THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Pa Shun International Holdings Limited (the "**Company**"), you should at once hand this circular with the enclosed forms of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase, or subscribe for the securities of the Company.

百信集团
PASHUN GROUP

Pa Shun International Holdings Limited
百信國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 574)

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER SPECIFIC MANDATE; APPLICATION FOR WHITEWASH WAIVER; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders

Innovax Capital

A letter from the Board is set out on pages 6 to 20 of this circular. A letter from the Connected Transaction Independent Board Committee (as defined in this circular) containing its recommendation to the Independent Shareholders is set out on pages 21 to 22 of this circular. A letter from the Whitewash Independent Board Committee (as defined in this circular) containing its recommendation to the Independent Shareholders is set out on pages 23 to 24 of this circular. A letter from Innovax Capital containing its advice to the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders is set out on pages 25 to 43 of this circular.

A notice convening the EGM to be held on Monday, 3 September 2018 at 3 p.m. at Luxembourg Hall, 6th Floor, Jinyun Hotel, No. 668 Jinfu Road, Chengdu City, the PRC, is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed proxy forms in accordance with the instructions printed thereon to the office of the share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event by 3 p.m. on Saturday, 1 September 2018 or not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so desire.

17 August 2018

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Announcement"	announcement dated 27 June 2018 issued by the Company in relation to, among others, the Subscription and the Whitewash Waiver
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Bondholder(s)"	holder(s) of Convertible Bonds
"Business Day"	a day (excluding a Saturday, Sunday or public holiday) on which licensed banks generally are open for business in Hong Kong throughout their normal business hours
"CCB Convertible Bonds"	the 4% secured guaranteed convertible bonds in the principal amount of HK$72,000,000 and the 4% secured guaranteed convertible bonds in the principal amount of HK$48,000,000 issued by the Company on 29 December 2016, further details of which are disclosed in the announcement of the Company dated 15 December 2016
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Company"	Pa Shun International Holdings Limited (百信國際控股有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 574)
"Completion"	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
"Completion Date"	the date when Completion shall take place, which shall be no later than thirty five Business Days after the satisfaction (or waiver as the case may be) of the conditions precedent under the Subscription Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules

"Connected Transaction Independent Board Committee"	an independent committee of the Board established which comprises all the independent non-executive Directors to advise the Independent Shareholders on the fairness and reasonableness of terms of the Subscription Agreement and the transactions contemplated thereunder, and to advise the Independent Shareholders how to vote at the EGM
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules
"Conversion Price"	the initial conversion price of the Convertible Bonds being HK$0.50 (subject to adjustments) per Conversion Share
"Conversion Rights"	the rights attached to the Convertible Bonds to convert the principal amount of the Convertible Bonds or part thereof into Conversion Shares
"Conversion Shares"	the new Shares to be allotted and issued upon the exercise of the Conversion Rights
"Convertible Bonds"	the unsecured non-interest bearing convertible bonds in the aggregate principal amount of HK$134,500,000 to be issued by the Company to the Subscriber or his nominee(s) pursuant to the Subscription Agreement
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of approving, among others, the Subscription Agreement, the Whitewash Waiver and the specific mandate for the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Shareholders"	Shareholders other than the Subscriber and the parties acting in concert with him and their respective associates and those who are involved in or interested in the Subscription Agreement or the Whitewash Waiver and those whose are required to abstain from voting in the EGM to consider and approve the Subscription under the Listing Rules and the Takeovers Code
"Innovax Capital"	Innovax Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver
"Last Trading Day"	27 June 2018, being the last trading day of the Shares on the Stock Exchange prior to the release of the Announcement
"Latest Practicable Date"	14 August 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 August 2018 or any other date to be agreed by the Subscriber and the Company in writing
"Maturity Date"	the date falling on the second anniversary of the date of issue of the Convertible Bonds
"parties acting in concert"	has the meaning ascribed to it under the Takeovers Code
"PRC"	the People's Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"Relevant Period"	the period commencing on the date falling six months immediately prior to the date of the Announcement and ending on the Latest Practicable Date
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.001 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Mr. Chen Yenfei, the Controlling Shareholder, the chairman of the Board and the Chief Executive Officer of the Company
"Subscription"	the subscription by the Subscriber for the Convertible Bonds pursuant to the Subscription Agreement
"Subscription Agreement"	the conditional subscription agreement dated 27 June 2018 entered into between the Company and the Subscriber relating to the Subscription
"Takeovers Code	Hong Kong Code on Takeovers and Mergers
"Whitewash Independent Board Committee"	an independent committee of the Board established which comprises all the non-executive Director and independent non-executive Directors in compliance with Rule 2.8 of the Takeovers Code, who has no direct or indirect interest in the Subscription Agreement or the Whitewash Waiver to advise the Independent Shareholders on the fairness and reasonableness of terms of the Subscription Agreement and the Whitewash Waiver, and to advise the Independent Shareholders how to vote at the EGM

"Whitewash Waiver"	a waiver from the obligation of the Subscriber to make a mandatory general offer to the Shareholders in respect of the Shares and securities issued by the Company not already owned or agreed to be acquired by the Subscriber and the parties acting in concert with him as a result of the allotment and issue of the Conversion Shares in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

PASHUN GROUP
百信集团

Pa Shun International Holdings Limited
百信國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 574)

Executive Directors:
Mr. Chen Yenfei *(Chairman)*
Mr. Shen Shun

Non-executive Director:
Mr. Zhang Xiongfeng

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

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Room 1803
18th Floor, Allied Kajima Building
138 Gloucester Road
Wan Chai
Hong Kong

17 August 2018

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

The Board announced that on 27 June 2018 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK$134,500,000. Completion is subject to the conditions precedent of the Subscription Agreement.

The Subscriber is the Controlling Shareholder, the chairman of the Board and the Chief Executive Officer of the Company and is therefore a connected person of the Company. Accordingly, the transaction contemplated under the Subscription Agreement constitutes a connected transaction on the part of the Company, and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, the Subscriber is beneficially interested in 484,040,000 Shares, representing approximately 45.47% of the existing issued share capital of the Company. Upon full conversion of the Convertible Bonds, 269,000,000 Conversion Shares will be allotted and issued to the Subscriber (or his nominee(s)) and the interests of the Subscriber and parties acting in concert with him in the voting rights of the Company will increase from approximately 45.47% to approximately 56.47% (assuming that there is no change in the issued share capital of the Company up to the Completion). Accordingly, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by him pursuant to Rule 26.1 of the Takeovers Code as such increase will have the effect of increasing the Subscriber's holding of voting rights of the Company by more than 2% from the lowest percentage holding of the Subscriber within the period of 12 months, unless the Whitewash Waiver is obtained from the Executive.

An application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Conversion Shares has been made by the Subscriber. The Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. The Subscriber and parties acting in concert with him and their respective associates and any other Shareholders who are involved or interested in the Subscription Agreement and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver. The Subscription Agreement and the transactions contemplated thereunder will not proceed if the Whitewash Waiver is not granted by the Executive or the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are not approved by the Independent Shareholders at the EGM.

The purposes of this circular are to provide you with, among other things, further details of the Subscription and the Whitewash Waiver, together with the recommendations of the Connected Transaction Independent Board Committee and the Whitewash Independent Board Committee to the Independent Shareholders, the letter of advice from Innovax Capital to the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders in relation to the Subscription and the Whitewash Waiver, and a notice of EGM.

THE SUBSCRIPTION

The Subscription Agreement

Date: 27 June 2018

Parties: (i) the Subscriber; and

(ii) the Company.

The Subscriber is the Controlling Shareholder, the chairman of the Board and the Chief Executive Officer of the Company and is therefore a connected person of the Company. As at the Latest Practicable Date, the Subscriber is beneficially interested in 484,040,000 Shares, representing approximately 45.47% of the existing issued share capital of the Company.

Subscription

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe, for the Convertible Bonds in the aggregate principal amount of HK$134,500,000, which may be converted into 269,000,000 Conversion Shares based on the initial Conversion Price upon full conversion.

TERMS OF THE CONVERTIBLE BONDS

Interest

The Convertible Bonds shall not carry any interest.

Maturity

The maturity of the Convertible Bonds will be the date falling on the second anniversary of the date of issue of the Convertible Bonds. Unless previously redeemed, converted or purchased and cancelled, the Company shall redeem each Convertible Bond which remains outstanding by 4:00 p.m. on the Maturity Date at 100% of the principal amount of such outstanding Convertible Bonds.

Status of the Convertible Bonds

The Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any stock or securities exchange.

Number of Conversion Shares issuable

Under the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Convertible Bonds. As at the Latest Practicable Date, there were 1,064,564,000 Shares in issue and upon full conversion of the Convertible Bonds, the Conversion Shares represent (i) approximately 25.27% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 20.17% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Conversion Shares between the date of this circular up to the full conversion of the Convertible Bonds).

Conversion Rights and conversion restrictions

The Bondholders may convert the whole or part (in multiple of HK$10,000,000) of the principal amount of the Convertible Bonds into the Conversion Shares at the initial Conversion Price for the period commencing from the date of issue of the Convertible Bonds up to 4:00 p.m. on the day immediately prior to the Maturity Date provided that:

(i) any conversion of the Convertible Bonds will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code or such mandatory offer obligation has been waived by the Executive on the part of the Bondholder and any parties acting in concert with it (as defined in the Takeovers Code); and

(ii) the exercise of the Convertible Bonds will not cause the Company to be unable to meet the public float requirement under the Listing Rules.

Ranking of the Conversion Shares

The Conversion Shares shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of such Conversion Shares.

Conversion period

The Bondholder will have the right to convert the whole or part of the principal amount of the Convertible Bonds into Conversion Shares from the date of the issue of the Convertible Bonds up to 4:00 p.m. on the day immediately prior to the Maturity Date in amount of not less than a whole multiple of HK$10,000,000 on each conversion.

Conversion Price

The price at which Conversion Shares will be issued upon exercise of the Conversion Rights will be HK$0.50 per Share. The Conversion Price represents:

(i) a premium of approximately 4.17% over the closing price of HK$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 4.17% over the average closing price of HK$0.48 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 40.48% to the Group's audited consolidated net assets per Share as at 31 December 2017 of approximately HK$0.84 (based on the then total 1,064,564,000 Shares as at 31 December 2017); and

(iv) a premium of approximately 12.36% over the closing price of HK$0.445 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Conversion Price was determined after arm's length negotiations between the Company and the Subscriber having regard to the closing price of HK$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day under the prevailing market conditions. As the Conversion Price is at a premium over the closing price of HK$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day, the Directors (other than Mr. Chen Yenfei, who is the Subscriber and was required to abstain from voting on the relevant Board resolution(s) approving the Subscription Agreement by virtue of him having a material interest in the Subscription) consider the Conversion Price is fair and reasonable.

Adjustment events

The Conversion Price shall from time to time be subject to adjustment upon occurrence of certain events:

(i) consolidation or subdivision of the Shares;

(ii) capitalisation of profits or reserves;

(iii) capital distribution;

(iv) offer of Conversion Shares for subscription by way of rights, or a grant of options or warrants to subscribe for Conversion Shares, at a price which is less than 80% of the market price per Share to the Shareholders;

(v) issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for Conversion Shares, if in any case the total effective consideration per new Share receivable is less than 80% of the market price, or the conversion, exchange or subscription rights of any such issue are altered so that the said total effective consideration receivable is less than 80% of such market price;

(vi) issue of the Shares being made wholly for cash at a price less than 80% of the market price per Share;

(vii) an issue of Shares for the acquisition of asset at a total effective consideration per Share which is less than 80% of the market price of the Shares; and

(viii) issue (other than in lieu of a cash dividend) of any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund).

Voting rights

The Bondholders shall not be entitled to attend or vote at any general meetings of the Shareholders of the Company by reason only it being the Bondholders.

Transfer

The Bondholders may assign or transfer the Convertible Bonds to the transferee subject to the prior notification to the Company. The Convertible Bonds may not be assigned or transferred, in whole or in part, to any connected person of the Company (as defined under the Listing Rules) without prior written consent of the Company. The Convertible Bonds may be assigned or transferred in whole or in part (provided that the principal amount to be assigned or transferred shall be at least HK$10,000,000 and in integral multiples of HK$10,000,000 unless the outstanding principal amount of the Convertible Bonds is less than HK$10,000,000 in which case the whole (but not part only) of that amount may be assigned and transferred) of its outstanding principal amount and the Company shall facilitate any such assignment or transfer of the Convertible Bonds, including making any necessary applications to the Stock Exchange for the said approval (if required).

Form and denomination

The Convertible Bonds will be issued in registered form in the denomination of HK$10,000,000 each.

Conditions of the Subscription

Completion is conditional upon each of the following conditions being satisfied or, if applicable, waived:

(i) the Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Conversion Shares;

(ii) the passing by the Independent Shareholders who are entitled to vote and not required to be abstained from voting under the Listing Rules and the Takeovers Code at the EGM of the necessary resolution(s) to approve the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the Whitewash Waiver);

(iii) the warranties under the Subscription Agreement remaining true, accurate and complete in all material respects;

(iv) all necessary consents and approvals required to be obtained on the part of the Company and the Subscriber in respect of the Subscription Agreement and the transactions contemplated thereby having been obtained; and

(v) the granting of the Whitewash Waiver by the Executive.

The condition set out in paragraph (iii) above may be waived by the Subscriber. None of the other conditions may be waived. In the event that any of the conditions have not been satisfied (or, if applicable, waived) by the Long Stop Date, the Subscription Agreement will lapse and the parties thereto will be released from all obligations thereunder, save for liabilities for any antecedent breaches of the Subscription Agreement.

As at the Latest Practicable Date, condition (iii) has been fulfilled and all other conditions remain unfulfilled.

Completion of the Subscription

Subject to fulfillment (or, if applicable, waiver) of the conditions, Completion shall take place no later than thirty five Business Days after the satisfaction or waiver (where applicable) of the conditions or at such other date to be agreed between the Subscriber and the Company.

Application for listing

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

EFFECT OF THE FULL CONVERSION OF THE CONVERTIBLE BONDS

The shareholdings in the Company as at the Latest Practicable Date (based on information received by the Company and notified pursuant to Part XV of the SFO) and immediately after conversion in full of the Convertible Bonds (assuming that there is no other change in the issued share capital of the Company) are summarised as follows:

Shareholders	As at the Latest Practicable Date		Upon immediately conversion in full of the Convertible Bonds and before the exercise of the outstanding share options		Upon immediately conversion in full of the Convertible Bonds and the exercise of outstanding share options	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
The Subscriber or his associate *(Note 1)*	484,040,000	45.47	753,040,000	56.47	753,040,000	52.53
Shen Shun *(Note 2)*	2,500,000	0.23	2,500,000	0.19	2,500,000	0.17
Zhang Xiongfeng *(Note 2)*	15,382,000	1.45	15,382,000	1.15	23,382,000	1.63
Public shareholders	562,642,000	52.85	562,642,000	42.19	562,642,000	39.25
Holders of share options (other than Zhang Xiongfeng) *(Note 3)*	–	–	–	–	92,000,000	6.42
Total	**1,064,564,000**	**100.00**	**1,333,564,000**	**100.00**	**1,433,564,000**	**100.00**

Notes:

1. The Shares are held by Praise Treasure Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by the Subscriber.

2. Mr. Shen Shun is our executive Director and Mr. Zhang Xiongfeng is our non-executive Director. As at the Latest Practicable Date, Mr. Zhang Xiongfeng is a holder of 8,000,000 share options granted by the Company on 8 July 2016 pursuant to the share option scheme of the Company adopted on 26 May 2015.

3. The share options refer to the outstanding 92,000,000 share options (other than the 8,000,000 share options granted to Mr. Zhang Xiongfeng) granted by the Company on 8 July 2016 pursuant to the share option scheme of the Company adopted on 26 May 2015.

Share options and CCB Convertible Bonds

As at the Latest Practicable Date, 100,000,000 outstanding share options have been granted (including the 8,000,000 share options granted to Mr. Zhang Xiongfeng) by the Company on 8 July 2016 pursuant to the share option scheme of the Company adopted on 26 May 2015. On 29 December 2016, the Company issued the CCB Convertible Bonds in the aggregate principal amount of HK$120,000,000.

Save as the aforesaid, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

As announced by the Company on 29 December 2016, the Company issued the CCB Convertible Bonds in the aggregate principal amount of HK$120,000,000. The CCB Convertible Bonds will be due on the second anniversary of the issue date of the CCB Convertible Bonds (i.e. 29 December 2018). The holder of the CCB Convertible Bonds is not a shareholder of the Company as at the Latest Practicable Date. If the CCB Convertible Bonds are not extended prior to the maturity date, which is subject to the prior written approval of the holder of the CCB Convertible Bonds pursuant to the terms of the CCB Convertible Bonds and the holder of the CCB Convertible Bonds does not exercise the conversion rights attaching to the CCB Convertible Bonds before the maturity date of the CCB Convertible Bonds, which is not likely as the conversion price of the CCB Convertible Bonds is higher than the current market price of shares of the Company, the Company will be obliged to repay the total outstanding principal amount and interests accrued under the CCB Convertible Bonds on the maturity date. As disclosed in the annual report of the Company for the year ended 31 December 2017, 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 approximately RMB35 million as at 31 December 2017. If the CCB Convertible Bonds become due, the Company may not have sufficient cash to repay the outstanding amount of the CCB Convertible Bonds.

Taking into account that (i) the Convertible Bonds shall not bear any interest; (ii) there is an annual fee of 1% of the aggregate principal amount of the outstanding CCB Convertible Bonds whereas there is no such annual fee under the terms of the Convertible Bonds; and (iii) the Conversion Price of HK$0.50 of the Convertible Bonds is at a premium of approximately 4.17% over the closing price of HK$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day whereas the conversion price of the CCB Convertible Bonds is HK$0.6 and at a premium over the closing price of HK$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day, the Board (other than Mr. Chen Yenfei, who is the Subscriber and was required to abstain from voting on the relevant Board resolution(s) approving the Subscription Agreement by virtue of him having a material interest in the Subscription) considered that the terms of the Convertible Bonds are more favourable to the Company compared with that of the CCB Convertible Bonds. Depending on the then financial position of the Group, the Company plans to finance the repayment obligations of the Convertible Bonds upon maturity by conducting fund raising exercise(s) and/or its internal resources.

