rate risk at the end of the reporting period. The impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the year ended 31 December 2015.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(d) Foreign currency exchange risk

Foreign exchange risk arises when the group entities enter into transactions denominated in a currency other than their functional currency. The Group's financial assets and liabilities are mainly denominated in Renminbi and Hong Kong dollars. The exchange rates among these currencies are not pegged, and there are fluctuations of exchange rates among these currencies.

The Group currently does not have a foreign currency hedging policy. However, the management will closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the financial assets and financial liabilities at the reporting date denominated in currencies other than functional currencies of the related entities are as follows:

	Assets		Liabilities	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**30,000**	30,000	**–**	–

Sensitivity analysis

The following table indicates the approximate change in the Group's profit or loss after income tax expense in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances of assets and liabilities of the group entities where the denomination of these balances is in a currency other than the functional currencies of these entities. A positive number below indicates a decrease in loss for the year where the functional currency strengthens against the relevant currency. For a weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit or loss, and the balances below would be negative.

	2016		2015	
	Increase in foreign exchange rate	**Effect on loss for the year**	Increase in foreign exchange rate	Effect on loss for the year
	%	**RMB'000**	%	RMB'000
RMB	**5%**	**1,500**	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(e) Price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 20).

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

At 31 December 2016, the fair value of the held for trading securities is minimal for the reason as detailed in note 20. Management does not expect that there are significant impact on the Group's performance arising from change in equity share price.

(f) Fair value measurement

(i) Financial instruments measured at fair value

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

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

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

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

The Group engages independent professional valuers to perform valuations for the financial instruments of which are carried at fair value in the consolidated financial statements. The professional valuer reports directly to the chief financial officer of the Company and the Directors. Valuation reports with analysis of changes in fair value measurement are prepared by professional valuer and are reviewed and approved by the chief financial officer of the Company and the Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(f) Fair value measurement *(Continued)*

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

	Fair value at 31 December 2016 RMB'000	Fair value measurements as at 31 December 2016 categorised into: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Fair value at 31 December 2015 RMB'000	Fair value measurements as at 31 December 2015 categorised into: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Valuation technique(s) and key inputs
Recurring fair value measurements									
Assets:									
Trading securities	–	–	–	–	2,619	2,619	–	–	Quoted bid price in an active market
Derivative financial instruments	7,567	–	7,567	–	–	–	–	–	Crank-Nicolson finite-difference method
	7,567	–	7,567	–	2,619	2,619	–	–	

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur. Upon the listing of the Company's shares on the Stock Exchange on 19 June 2015, the convertible redeemable preferred shares liabilities in Level 3 were automatically converted to equity. There were no convertible redeemable preferred shares outstanding at 31 December 2015 and 31 December 2016.

Information about Level 3 fair value measurements

The movement during the year ended 31 December 2015 in the balance of these Level 3 fair value measurements are as follows:

	2015 RMB'000
At 1 January	257,112
Change in fair value included loss on change in fair value of convertible redeemable preferred shares	(37,471)
Exchange realignment	(324)
Conversion of Series A and Series B Shares into ordinary shares	(219,317)
At 31 December	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(f) Fair value measurement *(Continued)*

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

The Directors consider that the carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values at 31 December 2016 and 2015. The fair values, which are included in Level 3 category, have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rates that reflect the credit risk of counterparties.

38. OPERATING LEASE COMMITMENTS

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

	2016 **RMB'000**	2015 RMB'000
Within 1 year	**975**	1,247

The Group is the lessee in respect of the Group's offices under operating leases. The leases typically run for an initial period of 1 year (2015: 1 year), with an option to renew when all terms are renegotiated. Lease payments are usually increased at the end of the lease term to reflect market rentals.

39. CAPITAL COMMITMENTS

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

	2016 **RMB'000**	2015 RMB'000
Commitments contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	**6,866**	7,521
– Payments in connection with a property development project *(note 18(c))*	**11,652**	–
	18,518	7,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 December 2016 and 2015 the transactions or balances with the following parties were considered to be related party transactions:

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

Note:

Chengdu Yiming ceased to be a related party of the Group since June 2015 when Mr. Wu ceased to be the controlling shareholder of Chengdu Yiming.