The Company intends to issue the Convertible Bonds, the net proceeds of which will be utilised to redeem the CCB Convertible Bonds, the outstanding interest and all relevant cost of the Company to redeem the CCB Convertible Bonds in the aggregate amount of HK$132,755,000. The issue of the Convertible Bonds to redeem the CCB Convertible Bonds will release financial pressure of the Group to repay the CCB Convertible Bonds when they fall due and improve overall financial position of the Group. The Company will, after the Subscription Agreement has become unconditional, give not less than thirty (30) Business Days' notice to the holder(s) of the CCB Convertible Bonds for the early redemption of the CCB Convertible Bonds such that the Company will, upon Completion, apply the net proceeds to redeem the CCB Convertible Bonds.

The Company has considered other alternative fundraising methods such as debt financing, placing of new shares and rights issue or open offer. The Board considered that debt financing may incur interest burden on the Group and may be subject to lengthy due diligence and negotiations with the banks with reference to the Group's financial position and the then financial market condition and it may be relatively uncertain and time-consuming. The Board considered that the Company would need to pay commission to the placing agent and the Company would incur additional costs to raise fund by way of placing. It is also commercially impracticable to place new shares at the current market price of shares of the Company as there will be no incentive for the investors to acquire shares of the Company through the placing agent provided that they could have acquired the shares of the Company at the same price on the market. The Board also considered that the Company would incur additional time and costs to raise fund by way of rights issue or open offer as these would involve the registration and issue of prospectus and offer documents by the Company and will be subject to the approval by the Stock Exchange. The Company would also incur underwriting commission and additional administrative and professional expenses to comply with the requirements under the Listing Rules to raise fund by way of rights issue or open offer.

Based on the above, the Directors (other than Mr. Chen Yenfei, who is the Subscriber and was required to abstain from voting on the relevant Board resolution(s) approving the Subscription Agreement by virtue of him having a material interest in the Subscription) consider that the terms and conditions of the Subscription Agreement as well as the terms of the Convertible Bonds are fair and reasonable, on normal commercial terms, and in the interests of the Group and the Shareholders as a whole.

The gross proceeds and net proceeds from the issue of the Convertible Bonds will be HK$134,500,000 and estimated to be approximately HK$132,755,000 respectively. Based on the estimated net proceeds from the issue of the Convertible Bonds and a total of 269,000,000 Conversion Shares to be issued at the initial Conversion Price of HK$0.50 upon exercise of the Conversion Rights in full, the net subscription price per Share would be approximately HK$0.49.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not raise funds on any issue of equity securities raising activities during the past twelve months immediately preceding the date of the Announcement.

LISTING RULES IMPLICATIONS

The Subscriber is the Controlling Shareholder, the chairman of the Board and the Chief Executive Officer of the Company and is therefore a connected person of the Company.

Accordingly, the transaction under the Subscription Agreement constitutes a connected transaction of the Company, and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An EGM will be convened and held for the Independent Shareholders to, among other things, consider and, if thought fit, to approve the Subscription Agreement and the transactions contemplated thereunder including the Subscription.

INTENTIONS OF THE SUBSCRIBER REGARDING THE GROUP

As at the Latest Practicable Date, the Subscriber intends to continue the existing business and the employment of the employees of the Group, and save for the Subscription, does not intend to introduce any major changes to the existing operation and business of the Company or redeployment of any of the fixed assets of the Group other than in the ordinary course of business.

WHITEWASH WAIVER

As at the Latest Practicable Date, the Subscriber is beneficially interested in 484,040,000 Shares, representing approximately 45.47% of the existing issued share capital of the Company. Upon full conversion of the Convertible Bonds, 269,000,000 Conversion Shares will be allotted and issued to the Subscriber (or his nominee) and the interests of the Subscriber and parties acting in concert with him in the voting rights of the Company will increase from approximately 45.47% to approximately 56.47% (assuming that there is no change in the issued share capital of the Company up to the Completion). Accordingly, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by him pursuant to Rule 26.1 of the Takeovers Code as such increase will have the effect of increasing the Subscriber's holding of voting rights of the Company by more than 2% from the lowest percentage holding of the Subscriber within the period of 12 months, unless the Whitewash Waiver is obtained from the Executive.

An application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Conversion Shares has been made by the Subscriber. The Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. The Subscriber and parties acting in concert with him and their respective associates and any other Shareholders who are involved or interested in the Subscription Agreement and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver. The Subscription Agreement and the transactions contemplated thereunder will not proceed if the Whitewash Waiver is not granted by the Executive or the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver are not approved by the Independent Shareholders at the EGM.

As at the Latest Practicable Date, the Company does not believe that the Subscription gives rise to any concern in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Executive has indicated that they agreed to grant the Whitewash Waiver subject to approval by the Independent Shareholders at the EGM.

Shareholders and public investors should note that immediately upon the allotment and issue of the Conversion Shares, the potential holding of voting rights of the Company held by the Subscriber and parties acting in concert with him will exceed 50% of the voting rights of the Company and that the Subscriber and parties acting in concert with him may increase their holding of voting rights of the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer for the securities of the Company.

THE INDEPENDENT BOARD COMMITTEES AND INDEPENDENT FINANCIAL ADVISER

The Whitewash Independent Board Committee comprising the non-executive Director and all the independent non-executive Directors in compliance with Rule 2.8 of the Takeovers Code has been formed to advise the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver and as to voting. The Connected Transaction Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder. None of the members of the Connected Transaction Independent Board Committee and the Whitewash Independent Board Committee has any interest or involvement in the transactions contemplated under the Subscription Agreement or the Whitewash Waiver. Innovax Capital has been appointed as the Independent Financial Adviser with the approval of the Connected Transaction Independent Board Committee and the Whitewash Independent Board Committee to advise the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders as to whether the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver are, or are not, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to make recommendation(s) as to voting. The letter of recommendation from the Independent Financial Adviser is set out from pages 25 to 43 of this circular.

INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, each of the Subscriber and the parties acting in concert with him has confirmed that neither the Subscriber nor any persons acting in concert with him:

(a) save for the Subscription Agreement, has acquired or entered into any agreement or arrangement to acquire any voting rights in the Company within the Relevant Period;

(b) owns any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company;

(c) has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and which might be material to the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver;

(d) has received any irrevocable commitment from any Independent Shareholders as to whether they will vote for or against the resolution(s) approving the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver;

(e) has any agreements or arrangements to which it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the transactions contemplated under the Subscription Agreement or the Whitewash Waiver (including any such agreements or arrangements that would result in any break fees being payable); and

(f) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

GENERAL

The Group primarily operates in three business segments in the PRC, namely (i) pharmaceutical distribution; (ii) self-operated retail pharmacies; and (iii) pharmaceutical manufacturing.

The EGM will be convened and held for the Independent Shareholders to, among other things, consider and, if thought fit, approve the Subscription, the grant of the specific mandate for the allotment and issue of the Conversion Shares and the Whitewash Waiver.

By reason of the requirements of the Takeovers Code and the Listing Rules, the Subscriber and parties acting in concert with him and their respective associates, who are interested in 484,040,000 Shares (representing approximately 45.47% of the existing issued share capital of the Company) as at the Latest Practicable Date, and any other Shareholders who are involved or interested in the Subscription Agreement and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

Save for the aforesaid, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, no other Shareholder is required to abstain from voting in respect of the resolutions to consider and approve the Subscription and the Whitewash Waiver at the EGM.

A notice convening the EGM to be held on Monday, 3 September 2018 at 3 p.m. at Luxembourg Hall, 6th Floor, Jinyun Hotel, No. 668 Jinfu Road, Chengdu City, the PRC, is set out on pages EGM-1 to EGM-3 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions set out therein.

Under Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at general meetings must be taken by poll. Under Rule 2.9 of the Takeovers Code, voting on the Whitewash Waiver at the EGM must be taken by poll.

You will find enclosed the proxy forms for use at the EGM. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed proxy forms in accordance with the instructions printed thereon to the office of the share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event by 3 p.m. on Saturday, 1 September 2018 or not less than 48 hours before the time appointed for holding the EGM, or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish.

RECOMMENDATION

The Connected Transaction Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng, has been established to consider, and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement.

The Whitewash Independent Board Committee comprising the non-executive Director, Mr. Zhang Xiongfeng, and all the independent non-executive Directors, namely Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng, has been established to consider, and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and the Whitewash Waiver.

The Connected Transaction Independent Board Committee, having considered the advice from Innovax Capital, considers that the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Connected Transaction Independent Board Committee has recommended the Independent Shareholders to vote in favour of the resolutions in respect of the Subscription Agreement to be proposed at the EGM.

The Whitewash Independent Board Committee, having considered the advice from Innovax Capital, considers that the terms of the Subscription Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Whitewash Independent Board Committee has recommended the Independent Shareholders to vote in favour of the resolutions in respect of the Subscription Agreement and the Whitewash Waiver to be proposed at the EGM.

The Directors (including the non-executive Director and independent non-executive Directors but other than Mr. Chen Yenfei, who is the Subscriber and was required to abstain from voting on the relevant Board resolution(s) approving the Subscription Agreement by virtue of him having a material interest in the Subscription) consider the terms of the Subscription Agreement and the Whitewash Waiver are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the non-executive Director and independent non-executive Directors but other than Mr. Chen Yenfei, who is the Subscriber and was required to abstain from voting on the relevant Board resolution(s) approving the Subscription Agreement by virtue of him having a material interest in the Subscription) recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Subscription, the grant of specific mandate for the allotment and issue of the Conversion Shares and the Whitewash Waiver to be proposed at the EGM.

The recommendation of the Connected Transaction Independent Board Committee is set out on pages 21 to 22 in this circular, the recommendation of the Whitewash Independent Board Committee is set out on pages 23 to 24 in this circular and the letter from Innovax Capital is set out on pages 25 to 43 in this circular.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

By Order of the Board
Pa Shun International Holdings Limited
Mr. Chen Yenfei
Chairman and Chief Executive Officer

The following is the text of the letter from the Connected Transaction Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with the terms of the Subscription Agreement for inclusion in this circular.

百信集团
PASHUN GROUP

Pa Shun International Holdings Limited
百信國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 574)

17 August 2018

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

We refer to the circular of Pa Shun International Holdings Limited (the "**Company**") dated 17 August 2018 (the "**Circular**") to the shareholders of the Company, which this letter forms part of. Terms defined in the Circular shall have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as the Connected Transaction Independent Board Committee to advise you as to whether the terms of the Subscription Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to recommend whether or not the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription Agreement.

Innovax Capital has been appointed to act as the independent financial adviser to advise the Connected Transaction Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement. The text of the letter of advice from Innovax Capital containing their recommendation and the principal factors they have taken into account in arriving at their recommendation is set out on pages 25 to 43 of the Circular.

Independent Shareholders are recommended to read the letter of advice from Innovax Capital, the letter from the Board contained in the Circular as well as the additional information set out in the appendices to the Circular. Having considered the terms of the Subscription Agreement and the advice of Innovax Capital, we consider that the terms of the Subscription Agreement are fair and reasonable and on normal commercial terms, and the Subscription, while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

We recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Subscription Agreement to be proposed at the EGM.

Yours faithfully,
For and on behalf of
the Connected Transaction Independent Board Committee
Pa Shun International Holdings Limited

Mr. Liu Liangzhong	**Mr. Wong Tak Shing**	**Mr. Min Feng**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of the letter from the Whitewash Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with the Whitewash Waiver for inclusion in this circular.

百信集团
PASHUN GROUP

Pa Shun International Holdings Limited
百信國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 574)

17 August 2018

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of Pa Shun International Holdings Limited (the "**Company**") dated 17 August 2018 (the "**Circular**") to the shareholders of the Company, which this letter forms part of. Terms defined in the Circular shall have the same meanings in this letter unless the context requires otherwise.

We have been appointed by the Board as the Whitewash Independent Board Committee to advise you as to whether the terms of the Subscription Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to recommend whether or not the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription Agreement and the Whitewash Waiver.

Innovax Capital has been appointed to act as the independent financial adviser to advise the Whitewash Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement and the Whitewash Waiver. The text of the letter of advice from Innovax Captial containing their recommendation and the principal factors they have taken into account in arriving at their recommendation is set out on pages 25 to 43 of the Circular.

Independent Shareholders are recommended to read the letter of advice from Innovax Capital, the letter from the Board contained in the Circular as well as the additional information set out in the appendices to the Circular. Having considered the terms of the Subscription Agreement, the Whitewash Waiver and the advice of Innovax Capital, we consider that the terms of the Subscription Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Subscription Agreement and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
For and on behalf of
the Whitewash Independent Board Committee
Pa Shun International Holdings Limited

Mr. Zhang Xiongfeng
Non-executive Director

Mr. Liu Liangzhong
Independent non-executive Director

Mr. Wong Tak Shing
Independent non-executive Director

Mr. Min Feng
Independent non-executive Director

The following is the full text of a letter of advice from Innovax Capital, the independent financial adviser to the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the Whitewash Waiver.

Innovax Capital

17 August 2018

To the Connected Transaction Independent Board Committee,
the Whitewash Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION FOR CONVERTIBLE BONDS UNDER SPECIFIC MANDATE; AND APPLICATION FOR WHITEWASH WAIVER

I. INTRODUCTION

We refer to our engagement as the independent financial adviser to the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the Whitewash Waiver, details of which are set out in the letter from the Board (the "Letter from the Board") contained in this circular (the "Circular") dated 17 August 2018 issued by the Company, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 27 June 2018 regarding the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK$134,500,000. Completion is subject to the conditions precedent of the Subscription Agreement.

As stated in the Letter from the Board, the Subscriber is the Controlling Shareholder, the chairman of the Board and the Chief Executive Officer of the Company and is therefore a connected person of the Company. Accordingly, the transaction contemplated under the Subscription Agreement constitutes a connected transaction on the part of the Company, and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, the Subscriber is beneficially interested in 484,040,000 Shares, representing approximately 45.47% of the existing issued share capital of the Company. Upon full conversion of the Convertible Bonds, 269,000,000 Conversion Shares will be allotted and issued to the Subscriber (or his nominee) and the interests of the Subscriber and parties acting in concert with him in the voting rights of the Company will increase from approximately 45.47% to approximately 56.47% (assuming that there is no change in the issued share capital of the Company up to the Completion). Accordingly, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by him pursuant to Rule 26.1 of the Takeovers Code as such increase will have the effect of increasing the Subscriber's holding of voting rights of the Company by more than 2% from the lowest percentage holding of the Subscriber within the period of 12 months, unless the Whitewash Waiver is obtained from the Executive.

The Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. The Subscriber and parties acting in concert with him and their respective associates and any other Shareholders who are involved or interested in the Subscription Agreement and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. The Subscription Agreement and the transactions contemplated thereunder will not proceed if the Whitewash Waiver is not granted by the Executive or the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are not approved by the Independent Shareholders at the EGM.

The Connected Transaction Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng, has been established to consider, and to advise the Independent Shareholders as to whether, in its opinion, the Subscription Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to recommend whether or not the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM for the Subscription Agreement.

The Whitewash Independent Board Committee comprising the non-executive Director Mr. Zhang Xiongfeng and all the independent non-executive Directors, namely Mr. Liu Liangzhong, Mr. Wong Tak Shing and Mr. Min Feng has been established to consider, and to advise the Independent Shareholders as to whether, in its opinion, the Subscription Agreement and the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to recommend whether or not the Independent Shareholders should vote in favour of the ordinary resolutions to be proposed at the EGM for the Subscription Agreement and the Whitewash Waiver.

In our capacity as the independent financial adviser, our role is to provide the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders with an independent opinion and recommendation in connection with the abovementioned.

We have not provided any other services to the Company in the last two years prior to the date of the Circular. As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we have received or will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or associates or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

II. BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects at the date of this Circular, and should there be any material changes to our opinion after the date of the Circular, Shareholders would be notified as soon as possible. We have also relied on our discussion with the management of the Company (the "Management") and its representatives regarding the Group, the Subscription Agreement and the Whitewash Waiver, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Management and its representatives respectively in the Circular were reasonably made after due enquiry.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management and its representatives. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group or their respective associates, nor have we carried out any independent verification of the information supplied.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations on the Subscription and the Whitewash Waiver, we have taken the following principal factors and reasons into considerations:

A. The Subscription

Business overview of the Group

As stated in the Letter from the Board, the Group primarily operates in three business segments in the PRC, namely (i) pharmaceutical distribution; (ii) self-operated retail pharmacies; and (iii) pharmaceutical manufacturing.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2017 as extracted from the Company's annual report for the year ended 31 December 2017 (the "FY2017 Annual Report"):

	FY2017	**FY2016**	**% Change**
	RMB'000	*RMB'000*	
Revenue	869,891	860,574	1.1%
Segment Revenue			
– Pharmaceutical distribution	794,130	774,230	2.6%
– Self-operated retail pharmacies	542	934	–42.0%
– Pharmaceutical manufacturing	75,219	85,410	–11.9%
Gross Profit	89,416	113,948	–21.5%
Net Profit	10,177	7,675	32.6%
Total Assets	1,147,248	1,100,487	4.2%
Total Liabilities	397,983	375,719	5.9%
Gearing Ratio	28.0%	20.1%	39.2%

This increase in revenue was primarily due to the growth in revenue from the Group's pharmaceutical distribution segment, which was primarily attributable to the increase of the revenue from the sales to franchise retail pharmacy chain stores and other pharmaceutical distribution revenue, though the overall growth of this segment was offset by the reduction in revenue from the sales to other wholesalers and to the hospitals and other medical institutions in rural areas as affected by the implementation of Two-Invoice System for pharmaceutical distribution in FY2017, which allows a maximum of two tax-valid invoices to be issued during the distribution process from a manufacturer to the hospital, of which one invoice is issued by the manufacturer to its distributor, and another invoice is issued by the distributor to a hospital. As advised by the Management, the Two-Invoices system reduced multiple layers of distributors between the manufacturers and the hospitals and therefore, the Group recorded decrease in revenue derived from customers who were not the principal distributors of the manufacturers. The growth in revenue was partially offset by the decrease in revenue from the Group's self-operated retail pharmacies and pharmaceutical manufacturing segments resulted from the sluggish market for traditional embrocation products.