In addition to those disclosed elsewhere in these consolidated financial statements, the Group had the following transactions and balances with the related parties:

(a) Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Company's Directors as disclosed in note 9 is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	**18,442**	4,795
Post-employment benefits	**49**	103
	18,491	4,898

Total remuneration is included in staff costs (see note 7).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties

		Amounts owed to the Group by related parties		Amounts owed by the Group to related parties	
	NOTES	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Balance with directors					
Amount due from/(to) Mr. Chen Yenfei	*(i), (ii)*	**–**	–	–	–
Amount due to Mr. Su Si	*(i)*	**–**	–	–	(222)
Amounts due to directors		**–**	–	–	(222)
Balance with related parties					
Amount due from/(to) Hubei Bai Xin – trade in nature	*(i), (ii)*	**265**	–	–	(35)
Amount due from/(to) Wuhan Wantong – trade in nature	*(i), (ii)*	**12**	–	(93)	–
Amount due to Wuhan Bai Xin Zheng Yuan – trade in nature	*(i)*	**–**	–	(83)	–
Amount due from Wuhan Baixin Pharmaceutical – trade in nature	*(i), (ii)*	**80**	–	–	–
Amounts due from/(to) related parties		**357**	–	(176)	(35)
Total balances with related parties		**357**	–	(176)	(257)

Notes:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties *(Continued)*

(iii) The maximum outstanding balances due from related parties during the two years ended 31 December 2016 and 2015 are as follows:

	Maximum balance outstanding during the year	
	2016	2015
	RMB'000	RMB'000
Mr. Chen Yenfei	**–**	675
Hubei Bai Xin	**265**	–
Wuhan Wantong	**12**	–
Wuhan Baixin Pharmaceutical	**80**	–

(c) Transactions with related parties

	2016	2015
	RMB'000	RMB'000
Purchases of pharmaceutical products from Wuhan Bai Xin Zheng Yuan	**83**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**324**	324
CURRENT ASSETS		
Amounts due from subsidiaries	**203,504**	245,344
Other receivables	**11,461**	11,719
Derivative financial instruments	**7,567**	–
Pledged bank deposits	**35,994**	–
Cash and cash equivalents	**138,171**	37,419
	396,697	294,482
CURRENT LIABILITIES		
Other payables	**1,416**	4,802
Corporate bonds payable	**135**	–
Amount due to a subsidiary	**4,759**	–
	6,310	4,802
NET CURRENT ASSETS	**390,387**	289,680
TOTAL ASSETS LESS CURRENT LIABILITIES	**390,711**	290,004
NON-CURRENT LIABILITIES		
Corporate bonds payable	**15,484**	–
Convertible bonds	**116,206**	–
	131,690	–
NET ASSETS	**259,021**	290,004
CAPITAL AND RESERVES		
Share capital	**801**	801
Reserves *(note)*	**258,220**	289,203
TOTAL EQUITY	**259,021**	290,004

The Company's statement of financial position was approved and authorised for issue by the board of Directors on 31 March 2017 and is signed on its behalf by:

Chen Yenfei
Director

Shen Shun
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note: Movements in the reserves of the Company are as follows:

	Share premium RMB'000	Convertible bonds reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	–	–	–	464	(74,753)	(121,768)	(196,057)
Profit for the year	–	–	–	–	–	19,999	19,999
Other comprehensive income for the year – Exchange differences on translation of financial statements	–	–	–	17,930	–	–	17,930
Total comprehensive income for the year	–	–	–	17,930	–	19,999	37,929
Conversion of convertible redeemable preferred shares	219,317	–	–	–	–	–	219,317
Capitalization issue	(600)	–	–	–	–	–	(600)
Issue of shares	244,073	–	–	–	–	–	244,073
Share issue expenses	(15,459)	–	–	–	–	–	(15,459)
At 31 December 2015 and 1 January 2016	447,331	–	–	18,394	(74,753)	(101,769)	289,203
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(22,439)**	**(22,439)**
Other comprehensive income for the year – Exchange differences on translation of financial statements	**–**	**–**	**–**	**(941)**	**–**	**–**	**(941)**
Total comprehensive expense for the year	**–**	**–**	**–**	**(941)**	**–**	**(22,439)**	**(23,380)**
Recognition of equity – settled share-based payments	**–**	**–**	**11,997**	**–**	**–**	**–**	**11,997**
Recognition of the equity component of convertible bonds	**–**	**7,395**	**–**	**–**	**–**	**–**	**7,395**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(26,995)**	**(26,995)**
At 31 December 2016	**447,331**	**7,395**	**11,997**	**17,453**	**(74,753)**	**(151,203)**	**258,220**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. SUBSIDIARIES