Despite slight increase in revenue of approximately 1.1% as discussed above, significant increase in net profit of 32.6% was noted in FY2017. The increase in net profit was primarily due to the decrease in gross profit margin of the Group, net off by the significant decrease in other net loss from approximately RMB42.5 million for the year ended 31 December 2016 to approximately RMB16.8 million for the year ended 31 December 2017. The other net loss incurred during the year ended 31 December 2016 mainly comprised of impairment loss on amount due from a former subsidiary and loss on issue of convertible bonds. The other net loss incurred during the year ended 31 December 2017 mainly comprised of impairment loss on deposits paid for acquisition of property, plant and equipment and loss on change in fair value of derivative financial instruments.

The Group's total assets was approximately RMB1,147.2 million as at 31 December 2017, which was slightly higher than the Group's total assets of approximately RMB1,100.5 million as at 31 December 2016. Such increase was mainly attributable to the increase in property, plant and equipment as a result of acquisition of a subsidiary during the year.

The Group's total liabilities was approximately RMB375.7 million as at 31 December 2017, which was less than the Group's total liabilities of approximately RMB398.0 million as at 31 December 2016. Such decrease was mainly attributable to the decrease of bank borrowings and corporate bonds.

The Group's gearing ratio, calculated as total borrowings divided by total net assets, was at 20.1% and 28.0% as at 31 December 2016 and 2017, respectively. The increase in gearing ratio was mainly due to increase in total debt as a result of increase in bank borrowings and corporate bonds.

According to the FY2017 Annual Report, against the backdrop of stable economic growth and pharmaceutical industry reform in China, the Group will continue to leverage its solid foundation in Southwest China and make good use of its existing resources and networks to opportunistically expand into other innovative areas through various business development strategies, including (i) speeding up the construction of international logistics centers to improve the operational efficiency of the distribution business; (ii) optimising the product structure to cover traditional Chinese medicine, health food and other health sectors; (iii) extending presence to the upstream industry chain and participate in the purchase of traditional Chinese medicine; and (iv) continuing to search for potential mergers and acquisition targets to improve the profitability of the Group.

Background information on the Subscriber

As stated in the Letter from the Board, the Subscriber is the chairman of the Board and the Chief Executive Officer of the Company and is therefore a connected person of the Company. As at the Latest Practicable Date, the Subscriber is beneficially interested in 484,040,000 Shares, representing approximately 45.47% of the existing issued share capital of the Company.

Reasons for the Subscription and Use of Proceeds

As stated in the Letter from the Board, on 28 December 2016, the Company issued the CCB Convertible Bonds in the aggregate principal amount of HK$120,000,000. The CCB Convertible Bonds will be due on the second anniversary of the issue date of the CCB Convertible Bonds (i.e. 29 December 2018). If the CCB Convertible Bonds are not extended prior to the maturity date, which is subject to the prior written approval of the holder of the CCB Convertible Bonds pursuant to the terms of the CCB Convertible Bonds and the holder of the CCB Convertible Bonds does not exercise the conversion rights attaching to the CCB Convertible Bonds before the maturity date of the CCB Convertible Bonds, which is not likely as the conversion price of the CCB Convertible Bonds is higher than the current market price of shares of the Company, the Company will be obliged to repay the total outstanding principal amount and interests accrued under the CCB Convertible Bonds on the maturity date. According to the FY2017 Annual Report, the Group had total cash and cash equivalents of approximately RMB35 million as at 31 December 2017. If the CCB Convertible Bonds become due, the Company may not have sufficient cash to repay the outstanding amount of the CCB Convertible Bonds.

As stated in the Letter from the Board, the Company intends to issue the Convertible Bonds, the net proceeds of which will be utilised to redeem the CCB Convertible Bonds, the outstanding interest and all relevant cost of the Company to redeem the CCB Convertible Bonds in the aggregate amount of HK$132,755,000. The issue of the Convertible Bonds to redeem the CCB Convertible Bonds will release financial pressure of the Group to repay the CCB Convertible Bonds when they fall due and improve overall financial position of the Group. The net proceeds of the Convertible Bonds will be approximately HK$132,755,000.

The Company has considered alternative fund raising methods, debt financing, placing of new shares and rights issue or open offer, but resolved to proceed with the Subscription after taking into account the following:

(i) In respect of debt financing, the Board considered that it may incur interest burden on the Group and may be subject to lengthy due diligence and negotiations with banks with reference to the Group's financial position and the then financial market condition and it may be relatively uncertain and time-consuming.

(ii) In respect of placing of new shares, the Board considered that the Company will need to pay commission to the placing agent and the Company will incur additional costs to raise fund by way of placing. It is also commercially impracticable to place new shares at the current market price of shares of the Company as there will be no incentive for the investors to acquire shares of the Company through the placing agent provided that they could have acquired the shares of the Company at the same price on the market.

(iii) In respect of rights issue or open offer, the Board considered that Company will incur additional time and costs to raise fund by way of rights issue or open offer as these will involve the registration and issue of prospectus and offer documents by the Company and will be subject to the approval by the Stock Exchange. The Company will also incur underwriting commission and additional administrative and professional expenses to comply with the requirements under the Listing Rules to raise fund by way of rights issue or open offer.

Based on our discussion with the Management, we understand that the Company approached four financial institutions and investor for possible debt financing or placing of convertible securities in the past three months. However, no additional debt and/or equity financing could be obtained with more favorable terms or costs comparable to the issue of the Convertible Bonds. We also understand from the Company that the decision of issuing the Convertible Bonds instead of placing new Shares to the Subscriber is after arm's length negotiation between parties, taking into account that (i) when the trading price of the Shares is lower than the Conversion Price, the Subscriber has the option to hold the Convertible Bonds for redemption by the Company on Maturity Date; and (ii) as compared to the issue of new Shares, the issue of the Convertible Bonds will not cause immediate dilution to the existing shareholding of the Company.

Having considered that the Convertible Bonds is interest free and the pros and cons of other financing alternatives as discussed above, we concur with the Directors' view that the issue of the Convertible Bonds would be the most appropriate and timely fund-raising method to meet the financial needs of the Company, and is in normal commercial terms and fair and reasonable, and the Subscription, while not in the ordinary and usual course of business of the Company, is in the interest of the Shareholders as a whole.

Principal terms of the Subscription Agreement

Set out below are the major terms of the Subscription Agreement as extracted from the Letter from the Board:

Date:	27 June 2018
Issuer:	The Company
Subscriber:	Mr. Chen Yenfei, the chairman of the Board and the Chief Executive Officer of the Group

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe, for the Convertible Bonds in the aggregate principal amount of HK$134,500,000, which may be converted into 269,000,000 Conversion Shares based on the initial Conversion Price upon full conversion.

As at the Latest Practicable Date, there were 1,064,564,000 Shares in issue and upon full conversion of the Convertible Bonds, the Conversion Shares represent:

(i) approximately 25.27% of the issued share capital of the Company as at the Latest Practicable Date; and

(ii) approximately 20.17% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Conversion Shares between the date of this circular up to the full conversion of the Convertible Bonds).

(i) Analysis on the Conversion Price

As stated in the Letter from the Board, the price at which Conversion Shares will be issued upon exercise of the Conversion Rights will be HK$0.50 per Share. The Conversion Price represents:

(i) a premium of approximately 4.17% over the closing price of HK$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 4.17% over the average closing price of HK$0.48 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 40.48% to the Group's audited consolidated net assets per Share as at 31 December 2017 of approximately HK$0.84 (based on the then total 1,064,564,000 Shares as at 31 December 2017); and

(iv) a premium of approximately 12.4% over the closing price of HK$0.445 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Conversion Price was determined after arm's length negotiations between the Company and the Subscriber having regard to the closing price of HK$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day under the prevailing market conditions. As the Conversion Price is at a premium over the closing price of HK$0.48 per Share as quoted on the Stock Exchange on the Last Trading Day, the Directors (other than Mr. Chen Yenfei, who is the Subscriber and was required to abstain from voting on the relevant Board resolution(s) approving the Subscription Agreement by virtue of him having a material interest in the Subscription) consider the Conversion Price is fair and reasonable.

In order to assess the fairness and reasonableness of the Conversion Price, we have reviewed the daily closing price of the Shares as quoted on the Stock Exchange for the period from 1 June 2017 to the Latest Practicable Date, being the period of approximately 12 months prior to the date of the Announcement and up to and including the Latest Practicable Date, which is commonly used for analysis purpose (the "Review Period"). The comparison of daily closing prices of the Shares and the Conversion Price are illustrated as follows:

Source: the Stock Exchange's website

As illustrated above, the closing prices of the Shares were traded in the range of HK$0.375 to HK$0.60 with an average closing price of HK$0.436 during the Review Period. The Conversion Price of HK$0.50 represents a premium of approximately 33.3% over the lowest closing price, a discount of approximately 16.7% to the highest closing price and a premium of approximately 14.7% over the average closing price during the Review Period. We also noted the Conversion Price is higher than the closing price of the Shares for 269 trading days out of 299 trading days during the Review Period, representing approximately 90.0% of total number of trading days.

(ii) Principal term of the Convertible Bond

Set out below are the major terms of the Convertible Bond as extracted from the Letter from the Board:

Principal amount:	HK$134,500,000
Issue price:	100% of the principal amount of the Convertible Bonds
Interest rate:	The Convertible Bonds shall not carry any interest
Maturity Date:	The second anniversary of the date of issue of the Convertible Bonds
Conversion Price:	The Conversion Price of HK$0.50 per Conversion Share shall be subject to adjustment upon occurrence of certain events as set out in the Letter from the Board
Conversion Period:	From the date of the issue of the Convertible Bondsup to 4:00 p.m. on the day immediately prior to the Maturity Date

As part of our analysis, we tried to identify companies listed on the Stock Exchange which announced issue of convertible bonds/notes to connected person solely for cash during the period between 28 March 2018 and the date of the Announcement. We consider that a review period from 28 March 2018 and up to the date of the Announcement, representing approximately three-month period prior to the publication of the Announcement, to be sufficient and appropriate for our analysis as such period reflected the recent market sentiments of the Hong Kong capital market at which time the terms of the Convertible Bonds, including the Conversion Price, were determined. However, we only found 5 transactions which met the said criteria ("Connected Market Comparables"). Accordingly, we extended our research to those issue of convertible bonds/notes to both connected persons and independent third parties during the same period. We identified and selected 25 transactions which met the said criteria (the "Market Comparables"). We consider that it is an exhaustive list of relevant comparable issue of convertible bonds/notes based on the aforesaid criteria. Notwithstanding that the Market Comparables may be different in business, operation scale, market value, fund raising size, future prospect etc., the nature of subscription of the convertible bonds is in substance a fundraising activity and the purpose of the Market Comparables is solely to compare the Conversion Price with those of the respective Market Comparables in the recent market sentiments but not the business operations and fund raising amount of the Market Comparables, and we are not aware of any industry norm of the magnitude of discount or premium in relation to the issue of convertible bonds/notes for a particular sector, we are of the view that the results of the comparison of the Conversion Price to those of the Market Comparables are meaningful for us to form our view regarding fairness and reasonableness of the Conversion Price.

						Premium/(Discount) of the conversion price over/(to)		
Date of Announcement	Company Name	Stock Code	Market Capitalisation as at 27 June 2018 *(HK$'million)*	Principal Business	Annual Interest Rate	closing price per share on the last trading day prior to/on the date of the announcement	average closing price per share on the last five trading day prior to/on the date of the announcement	the consolidated net assets value per Share as at the announcement/ latest practicable date
29/03/2018	SMI Holdings Group Limited	198	5,712.1	Entertainment business relating to the operation of theaters, investments in film production and distribution, in-theater counter sales and online shopping and trading of securities.	7.50%	15.00%	15.00%	30.1%
30/03/2018	ArtGo Holdings Limited	3313	860.0	Mining, processing, trading and sales of marble stones, trading of commodities and cargo handling, waterhousing, and logistics.	5.00%	–10.00%	0.00%	–51.8%
17/04/2018*	TUS International Limited	872	978.5	Production and sale of automotive related products, car trading and provision of financing service for leasing motor vehicles and equipment.	0.00%	–11.97%	–9.90%	2.1%
24/04/2018	China Ruifeng Renewable Eenergy Holdings Limited	527	1,079.5	Wind power generation.	6.50%	–17.80%	–19.17%	6.7%
25/04/2018	South Sea Petroleum Holdings Limited	76	209.3	Development and production of crude oil in Indonesia, production and trading of minerals, primarily graphite, worldwide, provision of electronic manufacturing services in the United Kingdom, and development of multi-media production and movie making.	0.00%	25.00%	30.43%	–89.3%
03/05/2018	Global Strategic Group Limited	8007	469.9	Provision of internet & e-commerce enabling solutions, IT consulting & technical services; strategic investments in technologies & applications; investment in lifescience & health related projects; promotion & trading of cultural products.	10.00%	7.41%	7.96%	176.2%
08/05/2018	China Environmental Technology Holdings Limited	986	154.6	Internet Services, Trading of Gold and Diamond, Money Lending and Financial Services.	5.00%	18.64%	21.95%	–48.6%
10/05/2018	LVGEM (China) Real Estate Investment Company Limited	95	19,140.0	Property development and property investment businesses in the PRC.	4.00%	18.61%	18.02%	46.0%
10/05/2018	Petro-King Oilfield Services Limited	2178	604.3	Provision of oilfield technology and oilfield services covering various stages in the life of an oilfield including drilling, well completion and production enhancement with ancillary activities in trading and manufacturing of oilfield services related products.	8.00%	0.00%	–2.08%	–27.8%
11/05/2018	Angang Steel Company Limited	347	7,611.5	Production and sale of products including hot rolled products, cold rolled products, medium and thick plates and other steel products.	0.00%	15.10%	16.00%	11.1%

Date of Announcement	Company Name	Stock Code	Market Capitalisation as at 27 June 2018 (HK$'million)	Principal Business	Annual Interest Rate	Premium/(Discount) of the conversion price over/(to) closing price per share on the last trading day prior to/on the date of the announcement	average closing price per share on the last five trading day prior to/on the date of the announcement	the consolidated net assets value per Share as at the announcement/ latest practicable date
15/05/2018	China Finance Investment Holdings Limited	875	123.4	Growing, processing and selling agricultural produce, money lending business, securities brokerage service and internet finance business.	5.00%	9.52%	4.55%	24.1%
15/05/2018	Xinming China Holdings Limited	2699	2,066.5	Property development, property leasing and the provision of property management services in 2016 and 2017.	6.50%	19.83%	19.21%	4.4%
15/05/2018	Tempus Holdings Limited	6880	535.3	Health and wellness business and trading and logistic business	7.00%	20.30%	17.90%	71.7%
16/05/2018	New City Development Group Limited	456	1,492.7	Property development and investment in the PRC.	2.00%	–18.87%	–19.17%	28.2%
16/05/2018	China Environmental Technology Holdings Limited	646	376.0	Trading of vehicles, machinery, equipment; environmental protection technology, equipment system integration, cities and towns wastewater treatment, project technical service and licensing of related environmental protection technical know-how.	8.00%	73.11%	71.95%	476.7%
18/05/2018	Comtec Solar Systems Group Limited	712	220.3	Research, production and sales of efficient mono-crystalline products and power storage products and the provision of consulting services for investment, development, construction and operation of solar photovoltaic power stations.	10.00%	0.00%	0.57%	25.6%
31/05/2018	Prosper One International Holdings Company Limited	1470	656.0	Retail and wholesale of watches in Hong Kong, and sales and trading of fertilizers, fertilizers raw materials and public consumption products.	0.80%	–16.67%	–16.67%	421.9%
01/06/2018*	Green Leader Holdings Group Limited	61	1,359.9	Development of cassava cultivation and deep processing business for the related ecological cycle industry chain; coal exploration and development (mining operation), sales of coking coal and the provision of coal trading logistics services; and the provision of system integration services and software solutions.	1.50%	0.00%	10.00%	–14.9%
01/06/2018*	Junefield Department Store Group Limited	758	669.1	Property investment and development, provision of property management and agency services, manufacture and sale of construction materials, securities investments trading of mineral concentrates and the coal mining.	5.00%	–21.30%	–24.55%	189.1%
04/06/2018	Huscoke Resources Holdings Limited	704	779.0	Trading of coke, coal-related ancillary business and coke production business.	3.95%	35.70%	35.70%	137.2%
14/06/2018*	Energy International Investments Holdings Limited	353	1,281.9	Oil production and the leasing of oil and liquefied chemical terminal together with its storage and logistics facilities.	3.00%	0.00%	0.39%	109.8%
14/06/2018	Energy International Investments Holdings Limited	353	1,281.9	Oil production and the leasing of oil and liquefied chemical terminal together with its storage and logistics facilities.	3.00%	0.00%	0.39%	109.8%
22/06/2018*	Techcomp (Holdings) Limited	1298	1,024.6	Design, manufacture and distribution, of analytical and laboratory instruments and life science equipment.	3.50%	32.80%	42.66%	38.4%
25/06/2018	New City Development Group Limited	456	1,492.7	Property development and investment in the PRC.	2.00%	–13.51%	–19.19%	28.2%
25/06/2018	Sunshine Oilsands Ltd.	2012	1,464.9	Evaluation and the development of oil properties for the future production of bitumen in the Athabasca oil sands region in Alberta, Canada.	5.00%	–15.16%	–12.66%	–47.4%

* *Represented Connected Market Comparables*

Date of Announcement	Company Name	Stock Code	Market Capitalisation as at 27 June 2018 *(HK$'million)*	Principal Business	Annual Interest Rate	Premium/(Discount) of the conversion price over/(to) closing price per share on the last trading day prior to/on the date of the announcement	average closing price per share on the last five trading day prior to/on the date of the announcement	the consolidated net assets value per Share as at the announcement/ latest practicable date
				Maximum ***(Connected Market Comparables only)***	5.00%	32.80%	42.66%	189.13%
				Minimum ***(Connected Market Comparables only)***	0.00%	–21.30%	–24.55%	–14.86%
				Average ***(Connected Market Comparables only)***	18.83%	16.59%	19.77%	70.76%
				Median ***(Connected Market Comparables only)***	3.25%	0.00%	5.20%	69.22%
				Maximum ***(Market Comparables)***	10.00%	73.11%	71.95%	476.74%
				Minimum ***(Market Comparables)***	0.00%	–21.30%	–24.55%	–89.32%
				Average ***(Market Comparables)***	8.16%	10.22%	11.13%	67.60%
				Median ***(Market Comparables)***	5.00%	3.71%	6.26%	28.24%
				Maximum ***(Market Comparables, excluding outlier)***	10.00%	35.70%	42.66%	421.88%
				Minimum ***(Market Comparables, excluding outlier)***	0.00%	–21.30%	–24.55%	–89.32%
				Average ***(Market Comparables, excluding outlier)***	8.17%	7.71%	8.69%	51.24%
				Median ***(Market Comparables, excluding outlier)***	5.00%	0.00%	4.55%	28.24%
The Convertible Bonds:								
27/06/2018*	The Company	574	473.7	Pharmaceutical distribution, self-operated retail pharmacies, and pharmaceutical manufacturing.	0.00%	4.17%	4.17%	–40.48%

Source: the Stock Exchange's website, Annual Reports and Interim Reports of respective companies

We noted from the above table that the conversion prices of the Connected Market Comparables/Market Comparables (i) ranged from a discount of approximately 21.30/21.30% to a premium of approximately 32.80/73.11% to/over the respective closing price per share on the last trading day prior to the date of announcement/ agreement in connection with the respective subscription of convertible bonds/notes (the "LTD Ranges"); and (ii) ranged from a discount of approximately 24.55/24.55% to a premium of approximately 42.66/71.95% to/over the respective average closing price per share on the last five consecutive trading day prior to the date of announcement/agreement in connection with the respective subscription of convertible bonds/notes (the "5-Day Ranges"). The Conversion Price which represents a premium of 4.17% to both Last Trading Day and last five consecutive trading days prior to and up to the Last Trading Day falls within the LTD Range and 5-Day Range of the Connected Market Comparables.

Furthermore, we noted from the Market Comparables that the conversion price of China Environmental Technology Holdings Limited (Stock code: 646) represents exceptional high premium over its closing prices per share on last trading day and last five consecutive trading days prior to the days of its subscription agreement as compared with those of the other Market Comparables. We are therefore of the view that the subscription price of China Environmental Technology Holdings Limited is outlier.

After excluding the outlier, the LTD Range of the Market Comparables ranged from a discount of approximately 21.30% to a premium of 35.70% with an average premium of 7.71%, while the 5-Day Range of the Market Comparables ranged from a discount of approximately 24.55% to a premium of approximately 42.66% with an average premium of approximately 8.69%. The Conversion Price which represents a premium of approximately 4.17% to both Last Trading Day and last five consecutive trading days prior to and up to the Last Trading Day falls within the LTD Range and 5-Day Range of the Market Comparables.

We also noted from above table that the conversion prices of the Connected Market Comparables/Market Comparables ranged from a discount of approximately 14.86/89.32% to a premium of approximately 189.13/476.74% to/over the net assets value per Share as at the respective announcement/latest practicable dates in connection with the respective subscription of convertible bonds/notes (the "Net assets value per Share Ranges"). Nevertheless, we are of the view that the net assets value per Share, which is a historical accounting figures, could not reflect the market value of the Share that the share price has been taken into account the then market sentiment (which is illustrated in the above chart). Therefore, albeit the Conversion Price represents a discount of approximately 40.48% to the Group's audited consolidated net assets per Share as at 31 December 2017, which is fall within/outside the Net assets value per Share Range for the Market Comparables/Connected Market Comparables, we considered that the analysis on the comparison between the Conversion Price and the net assets value per Share would not be meaningful for assessing the fairness and reasonableness of the Conversion Price.

Therefore, we are of the opinion that the Conversion Price is in line with the recent market practice and fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Analysis on the interest rate

As illustrated in the table above, the (i) Connected Market Comparables had nil annual interest rate to 5% annual interest rate; and (ii) the Market Comparables had nil annual interest rate to 10.0% annual interest rate. Therefore, we consider that the Convertible Bonds bearing nil interest is in the interest of the Company and Shareholders.

Having considered the above, we are of the view that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable, and the Subscription, while not in the ordinary and usual course of business of the Company, is in the interest of the Shareholders as a whole.

Possible dilution effect on shareholding of the public Shareholders upon full conversion of the Convertible Bonds

With reference to the shareholding table in the section headed "Effect of the Full Conversion of the Convertible Bonds" in the Letter from the Board, the shareholding interests of the public Shareholders would be diluted from approximately 52.85% to 42.19% immediately after full conversion of the Convertible Bonds and before the exercise of the outstanding share options. In this respect, taking into account that (i) the Subscription is the most appropriate and timely fund-raising method to meet the financial needs of the Company; (ii) the Company may not have sufficient cash to repay the outstanding CCB Convertible Bonds if it becomes due on 29 December 2018; and (iii) the terms of the Subscription Agreement being fair and reasonable, we are of the view that the said level of dilution to the Shareholding interests of the public shareholders is acceptable.

Recommendation on the Subscription

Having considered the principal factors and reasons as discussed above and as summarised below:

(i) the Subscription is the most appropriate and timely fund-raising method to meet the financial needs of the Company;

(ii) the Company may not have sufficient cash to repay the outstanding CCB Convertible Bonds if it becomes due on 29 December 2018;

(iii) the Conversion Price of HK$0.50 per Conversion Share represents a premium of approximately 14.9% over the average closing price of HK$0.435 per Share during the Review Period, while the trading price of the Shares was closed at a price below the Conversion Price during approximately 88.8% in the number of trading days during the Review Period;

(iv) despite the Conversion Price represents a discount of approximately 40.48% to the Group's audited consolidated net assets per Share as at 31 December 2017, which is fall within/outside the Net assets value per Share Range for the Market Comparables/Connected Market Comparables, the Conversion Price which represents a premium of approximately 4.17% to both Last Trading Day and last five consecutive trading days prior to and up to the Last Trading Day falls within the LTD Ranges and 5-Day Ranges;

(v) the Convertible Bonds bear nil interest; and

(vi) the level of dilution to the shareholding interests of the public Shareholders as a result of full conversion of the Convertible Bonds is acceptable.

We are of the opinion that (i) the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Subscription are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Connected Transaction Independent Board Committee and Whitewash Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

B. The Whitewash Waiver

As the Subscription and the conversion of the Convertible Bonds will increase the aggregate shareholding interest of the Subscriber from approximately 45.47% shareholding in the Company as at the Latest Practicable Date to approximately 56.47% (assuming that there is no change in the issued share capital of the Company up to the Completion). Accordingly, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by him pursuant to Rule 26.1 of the Takeovers Code as such increase will have the effect of increasing the Subscriber's holding of voting rights of the Company by more than 2% from the lowest percentage holding of the Subscriber within the period of 12 months, unless the Whitewash Waiver is obtained from the Executive.

The Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. The Subscriber and parties acting in concert with him and their respect associates and any other Shareholders who are involved or interested in the Subscription Agreement and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. The Subscription Agreement and the transactions contemplated thereunder will not proceed if the Whitewash Waiver is not granted by the Executive or the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver are not approved by the Independent Shareholders at the EGM.

In view of that (i) the Subscription is the most appropriate and timely fund raising method to meet the financial needs of the Company; (ii) the Company may not have sufficient cash to repay the outstanding CCB Convertible Bonds if it becomes due on 29 December 2018; and (iii) the terms of the Subscription Agreement being fair and reasonable, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Subscription, is in the interests of the Company and the Independent Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Subscription.

Recommendation on the Whitewash Waiver

Having taken into consideration the reasons for and possible benefits of the Subscription and that the Subscription are conditional upon, amongst others, the Whitewash Waiver having been granted by the Executive and all conditions (if any) attached to the Whitewash Waiver having been satisfied, we consider that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Whitewash Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Innovax Capital Limited

Calvin Poon	**Richard Chu**
Head of Corporate Finance	*Managing Director*

Note: Mr. Calvin Poon and Mr. Richard Chu are licensed persons under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and regarded as responsible officers of Innovax Capital Limited. Mr. Calvin Poon and Mr. Richard Chu have over 15 years of experience in corporate finance industry.

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated results and assets and liabilities of the Group for each of the three years ended 31 December 2015, 2016 and 2017 as extracted from the respective published annual reports of the Company.

The auditor's report issued by Crowe Horwath (HK) CPA Limited in respect of the Group's audited consolidated financial statement for the year ended 31 December 2015 and the auditor's reports issued by CCTH CPA Limited in respect of the Group's audited consolidated financial statement for each of the two years ended 31 December 2016 and 2017 did not contain any qualifications. There are no extraordinary or exceptional items because of size, nature or incidence that are required to be disclosed in the audited financial statements of the Group for each of the three years ended 31 December 2017.

1. FINANCIAL SUMMARY

	2013	2014	2015	2016	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	794,349	847,193	867,963	860,574	869,891
Profit before tax	81,312	71,869	113,006	28,441	19,502
Income tax expense	(18,243)	(25,740)	(28,120)	(20,766)	(9,325)
Profit for the year	63,069	46,129	84,886	7,675	10,177
Earnings per share *(RMB cent(s))*					
Basic	9.0	8.7	11.31	0.77	1.01
Diluted	7.9	8.7	5.74	0.76	N/A
Assets and liabilities					
Non-current assets	154,420	138,811	192,582	245,821	315,249
Current assets	532,769	575,181	708,714	854,666	831,999
Current liabilities	(484,500)	(468,601)	(152,155)	(218,441)	(295,867)
Net current assets	48,269	106,580	556,559	636,225	536,132
Total assets less current liabilities	202,689	245,391	749,141	882,046	851,381
Non-current liabilities	(61,609)	(64,111)	(26,471)	(157,278)	(102,116)
Net assets	141,080	181,280	722,670	724,768	749,265
Capital and reserves					
Share capital	1	1	801	801	856
Reserves	140,203	180,218	724,179	723,967	748,409
Non-controlling interests	876	1,061	(2,310)	–	–
Total equity	141,080	181,280	722,670	724,768	749,265

2. AUDITED FINANCIAL INFORMATION

The following is the audited financial statements of the Group extracted from the annual report of the Company for the year ended 31 December 2017:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	**2017** *RMB'000*	**2016** *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	96,102	56,853
Prepaid land lease payments	*14*	4,060	2,214
Goodwill	*15*	5,942	–
Biological assets	*16*	1,196	–
Other intangible assets	*17(a)*	3,281	3,103
Prepayments for intangible assets	*17(b)*	20,000	20,000
Other non-current assets	*18*	177,615	159,683
Deferred tax assets	*28(b)*	7,053	3,968
		315,249	245,821
CURRENT ASSETS			
Inventories	*19*	60,372	77,497
Financial assets at fair value through profit or loss	*20*	–	–
Trade and other receivables	*21*	438,994	343,281
Prepayments and deposits paid	*22*	245,883	185,192
Derivative financial instruments	*27*	2,253	7,567
Amounts due from related parties	*41(b)*	97	357
Pledged bank deposits	*23*	49,364	92,122
Cash and cash equivalents	*23*	35,036	148,650
		831,999	854,666

	NOTES	2017 RMB'000	2016 RMB'000
CURRENT LIABILITIES			
Trade and other payables	24	142,047	193,309
Bank borrowings	25	26,009	14,009
Amounts due to related parties	41(b)	295	176
Corporate bonds payable	26	5,886	135
Convertible bonds	27	109,187	–
Income tax payable	28	12,443	10,812
		295,867	218,441
NET CURRENT ASSETS		536,132	636,225
TOTAL ASSETS LESS CURRENT LIABILITIES		851,381	882,046
NON-CURRENT LIABILITIES			
Deferred income – government grant	29	25,076	25,588
Corporate bonds payable	26	68,854	15,484
Convertible bonds	27	–	116,206
Deferred tax liabilities	28(b)	8,186	–
		102,116	157,278
NET ASSETS		749,265	724,768
CAPITAL AND RESERVES			
Share capital	30	856	801
Reserves	32	748,409	723,967
Total equity attributable to equity shareholders of the Company		749,265	724,768
Non-controlling interests		–	–
TOTAL EQUITY		749,265	724,768

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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 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 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 and 1 January 2017	801	447,331	42,279	7,395	11,997	11,623	(28,150)	231,492	724,768	–	724,768
Profit for the year	–	–	–	–	–	–	–	10,177	10,177	–	10,177
Other comprehensive income for the year – Exchange differences on translation of financial statements of entities outside the PRC	–	–	–	–	–	(7,637)	–	–	(7,637)	–	(7,637)
Total comprehensive income for the year	–	–	–	–	–	(7,637)	–	10,177	2,540	–	2,540
Issue of shares upon acquisition of a subsidiary *(note 34)*	55	21,902	–	–	–	–	–	–	21,957	–	21,957
Appropriation to PRC statutory reserve	–	–	4,815	–	–	–	–	(4,815)	–	–	–
At 31 December 2017	856	469,233	47,094	7,395	11,997	3,986	(28,150)	236,854	749,265	–	749,265

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	NOTES	**2017** *RMB'000*	**2016** *RMB'000*
Operating activities			
Profit before tax		19,502	28,441
Adjustments for:			
Depreciation of property, plant and equipment	*13*	5,490	6,879
Amortisation of prepaid land lease payments	*14*	100	72
Amortisation of intangible assets	*17(a)*	218	779
Government grant recognised to profit or loss	*29*	(512)	(883)
Impairment loss on deposits paid for acquisition of property, plant and equipment	*5(b)*	10,000	–
Impairment loss on inventories	*5(b)*	–	2,380
Impairment loss on trade receivables	*5(b)*	–	4,680
Impairment loss on other receivables	*5(b)*	2,306	6,941
Impairment loss on amount due from a former subsidiary	*5(b)*	–	17,079
Reversal of impairment loss on inventories	*5(b)*	(720)	–
Reversal of impairment loss on trade receivables	*5(b)*	(1,326)	–
Gain on disposal of property, plant and equipment	*5(a)*	–	(3)
Loss on disposal of property, plant and equipment	*5(b)*	1,023	590
Gain on disposal of a subsidiary	*35*	–	(9,765)
Gain on change in fair value less costs to sell of biological assets	*5(a)*	(131)	–
Gain on change in fair value of derivative financial instruments	*5(a)*	–	(54)
Loss on change in fair value of derivative financial instruments	*5(b)*	4,943	–
Loss on change in fair value of financial assets at fair value through profit or loss	*5(b)*	–	2,619
Loss on issue of convertible bonds	*5(b)*	–	8,171
Bank interest income	*5(a)*	(1,103)	(187)
Interest income from loan receivables	*5(a)*	(895)	–
Finance costs	*6*	15,673	2,516
Equity-settled share-based payments	*31*	–	11,597
Net foreign exchange gains		(8,567)	(8,900)

	NOTES	2017 RMB'000	2016 RMB'000
Operating cash flows before movements in working capital		46,001	72,952
Decrease/(increase) in inventories		20,273	(12,483)
Increase in trade and other receivables		(92,188)	(17,398)
Decrease/(increase) in prepayments and deposits paid		4,658	(95,055)
Decrease/(increase) in amounts due from related parties		260	(357)
(Decrease)/increase in trade and other payables		(64,255)	72,740
Decrease in amount due to a director		–	(222)
Increase in amounts due to related parties		119	141
Cash (used in)/generated from operations		(85,132)	20,318
Income tax paid	*28(a)*	(10,849)	(21,095)
Net cash used in operating activities		(95,981)	(777)
Investing activities			
Purchase of property, plant and equipment		(1,088)	(4,878)
Proceeds from disposal of property, plant and equipment		–	10
Payments for purchase of intangible assets		(396)	(2,068)
Decrease in deposits paid for acquisition of property, plant and equipment		–	483
Payments in connection with a property development project		(35,523)	(54,929)
Deposits paid for investment projects		(35,404)	–
Consideration paid for acquisition of unlisted investments		(31,000)	–
Deposits for acquisition of companies:			
– paid		–	(52,342)
– refunded		–	42,000
Acquisition of a subsidiary	*34*	(9,449)	–
Disposal of a subsidiary	*35*	–	(123)
Decrease in pledged bank deposits		40,256	5,066
Interest received from loan receivables		895	–
Bank interest received		1,103	187

	NOTES	2017 RMB'000	2016 RMB'000
Net cash used in investing activities		(70,606)	(66,594)
Financing activities			
Drawn down of new bank loans	*36*	25,000	14,009
Repayment of bank loans	*36*	(14,000)	(15,000)
Proceeds from issue of corporate bonds	*36*	73,093	19,797
Corporate bonds issue expenses	*36*	(13,629)	(4,319)
Proceeds from issue of convertible bonds		–	108,389
Convertible bonds issue expenses		–	(508)
Dividend paid		–	(26,995)
Finance costs paid	*36*	(11,039)	(2,345)
Net cash generated from financing activities		59,425	93,028
Net (decrease)/increase in cash and cash equivalents		(107,162)	25,657
Cash and cash equivalents at 1 January		148,650	116,401
Effect of changes in foreign exchange rates		(6,452)	6,592
Cash and cash equivalents at 31 December	*23*	35,036	148,650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. General

Pa Shun 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 Room 1803, 18/F Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong (effective from 4 December 2017) respectively.

The Company changed its name from "Pa Shun Pharmaceutical International Holdings Limited" to "Pa Shun International Holdings Limited" and adopted "百信國際控股有限公司" as the Chinese name of the Company, both of which are effective from 12 June 2017.