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

Name of company	Place of incorporation/operation	Issued and fully paid up capital/paid up registered capital	Attributable equity interest: Group's effective interest 2016	Group's effective interest 2015	Held by the Company 2016	Held by the Company 2015	Held by a subsidiary 2016	Held by a subsidiary 2015	Principal activities
Pa Shun Pharmaceutical Company Limited ("Pashun BVI")	The British Virgin Islands ("BVI")/ Hong Kong ("HK")	US$50,000	**100%**	100%	**100%**	100%	**–**	–	Investment holding
Toyot Pa Shun Medicine Factory Company Limited ("Pashun HK") (東洋百信製藥廠有限公司)	HK/HK	HK$10,000,000	**100%**	100%	**–**	–	**100%**	100%	Investment holding
Chengdu Toyot Pa Shun Pharmacy Co., Ltd. ("Chengdu Pashun") 成都東洋百信製藥有限公司 *(note a, b and g)*	PRC/PRC	RMB164,570,000	**100%**	100%	**–**	–	**100%**	100%	Manufacturing and sale of pharmaceutical products in the PRC
Chengdu Pashun Pharmacy Chain Store Co., Ltd. ("Chengdu Pashun Chain Store") 成都百信藥業連鎖有限責任公司 *(note a and c)*	PRC/PRC	RMB5,000,000	**100%**	100%	**–**	–	**100%**	100%	Medicine chain store operation and management
Chengdu Kexun Pharmaceutical Co., Ltd. ("Chengdu Kexun") 成都科訊藥業有限公司 *(note a and c)*	PRC/PRC	RMB50,000,000	**100%**	100%	**–**	–	**100%**	100%	Distribution of pharmaceutical products in the PRC
Hubei Chun Sheng Tang Chain Store Co., Ltd. ("Chunshengtang") 河北春生堂大藥房連鎖有限公司 *(note a, c and e)*	PRC/PRC	RMB5,000,000	**–**	80%	**–**	–	**–**	80%	Medicine chain store operation
Hubei Baixintang Pharmacy Chain Store Co., Ltd. ("Baixintang") 湖北百信堂大藥房連鎖有限公司 *(note a and c)*	PRC/PRC	RMB10,000,000	**100%**	100%	**–**	–	**100%**	100%	Medicine Chain Store operation
Chengdu Keyi Biotechnology Co., Ltd. 成都科一生物科技有限公司 *(note a and c)*	PRC/PRC	RMB2,000,000	**100%**	100%	**–**	–	**100%**	100%	Not yet commenced business

Notes:

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

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

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

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

(e) The entity was disposed of during the year ended 31 December 2016.

(f) None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year under review.

(g) The total registered capital of this subsidiary is RMB326,000,000 of which RMB164,570,000 has been paid up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. IMMEDIATE AND ULTIMATE HOLDING COMPANY AND ULTIMATE CONTROLLING PARTY

The Directors consider the Company's ultimate and immediate holding company to be Praise Treasure Limited which was incorporated in the BVI. The ultimate controlling party of the Company is Mr. Chen Yenfei, the Chairman, the Controlling Shareholder and an executive Director.

44. EVENTS AFTER THE REPORTING PERIOD

The following events took place subsequent to the end of the reporting period:

In January and February 2017, the Company entered into subscription agreements with certain independent third parties, pursuant to which the Company issued to the third parties the corporate bonds with the aggregate principal amount of HK$19,500,000 for the cash consideration of HK$19,500,000. These corporate bonds bear coupon rate of 7% per annum with maturity periods ranged from 3 to 7.5 years.