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 43.

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. These consolidated financial statements have also been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and 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:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual improvements to HKFRSs 2014-2016 cycle

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.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 36. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36, the application of these amendments has had no impact on the Group's consolidated financial statements.

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[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015-2017 Cycle[2]

[1] *Effective for annual periods beginning on or after 1 January 2018*
[2] *Effective for annual periods beginning on or after 1 January 2019*
[3] *Effective for annual periods beginning on or after 1 January 2021*
[4] *Effective 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.

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 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.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company ("Directors") have performed a preliminary assessment of the impact of HKFRS 9 to the Group's consolidated financial statements. All financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under HKAS 39.

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier recognition of credit losses for the respective items and are currently assessing the potential impact.

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent consideration, as well as licencing application guidance.

The Directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede the current lease guidance including HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (that is, all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date.

Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas under HKFRS 16, lease payments will be split into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

HKFRS 16 will primarily affect the Group's accounting as lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of HKFRS 16 is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease.

As disclosed in note 39, at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to RMB6,110,000 for properties, the majority of which is payable more than 5 years after the reporting date. A portion of this amount may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

Other than the above, the Directors anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

Basis of preparation of the consolidated financial statements

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

- biological assets;
- financial assets at fair value through profit or loss; and
- derivative financial instruments

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(r))*.

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.

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.

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.

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

(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.

Financial assets at 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(h)(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.

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.

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.

(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
Ephedra grass	18 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.

(e) Biological assets

Biological assets are living plants involved in the agricultural activities of the transformation of biological assets into agricultural produce for sale or into additional biological assets. Biological assets, agricultural produce and seedlings, are measured at fair value less costs to sell at initial recognition and at the end of each reporting period. The fair value less costs to sell at the time of harvest is deemed as the cost of agricultural produce for further processing, if applicable.

If an active market exists for a biological asset or agricultural produce with reference to comparable specie, growing condition and expected yield of the crops, the quoted price in that market is adopted for determining the fair value of that asset. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the end of the reporting period, or the market prices for similar assets adjusted to reflect differences to determine fair values. The gain or loss arising on initial recognition and subsequent changes in fair values less costs to sell of biological assets is recognised in profit or loss in the period in which it arises. Upon the sale of the agricultural produce, the carrying amount is transferred to cost of sales in the income statement.

(f) 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.

(g) 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.

(h) 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.

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 and deposits paid.

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).

– 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.

(i) Inventories

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

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

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

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

(j) 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.

(k) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution retirement benefits

The entities within the Group in the People's Republic of China ("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.

(l) 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.

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.

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.

(m) 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.

(n) 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.

(o) 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.

(p) Borrowing costs

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

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

(q) 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(q)(a).

(vii) A person identified in note 2(q)(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.

(r) 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.

(s) 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.

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, other non-current assets and prepayments and deposits paid (Carrying amount: RMB546,941,000 (2016: RMB427,045,000))

If circumstances indicate that the carrying amounts of property, plant and equipment, prepaid land lease payments, other 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(h)(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.

(b) Impairment of trade and other receivables (Carrying amount: RMB438,994,000 (2016: RMB343,281,000))

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: RMB96,102,000 (2016: RMB56,853,000))

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 the carrying amount of such assets.

(d) Net realisable value of inventories (Carrying amount: RMB60,372,000 (2016: RMB77,497,000))

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: RMB7,053,000 (2016: RMB3,968,000))

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.

(f) Fair value of biological assets (Carrying amount: RMB1,196,000 (2016: Nil))

Management estimates the current market prices less costs to sell of biological assets (representing agricultural produce of licorice) at the end of each reporting period with reference to market prices and professional valuations. Changes in market prices of the underlying agricultural produce could significantly affect the fair values of these biological assets and result in fair value re-measurement losses in future accounting periods. The Group's biological assets are subject to the usual agricultural hazards from fire, wind, diseases, insects and other nature forces, such as temperature and rainfall. Management considers that adequate preventive measures are in place and the relevant legislation under laws in the PRC continues to assist in minimising exposure, nevertheless, to the extent that various factors affecting harvestable agricultural produce may result in re-measurement or harvest losses in future accounting periods.

(g) Impairment of goodwill (Carrying amount: RMB5,942,000 (2016: Nil))

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, an impairment loss may arise.

4. Revenue and segment reporting

(a) Revenue

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

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

	2017	**2016**
	RMB'000	*RMB'000*
Pharmaceutical distribution	794,130	774,230
Self-operated retail pharmacies	542	934
Pharmaceutical manufacturing	75,219	85,410
	869,891	860,574

(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 makers, 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 2017 and 2016 and the principal assets employed by the Group were located in the PRC as at 31 December 2017 and 2016. Accordingly, no analysis by geographical information is provided for the years ended 31 December 2017 and 2016.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision makers for review during the years ended 31 December 2017 and 2016 for the purposes of resource allocation and assessment of segment performance.

Revenue from individual customers contributing over 10% of the total revenue of the Group is as follows:

	2017	**2016**
	RMB'000	*RMB'000*
Revenue generated from pharmaceutical distribution		
Customer A	120,129	N/A
Customer B	93,405	N/A

No customer individually contributed over 10% of the total revenue of the Group for the year ended 31 December 2016.

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

(i) Segment revenue and results

Segment information regarding the Group's revenue and results as provided to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	Year ended 31 December 2017							
	Pharmaceutical distribution							
	Sales to wholesalers	Sales to franchise retail pharmacy chain stores	Sales to hospitals and other medical institutions in rural areas	Others	Sub-total	Self-operated retail pharmacies	Pharmaceutical manufacturing	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	477,874	209,438	64,033	42,785	794,130	542	75,219	869,891
Inter-segment revenue	41	1,519	–	–	1,560	–	3,926	5,486
Reportable segment revenue	477,915	210,957	64,033	42,785	795,690	542	79,145	875,377
Reportable segment profit	18,538	14,535	10,837	3,060	46,970	134	42,197	89,301
Other segment information								
Depreciation and amortisation	–	–	–	–	–	–	671	671

	Year ended 31 December 2016							
	Pharmaceutical distribution							
	Sales to wholesalers	Sales to franchise retail pharmacy chain stores	Sales to hospitals and other medical institutions in rural areas	Others	Sub-total	Self-operated retail pharmacies	Pharmaceutical manufacturing	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	25,220	24,255	17,842	–	67,317	(326)	46,891	113,882
Other segment information								
Depreciation and amortisation	–	–	–	–	–	–	585	585

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

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	875,377	862,992
Elimination of inter-segment revenue	(5,486)	(2,418)
Consolidated revenue *(note 4(a))*	869,891	860,574
Profit		
Reportable segment profit	89,301	113,882
Elimination of inter-segment loss	115	66
Gross profit derived from external customers	89,416	113,948
Other income and gains	17,325	24,985
Other net loss	(16,815)	(42,460)
Selling and distribution expenses	(14,166)	(14,083)
General and administrative expenses	(40,585)	(51,433)
Finance costs	(15,673)	(2,516)
Consolidated profit before tax	19,502	28,441
Other items		
Depreciation and amortisation		
Reportable segment total	671	585
Unallocated total	5,137	7,145
Consolidated total	5,808	7,730

5. Other income and gains and other net loss

(a) Other income and gains

	2017	2016
	RMB'000	*RMB'000*
Franchise fee	9,934	10,464
Bank interest income	1,103	187
Interest income from loan receivables	895	–
Net foreign exchange gains	2,276	2,210
Gain on change in fair value less costs to sell of biological assets *(note 16)*	131	–
Gain on disposal of property, plant and equipment	–	3
Gain on disposal of a subsidiary *(note 35)*	–	9,765
Gain on change in fair value of derivative financial instruments *(note 27)*	–	54
Deferred income – government grant *(note 29)*	512	883
Others	2,474	1,419
	17,325	24,985

(b) Other net loss

	2017	2016
	RMB'000	*RMB'000*
Impairment loss on:		
Deposits paid for acquisition of property, plant and equipment *(note 18(b))*	10,000	–
Inventories	–	2,380
Trade receivables *(note 21(a))*	–	4,680
Other receivables *(note)*	2,306	6,941
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	1,023	590
Loss on issue of convertible bonds *(note 27)*	–	8,171
Loss on change in fair value of derivative financial instruments *(note 27)*	4,943	–
Reversal of impairment loss on:		
Inventories	(720)	–
Trade receivables *(note 21(a))*	(1,326)	–
Written off of other receivables	589	–
	16,815	42,460

Note: The Directors considered it appropriate to recognise impairment loss on other receivables of RMB2,306,000 (2016: RMB6,941,000) 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.

6. Finance costs

	2017	2016
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings	1,384	1,349
Bank overdrafts	1,019	6
Corporate bonds payable *(note 26)*	5,786	135
Convertible bonds *(note 27)*	6,725	36
Other borrowings	45	240
Bills charges and other bank charges	714	750
	15,673	2,516

7. Profit before tax

	2017	2016
	RMB'000	*RMB'000*
Profit before tax is arrived at after charging:		
Cost of inventories *(note i)*	780,475	746,626
Salaries, wages and other benefits	15,331	31,163
Contributions to defined contribution retirement plans	2,381	1,837
Total staff costs *(note ii)*	17,712	33,000
Amortisation of intangible assets	218	779
Amortisation of prepaid land lease payments	100	72
Depreciation of property, plant and equipment	5,490	6,879
Auditors' remuneration		
– Audit services	1,289	1,000
– Non-audit services	173	204
Operating lease charges in respect of property rentals	1,625	3,459
Research and development expenses	8,000	1,299
Equity-settled share-based payments *(note iii)*	–	10,683

Notes:

(i) Cost of inventories includes staff costs and depreciation expenses totalled RMB1,446,000 (2016: RMB1,476,000) 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) No equity-settled share-based payments have been recognised for the year ended 31 December 2017. The equity-settled share-based payments for the year ended 31 December 2016 totalled RMB10,683,000 are also included in staff costs of the Group for that year.

8. Income tax expense

	2017	2016
	RMB'000	*RMB'000*
Current tax – PRC Enterprise Income Tax		
Provision for the year	12,480	18,048
Underprovision for PRC Enterprise Income Tax in prior years	–	513
Deferred tax *(note 28(b))*		
Origination and reversal of temporary differences	(3,155)	2,205
	9,325	20,766

Notes:

(i) The Group is subject to income tax on an entity basis based 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 Islands ("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) Except for Chengdu Toyot Pa Shun Pharmacy Co., Ltd. ("Chengdu Pashun"), the Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at the statutory rate of 25% (2016: 25%).

Having applied for preferential income tax treatment in the PRC under the Notice on the Issues of Tax Policies for Thorough Implementation of Western Development Strategy, Chengdu Pashun, a wholly-owned subsidiary of the Company, obtained the approval from local tax authority and is entitled to a preferential income tax rate of 15% for the period from 1 January 2011 to 31 December 2020.

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

	2017	2016
	RMB'000	*RMB'000*
Profit before tax	19,502	28,441
Tax charge on profit before tax, calculated at the statutory tax rates applicable to the profits in the jurisdictions concerned	3,170	5,925
Effect of non-deductible expenses	6,737	12,026
Effect of non-taxable income	(894)	(3,594)
Effect of unused tax losses/deductible temporary differences not recognised	160	5,896
Others	152	–
Underprovision in respect of prior years	–	513
Income tax expense	9,325	20,766

9. Directors' and chief executive's emoluments

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

For the year ended 31 December 2017

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Equity-settled share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Chen Yenfei *(Chairman and Chief Executive Officer)*	–	624	–	–	624
Zhou Jian	–	170	–	–	170
Shen Shun	–	274	9	–	283
Non-executive Directors					
Li Ho Tan *(note a)*	25	–	–	–	25
Masahiro Honna *(note b)*	50	–	–	–	50
Zhang Xiongfeng	43	–	–	–	43
Independent non-executive Directors					
Liu Liangzhong	100	–	–	–	100
Wong Tak Shing	156	–	–	–	156
Min Feng	100	–	–	–	100
	474	1,068	9	–	1,551

For the year ended 31 December 2016

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Equity-settled share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Chen Yenfei *(Chairman and Chief Executive Officer)*	–	672	–	–	672
Su Si *(note c)*	–	–	–	–	–
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 d)*	21	–	–	914	935
Independent non-executive Directors					
Liu Liangzhong	101	–	–	–	101
Wong Tak Shing	157	–	–	–	157
Min Feng	101	–	–	–	101
	480	3,238	–	914	4,632

Notes:

(a) Li Ho Tan retired as a non-executive Director with effect from 8 June 2017.

(b) Masahiro Honna resigned as a non-executive Director with effect from 6 February 2018.

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

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

(e) During the two years ended 31 December 2017 and 2016, 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 2017 and 2016.

During the year ended 31 December 2017, no Directors were granted share options, in respect of his services to the Group under the share option scheme of the Company. Details of the share options granted during the year ended 31 December 2016 and share option scheme of the Company are set out in note 31 to these consolidated financial statements.

10. Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2016: one) are Directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the remaining two (2016: four) individuals are as follows:

	2017 *RMB'000*	**2016** *RMB'000*
Salaries and other emoluments	1,195	5,608
Retirement scheme contributions	19	23
	1,214	5,631

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

	2017 *Numbers of individuals*	**2016** *Numbers of individuals*
Nil to HK$1,000,000 (equivalent to RMB866,000) (2016: equivalent to RMB857,000)	1	–
HK$1,000,001 (equivalent to RMB866,001) (2016: equivalent to RMB857,001) to HK$1,500,000 (equivalent to RMB1,299,000) (2016: equivalent to RMB1,286,000)	1	3
HK$2,000,001 (equivalent to 1,732,001) (2016: equivalent to RMB1,714,001) to HK$2,500,000 (equivalent to RMB2,165,000) (2016: equivalent to RMB2,143,000)	–	1

11. Dividends

	2017	2016
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year: Nil (2016: 2015 final dividend of HK3 cents per share paid)	–	26,995
	–	26,995

No interim dividend was declared by the Company during the year under review (2016: Nil). The Board does not recommend the payment of any final dividend in respect of the year ended 31 December 2017 (2016: Nil).

12. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB10,177,000 (2016: RMB7,675,000) and the weighted average of approximately 1,007,429,000 ordinary shares (2016: 1,000,000,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the earnings of the Group and the number of ordinary shares as follows:

(i) Earnings

	2017	**2016**
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share	10,177	7,675
Effect of diluted potential ordinary shares:		
Interest on convertible bonds	6,725	22
Loss/(gain) on change in fair value of derivative financial instruments	4,943	(54)
Earnings for the purpose of diluted earnings per share	N/A	7,643

(ii) Number of shares

	2017	**2016**
	Number of shares	**Number of shares**
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,007,429	1,000,000
Effect of conversion of convertible bonds	176,658	1,311
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	1,001,311

Diluted earnings per share for the year ended 31 December 2017 is not presented as the effects for such year arising from the exercise of the outstanding convertible bonds are anti-dilutive.

The computation of diluted earnings per share does not assume the exercise of the Company's share options granted because the exercise price of those share options was higher than the average market price of shares for both years under review.

13. Property, plant and equipment

	Buildings	Leasehold improvements	Machinery and equipment	Furniture and other office equipment	Motor vehicles	Construction in progress	Ephedra grass	Saplings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost									
At 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 and 1 January 2017	54,034	5,373	3,836	14,223	3,429	3,882	–	–	84,777
Additions	–	800	7,368	506	–	–	–	5	8,679
Acquisition of a subsidiary *(note 34)*	2,920	–	–	–	–	–	32,780	1,383	37,083
Transferred from construction in progress	–	686	–	–	–	(686)	–	–	–
Disposals	–	(2,016)	–	(75)	(389)	–	–	–	(2,480)
At 31 December 2017	56,954	4,843	11,204	14,654	3,040	3,196	32,780	1,388	128,059
Accumulated depreciation									
At 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 and 1 January 2017	8,814	1,685	3,024	11,488	2,913	–	–	–	27,924
Depreciation for the year	2,460	970	87	1,532	139	–	302	–	5,490
Eliminated on disposals	–	(1,037)	–	(38)	(382)	–	–	–	(1,457)
At 31 December 2017	11,274	1,618	3,111	12,982	2,670	–	302	–	31,957
Carrying amount									
At 31 December 2017	45,680	3,225	8,093	1,672	370	3,196	32,478	1,388	96,102
At 31 December 2016	45,220	3,688	812	2,735	516	3,882	–	–	56,853

Notes:

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

(b) As at 31 December 2016, buildings with the carrying amount of RMB45,220,000 were situated on a parcel of land that the application of land use rights certificate was still under progress *(note 14(a))*. At 31 December 2017, the land use rights certificate in respect of those buildings was obtained.

(c) Ephedra grass and saplings are bearer plants which are located in Ningxia Province, the PRC.

14. Prepaid land lease payments

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

	2017	2016
	RMB'000	*RMB'000*
Cost		
At 1 January	3,779	3,779
Acquisition of a subsidiary *(note 34)*	2,180	–
At 31 December	5,959	3,779
Accumulated amortisation		
At 1 January	1,493	1,421
Charge for the year	100	72
At 31 December	1,593	1,493
Carrying amount		
At 31 December	4,366	2,286

	2017	2016
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Current asset (included in prepayments and deposits paid)	306	72
Non-current asset	4,060	2,214
	4,366	2,286

Notes:

(a) At 31 December 2016, the application of land use rights certificate of a parcel of land with the carrying amount of RMB862,000 is still under progress. At 31 December 2017, the land use rights certificate was obtained.

(b) At 31 December 2017, three parcels of land with the carrying amount of RMB1,920,000 (2016: Nil) was rented by the Group.

(c) The prepaid land lease payments are amortised over the terms of relevant land lease ranging from 20 to 50 years.

15. Goodwill

	2017	2016
	RMB'000	*RMB'000*
Cost		
At 1 January	5,992	6,009
Acquisition of a subsidiary *(note 34)*	5,942	–
Disposal of a subsidiary	–	(17)
At 31 December	11,934	5,992
Accumulated impairment losses		
At 1 January	5,992	6,009
Eliminated on disposal of a subsidiary	–	(17)
At 31 December	5,992	5,992
Carrying amount		
At 31 December	5,942	–

Impairment tests for cash-generating units containing goodwill

Before recognition of impairment losses, the cost of goodwill is allocated to the Group's cash-generating units ("CGUs") identified as follows:

	2017	**2016**
	RMB'000	*RMB'000*
Yanchi County Medical & Pharmaceutical Herbal Co., Ltd.（鹽池縣醫藥藥材有限公司）("Yanchi") *(note a)*	5,942	–
Hubei Baixintang Pharmacy Chain Store Co., Ltd.（湖北百信堂大藥房連鎖有限公司）("Baixintang") *(note b)*	5,992	5,992
	11,934	5,992

(a) Goodwill arising from the acquisition of Yanchi in relation to growing, processing and sale of biological assets

The goodwill of RMB5,942,000 arose from the acquisition of Yanchi during the year ended 31 December 2017.

The Directors conducted assessments of the recoverable amounts of the CGU of growing, processing and sale of biologicals assets undertaken by Yanchi with reference to the valuations conducted by Savills Valuation and Professional Services Limited ("Savills"), using the income approach methodology. Based on the assessments, since the recoverable amount of the CGU is not less than its carrying amount, the Directors considered that impairment of goodwill is not required to be made.

The recoverable amount has been determined on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 29%. The cash flows beyond the 5-year period are extrapolated at insignificant negative growth rates. The estimation of the budgeted sales and gross margin is based on management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions could not cause the carrying amount of the CGU to exceed its recoverable amount.

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

The goodwill was fully impaired in prior years as a result that the Group's retail business activities based in Hubei was deteriorated.

16. Biological assets

	Licorice	
	2017	**2016**
	RMB'000	*RMB'000*
At 1 January	–	–
Acquisition of a subsidiary *(note 34)*	1,065	–
Changes in fair value less costs to sell *(note 5(a))*	131	–
At 31 December	1,196	–

Notes:

(i) Licorice

The agricultural produce of licorice is held by Yanchi, an entity which is principally engaged in various businesses, including agriculture of Chinese herb. The acquisition of Yanchi by the Group has completed on 30 October 2017, details of which are set out in note 34 to the consolidated financial statements. The leasehold land for the agriculture of licorice is located in Yanchi County, Wuzhong, Ningxia Province, the PRC, with approximately 400 Chinese Mu. The Group conducted various activities for assessing the species mix and volume of the licorice. During the year under review, no licorice were harvested.

(ii) Valuation of biological assets

The Group's agricultural produce of licorice is accounted for as biological assets and is carried at 31 December 2017 at fair value less costs to sell, which were valued by Savills, independent professional valuers. The professional valuers have applied the net present value approach whereby projected future net cash flows from sale of licorice, which was estimated based on the existing state of agriculture at that date, were discounted at 15% to arrive at the fair value of the licorice.

The principal valuation methodology and assumptions adopted are as follows:

– Cash flow projection is determined for a period of 2 years up to 2019 under which the harvesting activities is expected to be completed. Management have assumed that the harvest volume during the forecast period is 320,000kg based on the current best estimated harvesting plan. It is expected that 60% of the harvest volume will be sold in 2019.

– The discount rate applied is 15%.

– The operating costs are based on the land lease and management agreement entered into by the Group currently.

– The selling expenses are estimated based on 15% of revenue.

– The expected selling price is based on the current market value.

(iii) Other risks associated with the biological assets

The Group is exposed to a number of risks related to its biological assets:

Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Climate and other risks

The ability to harvest agriculture produce and the growth of agriculture produce may be affected by unfavourable local weather conditions and natural disasters. The Group's agriculture produce is exposed to the risk of damage from fire, wind, diseases, insects and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular inspections and weather and disease surveys.

Supply and demand risks

The Group is exposed to risks arising from fluctuations in the price and sales volume of agriculture produce. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

17. Other intangible assets and prepayments for intangible assets

(a) Other intangible assets

	Patent	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January 2016	2,000	1,372	3,372
Additions	–	68	68
Transferred from prepayments for intangible assets *(note i)*	–	3,000	3,000
At 31 December 2016 and 1 January 2017	2,000	4,440	6,440
Additions	–	396	396
At 31 December 2017	2,000	4,836	6,836
Accumulated amortisation			
At 1 January 2016	1,850	708	2,558
Charge for the year	100	679	779
At 31 December 2016 and 1 January 2017	1,950	1,387	3,337
Charge for the year	50	168	218
At 31 December 2017	2,000	1,555	3,555
Carrying amount			
At 31 December 2017	–	3,281	3,281
At 31 December 2016	50	3,053	3,103

Notes:

(i) On 15 October 2015, the Group entered into an agreement with 天府商品交易有限公司 (in English for identification purpose only, 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 year ended 31 December 2016. During the year ended 31 December 2016, this right to use electronic platform amounted to RMB3,000,000 was reclassified and included in other intangible assets. Subsequent to the end of the reporting period, the right to use this electronic platform was disposed of for a consideration of RMB3,000,000 *(note 45(b))*.

(ii) The amortisation charges of RMB218,000 (2016: RMB779,000) are included in "general and administrative expenses" in the consolidated statement of profit or loss.

(iii) The carrying amount of computer software will be amortised over the remaining useful lives ranged from 2 to 9 years (2016: 5 to 9 years). The cost of the patent has been fully amortised as at 31 December 2017 (2016: remaining useful lives of 0.5 year).

(b) Prepayments for intangible assets

	2017	**2016**
	RMB'000	*RMB'000*
Prepayments for patented technology *(note)*	20,000	20,000

Note:

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.

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.

18. Other non-current assets

	2017	2016
	RMB'000	*RMB'000*
Deposits paid for acquisition of:		
– companies *(note a)*	52,342	52,342
– property, plant and equipment *(note b)*	2,154	19,745
Payments in connection with a property development project *(note c)*	118,119	82,596
Guarantee deposit *(note d)*	5,000	5,000
	177,615	159,683

Notes:

(a) During the year ended 31 December 2016, 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 31 December 2017, the Group had made payments of refundable deposits for the acquisition amounted to RMB52,342,000 (2016: RMB52,342,000).

Subsequent to the end of the reporting period, the Group, the equity owner of Chengdu Yiming and Chengdu Yiming entered into an agreement on 26 March 2018, under which the proposed acquisition of equity interest in Chengdu Yiming by the Group is cancelled. Pursuant to the agreement, the payment made by the Group of the acquisition amounted to RMB52,342,000 to be refunded to the Group as a result of the termination was immediately contributed to the property development project of the logistic centre by the equity owner of Chengdu Yiming on behalf of the Group as detailed in note c below.

(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. Included in the deposits paid are the amounts paid by the Group to two independent third parties amounted to RMB10,000,000 as at 31 December 2017. Management of the Group is of the view that the acquisition of the related plant and machinery may not be materialised and there is uncertainty on whether these deposits can be refunded to the Group. Accordingly, full impairment loss amounted to RMB10,000,000 (2016: Nil) has been made against the deposits paid and was included in other net loss *(note 5(b))*.

(c) As at the end of the reporting period, the Group had made payments to Chengdu Yiming amounted to approximately RMB118,119,000 (2016: RMB82,596,000) 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 a subsidiary of the Company and Chengdu Yiming. It is the understanding of the 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 Group 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 Chengdu 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 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

	2017	**2016**
	RMB'000	*RMB'000*
Raw materials	7,182	4,061
Work in progress	516	483
Finished goods	52,624	72,936
Consumables	50	17
	60,372	77,497

20. Financial assets at fair value through profit or loss

	2017	**2016**
	RMB'000	*RMB'000*
Equity securities listed in Hong Kong, at fair value – held for trading *(note 38(e))*	–	–

Trading of these equity securities listed in Hong Kong has suspended since 20 January 2016. In the opinion of the management of the Group, the fair value of such equity securities is minimal. Loss on change in fair value of the equity securities amounted to RMB2,619,000 was recognised for the year ended 31 December 2016 and was included in other net loss *(note 5(b))*.

21. Trade and other receivables

	2017	2016
	RMB'000	*RMB'000*
Trade and commercial bills receivables *(note a)*	337,366	287,698
Bank bills receivables *(note b)*	32,052	6
Other receivables *(note c)*	69,576	55,577
	438,994	343,281

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:

	2017	2016
	RMB'000	*RMB'000*
Within 1 month	96,001	82,524
1 to 3 months	113,334	101,697
4 to 6 months	76,854	58,500
Over 6 months	51,177	44,977
	337,366	287,698

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

	2017	**2016**
	RMB'000	*RMB'000*
Trade and commercial bills receivables		
– Gross amount	358,876	310,534
– Allowance for doubtful debts	(21,510)	(22,836)
– Amount net of allowance for doubtful debts	337,366	287,698

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.

Movements of the allowance for doubtful debts are as follows:

	2017	**2016**
	RMB'000	*RMB'000*
At 1 January	22,836	18,207
Impairment losses recognised *(note 5(b))*	–	4,680
Reversal of impairment losses *(note 5(b))*	(1,326)	–
Uncollectible amounts written off	–	(51)
At 31 December	21,510	22,836

As at 31 December 2017, the Group's trade and commercial bills receivables totalled RMB21,510,000 (2016: RMB22,836,000) 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 based on the dates of goods delivery that are neither individually nor collectively considered to be impaired is as follows:

	2017	**2016**
	RMB'000	*RMB'000*
Not past due	228,436	164,006
Less than 1 month past due	28,140	43,770
1 to 3 months past due	33,207	32,223
4 to 6 months past due	38,652	32,856
Over 6 months past due	8,931	14,843
	108,930	123,692
	337,366	287,698

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.

(b) Bank bills receivables

The bank bills receivables is aged within 180 days (2016: 180 days).

(c) Other receivables

An analysis of other receivables is as follows:

	2017	**2016**
	RMB'000	*RMB'000*
Amount due from a former subsidiary	–	6,148
Government grant receivable	3,000	7,000
Loan receivable *(note i)*	20,000	–
Other taxes recoverable	18,946	20,149
Payments in connection with land exchange *(note ii)*	10,789	–
Others	16,841	22,280
	69,576	55,577

Notes:

(i) The loan was advanced by the Group to a third party. Such loan receivable is unsecured and repayable on demand and carries interest at interest rates which are based on bank benchmark interest rates. Up to the date of approval of these consolidated financial statements, the loan to the extent of RMB12,500,000 was repaid by the borrower to the Group.

(ii) During the year, the Group made payments totalled RMB10,789,000 (2016: Nil) in connection with the exchange of land use rights in the PRC in prior years *(note 29)*. Such payments to the extent of RMB10,352,000 were refunded to the Group subsequent to the end of the reporting period.

22. Prepayments and deposits paid

	2017	2016
	RMB'000	*RMB'000*
Advance payments to suppliers *(note a)*	173,068	170,765
Deposits paid for investment projects *(note b)*	34,098	–
Consideration paid for acquisition of unlisted investments *(note c)*	31,000	–
Other deposits and prepayments *(note d)*	7,717	14,427
	245,883	185,192

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 a substantial portion of these purchases will be made within one year after the end of the reporting period.

(b) During the year, the Group made payments to a third party amounting to an aggregate of HK$40,881,000 (equivalent to RMB34,098,000) to enable the third party to secure appropriate investment projects on behalf of the Group. No investment project was secured by the Group during the year and management of the Group expected that the amount paid will be substantially refunded by the third party to the Group, within the next financial year ending 31 December 2018.

(c) During the year, the Group entered into agreements for the acquisition of 20% equity interests in each of the two unlisted entities for an aggregate consideration of RMB31,000,000. One of the entities subject to the acquisition is principally engaged in development of industrial robots with the other entity engaged in manufacturing of Chinese medicine. In accordance with the related acquisition agreements, the consideration paid will be refunded to the Group in the event that the acquisitions are not materialised.

Completion of the acquisitions had not taken place up to the date of approval of the consolidated financial statements.

(d) Included in other deposits and prepayments at 31 December 2016 are development costs amounted to RMB8,000,000, which were principally reclassified from prepayments for intangible assets and has been charged as research and development expenses for the current year.

23. Pledged bank deposits and cash and cash equivalents

	2017	**2016**
	RMB'000	*RMB'000*
Pledged bank deposits *(notes a, b, c, d and e)*	49,364	92,122
Cash and cash equivalents in the consolidated statement of financial position		
– Cash at banks and on hand	35,036	148,650
	84,400	240,772

Notes:

(a) Bank deposits amounted to RMB19,354,000 (2016: RMB40,823,000) have been pledged to banks for bills facilities of RMB37,395,000 (2016: RMB99,725,000). The pledged bank deposits will be released upon the settlement of relevant bills payables. The bills facilities to the extent of RMB37,395,000 were utilised as at the end of the reporting period (2016: RMB99,725,000).

(b) Bank deposits of RMB10,000 (2016: RMB10,000) 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 RMB30,000,000 (2016: RMB50,494,000) have been pledged to bank for general banking facilities to an extent of RMB17,472,000 (2016: RMB50,494,000).

(d) Bank deposits of the Group of RMBNil (2016: RMB795,000) 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 RMB25,610,000 (2016: RMB53,422,000). 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.

24. Trade and other payables

	2017	**2016**
	RMB'000	*RMB'000*
Trade creditors *(note)*	60,652	61,447
Bills payables	37,395	99,725
Salaries, wages and welfare payables	9,947	9,426
Other payables and accrued expenses	16,203	11,623
Deposits received from customers	14,326	7,450
Consideration payable for acquisition of a subsidiary *(note 34)*	2,000	–
Other tax payables	1,524	3,638
	142,047	193,309

Note:

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

	2017	**2016**
	RMB'000	*RMB'000*
Within 1 month	18,945	15,850
1 to 3 months	14,111	8,575
Over 3 months	27,596	37,022
	60,652	61,447

The credit period granted by suppliers ranged from 30 to 180 days.

25. Bank borrowings

	2017 *RMB'000*	2016 *RMB'000*
Bank loans repayable within one year		
– secured by guarantees given by a subsidiary and/or an independent third party *(notes b(i) and (ii))*	25,000	4,000
– secured by Group's assets *(notes b(iii), (iv) and (v))*	1,009	10,009
	26,009	14,009

Notes:

(a) The bank loans to the extent of RMB25,000,000 (2016: RMB4,000,000) outstanding at the end of the reporting period carries interest at interest rates which are based on bank benchmark interest rates (2016: 5.1% to 5.8% per annum) with the remaining bank loans of RMB1,009,000 (2016: RMB10,009,000, bearing interest at fixed interest rates of 4.8% to 7.2% per annum (2016: 4.8% to 5.2% per annum).

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

(i) Bank loan amounted to RMB25,000,000 (2016: RMBNil) was guaranteed by a subsidiary of the Company and secured by the properties held by an independent third party.

(ii) Bank loan amounted to RMB4,000,000 at 31 December 2016 was guaranteed by an independent third party.

(iii) Bank loan amounted to RMB1,000,000 (2016: RMBNil) was secured by the land use rights and properties held by a subsidiary of the Company.

(iv) Bank loan amounted to RMB9,000 (2016: RMB9,000) was secured by the Group's pledged bank deposit of RMB10,000 (2016: RMB10,000).

(v) Bank loan amounted to RMB10,000,000 at 31 December 2016 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 amounted to RMB50,494,000 as at that date.

26. Corporate bonds payable

	2017	2016
	RMB'000	*RMB'000*
Carrying amount of corporate bonds due in:		
– 2019	4,536	3,018
– 2020	19,347	–
– 2021	10,754	–
– 2022	2,478	–
– 2024	26,805	12,601
– 2025	10,820	–
	74,740	15,619
Payable		
– Within one year	5,886	135
– In the second to fifth years	34,355	3,006
– More than five years	34,499	12,478
	74,740	15,619
Analysed for reporting purposes as:		
Current liability	5,886	135
Non-current liability	68,854	15,484
	74,740	15,619
Movements in corporate bonds payable are as follows:		
At beginning of the year	15,619	–
Proceeds received on issue of corporate bonds	73,093	19,797
Bonds issue expenses	(13,629)	(4,319)
Interest paid during the year	(2,681)	–
Interest recognised as finance costs *(note 6)*	5,786	135
Exchange realignment	(3,448)	6
At end of the year	74,740	15,619

During the year ended 31 December 2017, the Company issued unsecured corporate bonds with the aggregate principal amount of HK$84,400,000 (2016: HK$22,000,000), giving rise to a total gross proceeds of HK$84,400,000, equivalent to RMB73,093,000, (2016: HK$22,000,000, equivalent to RMB19,797,000) before expenses.

At 31 December 2017, the corporate bonds with the principal amount of HK$106,400,000 (2016: HK$22,000,000) remained outstanding.

27. Convertible bonds

	Liability component		Derivative component	
	2017	**2016**	**2017**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of convertible bonds at the end of the year	109,187	116,206	(2,253)	(7,567)
Analysed for reporting purpose as:				
Current asset	–	–	(2,253)	(7,567)
Current liability	109,187	–	–	–
Non-current liability	–	116,206	–	–
	109,187	116,206	(2,253)	(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 an aggregate consideration of HK$120,000,000 (before expenses). The convertible bonds comprise (i) bonds in 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) bonds in the principal amount of HK$48,000,000 which carry interest at 4% per annum with 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 day 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 redemption amount 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.

On 20 July 2017, the parties to the Series 1 CB and the Series 2 CB executed a supplemental deed to amend the terms of the Series 1 CB and the Series 2 CB, under which, among other amendments, the initial conversion price of the Series 2 CB has been adjusted from HK$1.2 per share to HK$0.6 per share and the Series 1 CB and the Series 2 CB are further secured by the pledge of additional 6,000,000 shares of the Company held by Praise Treasure Limited. The relevant supplemental bond instruments are effective from 2 August 2017. Management of the Group is of the view that the changes in terms of the Series 1 CB and the Series 2 CB would not give rise to a significant impact on the fair value of these convertible bonds.

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 at the date of issue and the fair value of the derivative component at 31 December 2016 were valued using the Crank-Nicolson finite-difference method. The inputs into the model were as follows:

	At date of issue	**At 31 December 2016**
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.

The fair value of the derivative component at 31 December 2017 was valued by International Valuation Limited, an independent firm of business and financial services valuers, using the Binomial option pricing model. The inputs into the model were as follows:

	At 31 December 2017
Risk free rate	1.040%
Expected volatility	25%
Expected life	0.99 years
Dividend yield	Nil

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

The expected volatility was determined based on the historical volatility of the share prices of the Company.

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

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
Change in fair value of derivative financial instruments *(note 5(b))*	–	4,943	–	4,943
Interest expense accrued *(note 6)*	6,725	–	–	6,725
Interest paid	(5,196)	–	–	(5,196)
Exchange realignment	(8,548)	371	–	(8,177)
Carrying amount at 31 December 2017	109,187	(2,253)	7,395	114,329

The effective interest rates in respect of the liability component of the convertible bonds at 31 December 2017 are 6.03% to 6.04% per annum (2016: 6.03% to 6.04% per annum).

No convertible bonds were converted into new shares of the Company during the year under review. At 31 December 2017 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 (2016: HK$120,000,000) remained outstanding.

28. Income tax in the consolidated statement of financial position

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

	2017 *RMB'000*	2016 *RMB'000*
PRC Enterprise Income Tax	12,443	10,812

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

	2017 *RMB'000*	2016 *RMB'000*
At 1 January	10,812	13,346
Charge for the year	12,480	18,048
Underprovision in respect of prior years	–	513
Tax paid during the year	(10,849)	(21,095)
At 31 December	12,443	10,812

(b) Deferred tax assets and deferred tax liabilities recognised:

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

	Fair value adjustment on business combination *RMB'000*	Provision for impairment *RMB'000*	Provision for accrued expenses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 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 and 1 January 2017	–	2,965	1,915	(912)	3,968
Acquisition of a subsidiary *(note 34)*	(8,256)	–	–	–	(8,256)
Credited to profit or loss	70	235	–	2,850	3,155
At 31 December 2017	(8,186)	3,200	1,915	1,938	(1,133)

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

	2017	2016
	RMB'000	*RMB'000*
Deferred tax assets	7,053	3,968
Deferred tax liabilities	(8,186)	–
	(1,133)	3,968

(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 RMB27,454,000 (2016: RMB24,899,000) was not provided for in the consolidated financial statements of the Group for the year ended 31 December 2017 in respect of undistributed profits of relevant PRC subsidiaries amounted to RMB549,081,000 (2016: RMB497,987,000) 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 RMBNil (2016: RMB1,668,000) 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.

29. Deferred income – government grant

	2017	2016
	RMB'000	*RMB'000*
At 1 January	25,588	26,471
Credited to profit or loss *(note 5(a))*	(512)	(883)
At 31 December	25,076	25,588

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.

30. Share capital

	2017 Number of shares	2017	2016 Number of shares	2016
	'000	*HK$'000*	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.001 each				
At 1 January and 31 December	2,000,000	2,000	2,000,000	2,000

	2017 Number of shares	2017 Nominal amount of shares	2017 Carrying amount	2016 Number of shares	2016 Nominal amount of shares	2016 Carrying amount
	'000	*HK$'000*	*RMB'000*	*'000*	*HK$'000*	*RMB'000*
Issued and fully paid:						
Ordinary shares of HK$0.001 each						
At 1 January	1,000,000	1,000	801	1,000,000	1,000	801
Issue of shares upon acquisition of a subsidiary	64,564	65	55	–	–	–
At 31 December	1,064,564	1,065	856	1,000,000	1,000	801

Note: During the year, the Company issued 64,564,000 new ordinary shares of HK$0.001 each on 20 November 2017 for the acquisition of Yanchi, details of which are set out in note 34.

31. 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 early termination of the Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years commencing from 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 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 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 within 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 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.

No share options were granted under the Scheme during the year ended 31 December 2017. During the year ended 31 December 2016, options to subscribe 100,000,000 shares at the exercise price of HK$0.6 per share were granted by the Company.

Movements in the number of share options outstanding during the years ended 31 December 2017 and 31 December 2016 and their exercise prices are as follows:

	2017					2016				
	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*
At 1 January	0.6	8,000	54,700	37,300	100,000	–	–	–	–	–
Granted during the year	–	–	–	–	–	0.6	8,000	54,700	37,300	100,000
At 31 December	0.6	8,000	54,700	37,300	100,000	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	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	**Options granted on 8 July 2016**
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 RMBNil (2016: RMB11,997,000) has been recognised in profit or loss in respect of the current year 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 (2016: HK$0.6) per share. The weighted average remaining contractual life of outstanding share options granted and outstanding at the end of the reporting period is 2 years (2016: 3 years).

32. Reserves

	2017	2016
	RMB'000	*RMB'000*
Share premium *(note i)*	469,233	447,331
PRC statutory reserve *(note ii)*	47,094	42,279
Convertible bonds reserve *(note 27)*	7,395	7,395
Share option reserve *(note 31)*	11,997	11,997
Exchange reserve	3,986	11,623
Other reserve *(note iii)*	(28,150)	(28,150)
Retained profits	236,854	231,492
	748,409	723,967

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.

33. 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 2017, there were no material forfeitures available to offset the Group's future contributions (2016: Nil).

34. Acquisition of a subsidiary

Acquisition of a subsidiary took place during the year ended 31 December 2017

On 9 October 2017, a wholly-owned subsidiary of the Company entered into an agreement with two independent third parties (the "Vendors") for the acquisition by the subsidiary of 100% equity interest in Yanchi for an aggregate consideration of RMB33,957,000. Yanchi is principally engaged in pharmaceutical industry. Its business scope includes (i) the wholesale and retail of Chinese patent medicines, chemical medicine preparations, antibiotics, biochemical medicines, biological products, diagnostic drugs, Chinese herbal medicines, Chinese medicine drinking tablets and dietary supplements; (ii) the wholesale and retail of medical instruments and cosmetics; (iii) the acquisition of Chinese herbal medicines (not including those prohibited by the PRC such as ephedra); (iv) the growing, processing and sale of licorice (not including wild licorice); and (v) the acquisition and sale of ephedra grass (businesses that require pre-approvals according to laws and regulations can only be conducted after obtaining approvals from the relevant authorities). Yanchi was acquired so as to allow the Group to diversify its businesses to the development of Chinese medicines.

The consideration payable for the acquisition is satisfied by the following:

	RMB'000
On or before completion of the acquisition	
– Payment in cash	5,000
Subsequent to completion of acquisition	
– Payment in cash	7,000
– Issue of 64,564,000 new shares of the Company	21,957
Total purchase consideration	33,957

Under the terms of the agreement for the acquisition, the Vendors have irrevocably undertaken to the subsidiary of the Company that the audited net profit after taxation of Yanchi for the year ended 31 December 2017 (which is prepared in accordance with generally accepted accounting practice in the PRC) will not be less than RMB3,000,000. In the event that the actual audited net profit after taxation of Yanchi for the year ended 31 December 2017 ("Actual Profit") is less than RMB3,000,000, the balance of the purchase consideration shall be adjusted and reduced in accordance with the formula as specified in the related acquisition agreement.

Completion of the acquisition of 100% equity interest in Yanchi took place on 30 October 2017. This acquisition has been accounted for as acquisition of business using the purchase method. The effect of the acquisition is summarised as follows:

Consideration paid or payable

	RMB'000
Consideration paid	
– Cash paid	10,000
– Issue of 64,564,000 shares of the Company, at fair value	21,957
Consideration payable	2,000
Total purchase consideration	33,957

The fair value of the shares issued at the date of issue was estimated by reference to the closing price of the shares of the Company as quoted on the Stock Exchange at that date.

Management confirmed that, based on the audited financial statements issued by PRC auditor, the profit after tax of Yanchi for the year ended 31 December 2017 was not less than RMB3,000,000, accordingly the fair value of the considerable payable at the date of acquisition and at 31 December 2017 is estimated to be RMB2,000,000.

Acquisition-related costs are insignificant which have been included in general and administrative expenses presented in the consolidated statement of profit or loss.

Assets and liabilities of Yanchi recognised at the date of acquisition are as follows:

	RMB'000
Non-current assets	
Property, plant and equipment *(note 13)*	37,083
Prepaid land lease payments *(note 14, note ii)*	1,933
Biological assets *(note 16)*	1,065
Current assets	
Inventories	2,428
Trade and other receivables *(note i)*	5,068
Prepayments and deposits paid	270
Bank balances and cash	551
Current liabilities	
Trade and other payables	(11,127)
Bank borrowings	(1,000)
Non-current liabilities	
Deferred tax liabilities *(note 28(b))*	(8,256)
Net assets acquired	28,015

Notes:

(i) The trade and other receivables acquired had the gross contractual amount of RMB5,068,000. No contractual cash flows from these receivables are expected not to be collected.

(ii) Prepaid land lease payments to the extent of RMB247,000 were included in prepayments and deposits paid.

Goodwill arising on acquisition:

	RMB'000
Consideration attributable to acquisition	33,957
Less: Net assets acquired	(28,015)
Goodwill arising on consideration *(note 15)*	5,942

Goodwill arose in the acquisition of Yanchi because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Yanchi. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is expected to be non-deductible for tax purposes.

Net cash outflow arising on the acquisition:

	RMB'000
Cash consideration paid	10,000
Bank balances and cash acquired	(551)
Net cash outflow on acquisition of a subsidiary	9,449

Impact of acquisition on the results of the Group

Included in the revenue and profit for the year ended 31 December 2017 is revenue and profit of RMB3,997,000 and of RMB242,000 respectively attributable to Yanchi. Had the acquisition of Yanchi been effected at the beginning of the year ended 31 December 2017, the revenue of the Group for that year would have been RMB885,913,000, and the profit for that year would have been RMB13,417,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that would have actually been achieved had the acquisition been completed at the beginning of the year ended 31 December 2017, nor is it intended to be a projection of future results.

35. Disposal of a 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)

Gain on disposal of a subsidiary:

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

Net cash outflow on disposal of a subsidiary

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

36. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities for the year ended 31 December 2017, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Finance costs payable (included in other payables and accrued expenses)	**Corporate bonds payable**	**Convertible bonds**	**Bank borrowings**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	–	15,619	116,206	14,009	145,834
Financing cash inflows	–	73,093	–	25,000	98,093
Financing cash outflows	(3,162)	(16,310)	(5,196)	(14,000)	(38,668)
Acquisition of a subsidiary	–	–	–	1,000	1,000
Finance costs accrued	3,162	5,786	6,725	–	15,673
Exchange realignment	–	(3,448)	(8,548)	–	(11,996)
At 31 December 2017	–	74,740	109,187	26,009	209,936

37. 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:

	2017	2016
	RMB'000	*RMB'000*
EQUITY		
Equity attributable to equity shareholders of the Company		
– Share capital	856	801
– Reserves	748,409	723,967
LIABILITIES		
Bank borrowings	26,009	14,009
Bills payables	37,395	99,725
Corporate bonds payable	74,740	15,619
Convertible bonds	109,187	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.

38. 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 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 that 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 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 2017, 0% (2016: 4%) of the trade receivables were due from the Group's largest customer, and 6% (2016: 14%) 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.

(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 analyse 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.

At 31 December 2017	**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	439,266	–	–	439,266	438,994
Amounts due from related parties	97	–	–	97	97
Pledged bank deposits	49,495	–	–	49,495	49,364
Cash and cash equivalents	35,036	–	–	35,036	35,036
	523,894	–	–	523,894	523,491
Non-derivative financial liabilities					
Trade and other payables	132,023	–	–	132,023	142,047
Bank borrowings	26,234	–	–	26,234	26,009
Amounts due to related parties	295	–	–	295	295
Corporate bonds payable	6,112	63,020	54,690	123,822	74,740
Convertible bonds *(note)*	114,718	–	–	114,718	109,187
	279,382	63,020	54,690	397,092	352,278

At 31 December 2016	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	92,636	10	–	92,646	92,122
Cash and cash equivalents	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	14,307	9	–	14,316	14,009
Amounts due to related parties	176	–	–	176	176
Corporate bonds payable	1,144	9,828	18,081	29,053	15,619
Convertible bonds *(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.

(c) Interest rate risk

The Group's interest rate risk arises primarily from loan receivable (included in trade and other receivables), cash at banks, pledged bank deposits, bank borrowings, corporate bonds payable and convertible bonds. Loan receivable, cash at banks and pledged bank deposits carried at variable rates expose the Group to cash flow interest rate risk. Bank borrowings carried 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.

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:

	2017	**2016**
	RMB'000	*RMB'000*
Variable interest rate:		
Financial liabilities		
– bank loans	(25,000)	(4,000)
Financial assets		
– loan receivable	20,000	–
– cash at banks	34,800	148,561
– pledged bank deposits	30,010	76,826
	59,810	221,387

Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank borrowings, loan receivable, 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 RMB596,000 (2016: RMB2,126,000).

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 Group 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 2016.

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

(d) Foreign currency exchange risk

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, management closely monitors foreign exchange exposure and considers hedging significant foreign currency exposure should the need arises.

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**	
	2017	**2016**	**2017**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	30,205	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 an increase in profit 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.

	2017		**2016**	
	Increase in foreign exchange rate	**Effect on profit for the year**	**Increase in foreign exchange rate**	**Effect on profit for the year**
	%	*RMB'000*	*%*	*RMB'000*
RMB	5%	1,510	5%	1,500

(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 2017, 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: 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: 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: 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.

	Fair value at 31 December 2017 *RMB'000*	Fair value measurements as at 31 December 2017 categorised into: Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	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*	Valuation technique(s) and key inputs
Recurring fair value measurements									
Assets:									
Trading securities	–	–	–	–	–	–	–	–	Quoted bid price in an active market
Derivative financial instruments	2,253	–	2,253	–	7,567	–	7,567	–	Binomial option pricing model (2016: Crank-Nicolson finite-difference method)
	2,253	–	2,253	–	7,567	–	7,567	–	

During the years ended 31 December 2017 and 2016, 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.

(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 2017 and 2016. 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.

39. Operating lease commitments

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

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	1,425	975
In the second to fifth years, inclusive	2,285	–
More than 5 years	2,400	–
	6,110	975

The Group is the lessee in respect of the Group's offices and warehouses under operating leases. The leases typically run for an initial period of 1 to 3 year (2016: 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.

The Group also leases certain land under operating lease arrangements. Leases for land are negotiated for terms of 20 years with an option for renewal after that date, at which time all terms will be renegotiated. The Group has already made the lease payments for the first 10 years.

40. Capital commitments

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

	2017	2016
	RMB'000	*RMB'000*
Commitments contracted but not provided for in respect of:		
– Acquisition of property, plant and equipment	6,576	6,866
– Payments in connection with a property development project *(note 18(c))*	–	11,652
	6,576	18,518

41. Material related party transactions

During the years ended 31 December 2017 and 2016 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

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:

	2017	**2016**
	RMB'000	*RMB'000*
Short-term employee benefits	2,944	18,442
Post-employment benefits	37	49
	2,981	18,491

Total remuneration is included in staff costs *(see note 7).*

(b) Balances with related parties

		Amounts owed to the Group by related parties		**Amounts owed by the Group to related parties**	
		2017	**2016**	**2017**	**2016**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance with related parties					
Amount due from/(to) Hubei Bai Xin					
– trade in nature	*(i), (ii)*	–	265	–	–
– non-trade in nature	*(i), (ii)*	5	–	(150)	–
Amount due from/(to) Wuhan Wantong					
– non-trade in nature	*(i), (ii)*	12	12	(93)	(93)
Amount due to Wuhan Bai Xin Zheng Yuan					
– trade in nature	*(i)*	–	–	(52)	(83)
Amount due from Wuhan Baixin Pharmaceutical					
– trade in nature	*(i), (ii)*	80	80	–	–
Total balances with related parties		97	357	(295)	(176)

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.

(iii) The maximum outstanding balances due from related parties during the two years ended 31 December 2017 and 2016 are as follows:

	Maximum balance outstanding during the year	
	2017	**2016**
	RMB'000	*RMB'000*
Hubei Bai Xin	8,765	265
Wuhan Wantong	12	12
Wuhan Baixin Pharmaceutical	80	80

(c) Transactions with related parties

	2017	**2016**
	RMB'000	*RMB'000*
Purchases of pharmaceutical products from Wuhan Bai Xin Zheng Yuan	–	83

42. Statement of financial position of the company

	2017	2016
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	324	324
CURRENT ASSETS		
Amounts due from subsidiaries	359,878	203,504
Other receivables	37,407	11,461
Prepayments	45	–
Derivative financial instruments	2,253	7,567
Pledged bank deposits	30,000	35,994
Cash and cash equivalents	12,664	138,171
	442,247	396,697
CURRENT LIABILITIES		
Other payables	1,957	1,416
Corporate bonds payable	5,886	135
Convertible bonds	109,187	–
Amount due to a subsidiary	4,411	4,759
	121,441	6,310
NET CURRENT ASSETS	320,806	390,387
TOTAL ASSETS LESS CURRENT LIABILITIES	321,130	390,711
NON-CURRENT LIABILITIES		
Corporate bonds payable	68,854	15,484
Convertible bonds	–	116,206
	68,854	131,690
NET ASSETS	252,276	259,021
CAPITAL AND RESERVES		
Share capital	856	801
Reserves *(note)*	251,420	258,220
TOTAL EQUITY	252,276	259,021

Note: Movements in the reserves of the Company are as follows:

	Share premium	Convertible bonds reserve	Share option reserve	Exchange reserve	Other reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 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 and 1 January 2017	447,331	7,395	11,997	17,453	(74,753)	(151,203)	258,220
Loss for the year	–	–	–	–	–	(20,456)	(20,456)
Other comprehensive income for the year – Exchange differences on translation of financial statements	–	–	–	(8,246)	–	–	(8,246)
Total comprehensive expense for the year	–	–	–	(8,246)	–	(20,456)	(28,702)
Issue of shares upon acquisition of a subsidiary	21,902	–	–	–	–	–	21,902
At 31 December 2017	469,233	7,395	11,997	9,207	(74,753)	(171,659)	251,420

43. 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	Group's effective interest		Attributable equity interest				Principal activities
					Held by the Company		Held by a subsidiary		
			2017	2016	2017	2016	2017	2016	
Pa Shun Pharmaceutical Company Limited	The British Virgin Islands ("BVI")/ Hong Kong ("HK")	US$50,000	100%	100%	100%	100%	–	–	Investment holding
Toyot Pa Shun Medicine Factory Company Limited (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. 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. 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. 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. 河北春生堂大藥房連鎖有限公司 *(note a, c and e)*	PRC/PRC	RMB5,000,000	–	–	–	–	–	–	Medicine chain store operation
Hubei Baixintang Pharmacy Chain Store Co., Ltd. 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
Yanchi County Medical & Pharmaceutical Herbal Co., Ltd. 鹽池縣醫藥藥材有限公司 *(note a and c)*	PRC/PRC	RMB542,900	100%	–	–	–	100%	–	Distribution of Chinese herbal medicines and medicine chain store operation in the PRC

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.

44. 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.

45. Events after the reporting period

In addition to those disclosed elsewhere in the consolidated financial statements, the following events took place subsequent to the end of the reporting period:

(a) In January 2018, the Company entered into subscription agreements with certain independent third parties, pursuant to which the Company issued to such third parties corporate bonds in the aggregate principal amount of HK$5,000,000 for cash consideration of HK$5,000,000. These corporate bonds bear coupon rate of 6.5% per annum with maturity periods ranging from 3 to 7.5 years.

(b) In March 2018, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party, pursuant to which the subsidiary transferred the right to use the electronic platform of Mercantile Exchange *(note 17(a)(i))* for a cash consideration of RMB3,000,000.

INDEBTEDNESS

Indebtedness

As at the close of business on 30 June 2018, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group has outstanding indebtedness as summarised below.

Borrowings

The Group had total outstanding borrowings of approximately RMB185,764,000, comprising (i) outstanding bank loan amounted to RMB1,000,000, which was secured by the land use rights and properties held by a subsidiary of the Company; (ii) outstanding bank loan amounted to RMB9,000, which was secured by the Group's pledged bank deposit of RMB10,000; (iii) unsecured corporate bonds payable in the amount of RMB76,649,000 (with aggregate principal amount of HK$113,900,000); and (iv) convertible bonds in the amount of RMB108,106,000 (with aggregate principal amount of HK$120,000,000 (equivalent to approximately RMB101,506,000)), which was secured by 474,040,000 shares of the Company held by the controlling shareholder and the personal guarantee given by Mr. Chen Yenfei.

Contingent liabilities

As at the close of business on 30 June 2018, being the latest practicable date for the purpose of this statement of indebtedness, the Group has no outstanding mortgages, charges, debentures, loan capital, debt securities, loans, bank overdraft or other similar indebtedness, financial leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities outstanding.

Disclaimers

Saved as aforesaid, and apart from intra-group liabilities, and normal accounts payable, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, any authorised or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 30 June 2018.

The Directors confirm that there is no material change in the indebtedness and contingent liability of the Group from the close of business on 30 June 2018 to the Latest Practicable Date.

MATERIAL CHANGE

The Directors confirm that there was no material change in the financial or trading position or outlook of the Group since 31 December 2017, being the date to which the latest published audited consolidated accounts of the Group were made up, and up to the Latest Practicable Date.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein misleading.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and as a result of the allotment and issue of the Conversion Shares (assuming there is no other change to the share capital of the Company prior to the allotment and issue of the Conversion Shares) will be, as follows:

Authorised share capital:		*HK$*
2,000,000,000	Shares as at the Latest Practicable Date	2,000,000
Issued and fully paid share capital or credited as fully paid:		
1,064,564,000	Shares as at the Latest Practicable Date	1,064,564
269,000,000	Conversion Shares to be issued upon Completion	269,000
1,333,564,000	Total	1,333,564

The nominal value of the Shares and the Conversion Shares is HK$0.001 each. All the existing issued Shares rank *pari passu* in all respects including all rights as to dividends, voting and capital. The Conversion Shares to be issued upon Completion will rank *pari passu* in all respects with the existing Shares on the relevant date of allotment.

Since 31 December 2017, the date of which the latest audited financial statement of the Company was made up, and up to the Latest Practicable Date, the Company has not issued any Share.

As at the Latest Practicable Date, there are share options pursuant to which 100,000,000 Shares may be issued upon exercise of such share options. Save as disclosed above, the Company does not have any outstanding options, warrants or derivatives or other securities which are convertible into Shares as at the Latest Practicable Date.

MARKET PRICES

The table below shows the closing prices of the Shares on the Stock Exchange on (i) the last trading day of the Stock Exchange for each calendar month during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
29 December 2017	0.395
31 January 2018	0.39
28 February 2018	0.385
29 March 2018	0.52
30 April 2018	0.49
31 May 2018	0.485
27 June 2018 (being the Last Trading Day)	0.48
29 June 2018	0.48
31 July 2018	0.45
Latest Practicable Date	0.445

The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK$0.6 on 15 March 2018 and HK$0.375 on 12 February 2018 respectively.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the SFO) (i) 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 were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") and the Takeovers Code, were as follows:

Long positions in the Shares and underlying shares of the Company

Name of Director	Number of issued Shares and underlying shares held	Position	Approximate percentage of the issued share capital of the Company
Chen Yenfei	484,040,000 (*Note 1*)	Long	45.47%
Shen Shun	2,500,000	Long	0.23%
Zhang Xiongfeng	15,382,000	Long	1.45%
	8,000,000 (*Note 2*)	Long	0.75%

Notes:

1. 484,040,000 Shares are beneficially owned by Praise Treasure Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Chen Yenfei. Accordingly, Mr. Chen Yenfei is deemed to be interested in the entire 484,040,000 Shares held by Praise Treasure Limited under the SFO.

2. This represents 8,000,000 Shares to be allotted and issued upon exercise of the 8,000,000 share options granted by the Company to Mr. Zhang Xiongfeng on 8 July 2016 under the share option scheme of the Company adopted on 26 May 2015.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) where 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 were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code and the Takeovers Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Capacity	Number of issued Shares held	Number of underlying shares held	Aggregate Interest	Position	Approximate percentage of the issued share capital of the Company
Praise Treasure Limited *(Note 1)*	Beneficial owner	484,040,000	–	484,040,000	Long	45.47
Central Huijin Investment Limited *(Note 2)*	Person having a security interest in shares	480,040,000	200,000,000	680,040,000	Long	63.88
China Construction Bank Corporation *(Note 2)*	Person having a security interest in shares	480,040,000	200,000,000	680,040,000	Long	63.88

Notes:

1. The Shares are held by Praise Treasure Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by the Subscriber.

2. According to the corporate substantial shareholder notices filed on 20 November 2017 by each of Central Huijin Investment Limited and China Construction Bank Corporation, (i) Chance Talent Management Limited ("**Chance Talent**") is interested in 480,040,000 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 57.11% by Central Huijin Investment Limited; and (ii) these 200,000,000 underlying shares are unlisted physically settled derivatives which are held by Chance Talent.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

ADDITIONAL DISCLOSURE OF SHAREHOLDING AND DEALINGS PURSUANT TO THE TAKEOVERS CODE

The shareholding of the Subscriber and the parties acting in concert with him in the Company as at the Latest Practicable Date are set out in the letter from the Board and in the paragraph headed "Effect of the full conversion of the Convertible Bonds" above.

Save as set out in the paragraphs headed "Directors' and Chief Executives' Interests in Shares and Underlying Shares" and "Substantial Shareholders' Interests in Shares and Underlying Shares" above, as at the Latest Practicable Date, none of the Subscriber and any person acting in concert with him owned or controlled any Shares or other securities of the Company. Save for the entering into of the Subscription Agreement, none of the Subscriber and any person acting in concert with him had dealt for value in relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) during the Relevant Period.

As at the Latest Practicable Date, none of the Subscriber and any person acting in concert with him had any arrangement of the kind described in Note 8 to Rule 22 of the Takeovers Code with any person.

As at the Latest Practicable Date, save for the Subscription Agreement and the transactions contemplated thereunder, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Subscriber and any person acting in concert with him and any Director, recent Director, shareholder or recent shareholder of the Company which had any connection with or dependence upon the Subscription or the Whitewash Wavier.

As at the Latest Practicable Date, save as disclosed in the paragraphs headed "Directors' and Chief Executives' Interests in Shares and Underlying Shares" and "Substantial Shareholders' Interests in Shares and Underlying Shares" above, none of the Directors was interested in any Shares or relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company. During the Relevant Period, save for the Conversion Shares, none of the Directors had dealt for value in any Shares or relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company and in any shares or other securities of the Company.

As at the Latest Practicable Date, no shareholding in the Company was owned or controlled by a subsidiary of the Company or by a pension fund of any member of the Group or by Innovax and none of the advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Code owned or had any interest in any Shares or other securities of the Company.

As at the Latest Practicable Date, no person had any arrangement of the kind as described to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

As at the Latest Practicable Date, no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company.

As at the Latest Practicable Date, no benefit would be given to any Director as compensation for loss of office or otherwise in connection with the Subscription or the Whitewash Waiver.

As at the Latest Practicable Date, save for the Subscription Agreement and the transactions contemplated thereunder, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Subscription, the Whitewash Waiver or otherwise connected with any of them.

As at the Latest Practicable Date, save for the Subscription Agreement, there was no material contracts which have been entered into by the Subscriber and any person acting in concert with him in which any Director has any a material personal interest.

No Shares acquired by the Subscriber and any person acting in concert with him in pursuance of the Subscription will be transferred, charged or pledged to any other persons. The Subscriber may charge the Convertible Bonds as a security in financing the Subscription. However, as at the Latest Practicable Date, no particular lender has been identified by the Subscriber.

Save for the entering into of the Subscription Agreement, none of the Subscriber and any person acting in concert with him has acquired any Shares or had any dealings in the relevant securities of the Company (as defined under Note 4 to Rule 22 of the Takeovers Code) during the Relevant Period.

As at the Latest Practicable Date, there was no shareholding in the Company which the Subscriber or any person acting in concert with him has borrowed or lent, and there were no dealings in the Shares or other securities of the Company by the Subscriber or any person acting in concert with him has borrowed or lent the Shares or other securities of the Company during the Relevant Period.

As at the Latest Practicable Date, there was no shareholding in the Company which the Company or the Directors has/have borrowed or lent, and there were no dealings in the Shares or other securities of the Company by any person which the Company or the Directors has/have borrowed or lent the Shares or other securities in the Company during the Relevant Period.

The Subscriber and his associates and any parties acting in concert with any of them and any other Shareholders who are involved or interested in the Subscription Agreement and/or the Whitewash Waiver shall abstain from voting on the resolutions approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver at the EGM.

As at the Latest Practicable Date, there was no shareholding in the Company owned or controlled by any person who, prior to the posting of this circular, have irrevocably committed themselves to vote for or against the Whitewash Waiver. Mr. Zhang Xiongfeng, having considered the advice of Innovax Capital, and Mr. Shen Shun considered that the Subscription Agreement and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and they intend to vote in favour of the resolutions in respect of the Subscription Agreement and the Whitewash Wavier to be proposed at the EGM.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, saved as disclosed below, none of the Directors had any existing or proposed service contract with the Group or associated companies which: (i) has been entered into or amended within 6 months before the date of the Announcement, or (ii) is continuous contract with a notice period of 12 months or more, or (iii) is fixed term contract with more than 12 months to run irrespective of the notice period, or (iv) is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Each of the executive Directors has entered into a service contract and each of the independent non-executive Directors has entered into a letter of appointment, with the Company for a term of three years commencing from 19 June 2015 and extended for another three years commencing from 19 June 2018. Mr. Zhang Xiongfeng, the non-executive Director, has entered into a letter of appointment with the Company for a term of three years commencing from 1 July 2016 and extendable for another three years. All Directors are subject to retirement and re-election at annual general meeting in accordance with the Company's articles of association.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

Save for the Subscription Agreement and the transactions contemplated thereunder:

(i) None of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Group since 31 December 2017, the date to which the latest published audited consolidated financial statements of the Group were made up; and

(ii) There is no contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

MATERIAL CONTRACTS

The following material contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the date of the Announcement (27 June 2018) up to and including the Latest Practicable Date:

(a) the Subscription Agreement;

(b) the equity transfer agreement dated 9 October 2017 entered into between 成都科訊藥業有限公司 (for transliteration purpose only, Chengdu Kexun Pharmaceutical Co., Ltd.), Chen Yansong and Zhang Guozheng in relation to the acquisition of 100% equity interest in 鹽池縣醫藥藥材有限公司 (for transliteration purpose only, Yanchi County Medical & Pharmaceutical Herbal Co., Ltd.); and

(c) the subscription agreement dated 15 December 2016 and entered into between the Company, Praise Treasure Limited, Mr. Chen Yenfei and Chance Talent Management Limited in relation to the issue of the CCB Convertible Bonds.

EXPERT AND CONSENT

The following is the name and qualification of the expert who has given its opinion or advice which is included in this circular:

Name	Qualification
Innovax Capital Limited	A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, the expert named above:

(a) did not have any shareholding, directly or indirectly, in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(b) has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included; and

(c) did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2017, the date to which the latest published audited financial statements of the Group were made up.

MISCELLANEOUS

The address of the Subscriber is situated at Room 1803, 18th Floor, Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong.

The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at Room 1803, 18th Floor, Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong.

The company secretary of the Company is Mr. Tsoi, Yuen Hoi, an associate member of the Hong Kong Institute of Certified Public Accountants.

The share registrar and transfer office of the Company is Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The registered address of Innovax Capital is situated at Room 2002, 20/F., Chinachem Century Tower, 178 Gloucester Road, Wan Chai, Hong Kong.

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 12:30 p.m. and from 2:30 p.m. to 5:00 p.m. at (i) the head office of the Company at Room 1803, 18th Floor, Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong; (ii) on the website of the SFC (http://www.sfc.hk/); and (iii) on the website of the Company (http://www.pashun.com.cn) during the period from the date of this circular up to the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(c) the letter from the Connected Transaction Independent Board Committee containing its advice to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Connected Transaction Independent Board Committee" in this circular;

(d) the letter from the Whitewash Independent Board Committee containing its advice to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Whitewash Independent Board Committee" in this circular;

(e) the letter from Innovax Capital containing its advice to the Connected Transaction Independent Board Committee, the Whitewash Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Innovax Capital" in this circular;

(f) the annual reports of the Company for each of the two years ended 31 December 2017;

(g) the letter of consent referred to under the paragraph headed "Expert and Consent" in this appendix;

(h) the service contracts as referred to under the paragraph headed "Directors' Service Contracts" in this appendix;

(i) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix; and

(j) this circular.

百信集团
PASHUN GROUP

Pa Shun International Holdings Limited
百信國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 574)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Pa Shun International Holdings Limited (the "**Company**") will be held at Luxembourg Hall, 6th Floor, Jinyun Hotel, No. 668 Jinfu Road, Chengdu City, the PRC, on Monday, 3 September 2018 at 3 p.m. for the purposes of considering and, if thought fit, passing with or without amendments the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the subscription agreement (the "**Agreement**") entered into between the Company and Mr. Chen Yenfei (the "**Subscriber**") dated 27 June 2018 in relation to the subscription (the "**Subscription**") of the unsecured non-interest bearing convertible bonds in the aggregate principal amount of HK$134,500,000, a copy of the Agreement having been produced to the EGM and marked "A" and initialed by the chairman of the EGM for the purpose of identification, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

   (b) the grant of specific mandate for the allotment and issue of 269,000,000 (the "**Conversion Shares**") new shares of HK$0.001 each (each a "**Share**") in the capital of the Company to the Subscriber or his nominee(s), credited as fully paid, be and are hereby approved; and

   (c) any one or more directors (the "**Directors**") of the Company be and are hereby authorised to allot and issue the Conversion Shares in accordance with the terms of the Agreement and to do all such acts and things as he/she/they consider(s) necessary or expedient for the purpose of giving effect to the Agreement and completing the transactions contemplated thereby."

2. "**THAT**:

(a) conditional upon the passing of resolution no. 1 above, the waiver ("**Whitewash Waiver**") granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission to the Subscriber pursuant to Note 1 on Dispensations from Rule 26 of the Code on Takeovers and Mergers of Hong Kong from his obligations to make a general offer for all the Shares not already owned or agreed to be acquired by the Subscriber and parties acting in concert with him as a result of the issue of the Conversion Shares pursuant to the Agreement be and are hereby approved; and

(b) any one or more Directors be and are hereby authorised to do all such acts and things as he/she/they consider(s) necessary or expedient for the purpose of giving effect to the Whitewash Waiver."

By Order of the Board
Pa Shun International Holdings Limited
Mr. Chen Yenfei
Chairman and Chief Executive Officer

Hong Kong, 17 August 2018

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
18th Floor, Allied Kajima Building,
138 Gloucester Road, Wan Chai, Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead in accordance with the Company's articles of association. A proxy needs not be a member of the Company.

2. A form of proxy for use at the EGM is enclosed herewith. To be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy thereof must be deposited at the share registrar of the Company, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 3 p.m. on Saturday, 1 September 2018 or not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof, as the case may be. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.

3. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either in person or by proxy, in respect of such share as if he was solely entitled thereto; but if more than one of such joint holders are present at the EGM in person or by proxy, that one of the said persons so present whose name stands first on the register of member of the Company in respect of such share shall alone be entitled to vote in respect thereof.

4. The voting on all the resolutions at the EGM will be conducted by way of a poll.

5. The record date for determining the entitlement of the shareholders of the Company to attend and vote at the EGM will be Tuesday, 28 August 2018. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 28 August 2018.