Bloomage BioTechnology Corporation Limited
華熙生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00963

ANNUAL REPORT 2016

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS

Ms. Zhao Yan *(Chairman)*
Mr. Jin Xuekun *(Chief Executive Officer)*
Mr. Gong Anmin *(appointed on 26 August 2016)*
Ms. Wang Aihua

NON-EXECUTIVE DIRECTOR

Mr. Yau Wai Yan *(appointed on 18 January 2016)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Zhan Lili
Mr. Li Junhong
Mr. Xue Zhaofeng *(appointed on 18 January 2016)*

COMPANY SECRETARY

Mr. Yau Wai Yan *(appointed on 18 January 2016)*

AUTHORISED REPRESENTATIVES

Ms. Wang Aihua *(appointed on 18 January 2016)*
Mr. Yau Wai Yan *(appointed on 18 January 2016)*

MEMBERS OF AUDIT COMMITTEE

Mr. Li Junhong *(Chairman)*
Ms. Zhan Lili
Mr. Xue Zhaofeng *(appointed on 18 January 2016)*

MEMBERS OF REMUNERATION COMMITTEE

Mr. Xue Zhaofeng
(appointed as Chairman on 18 January 2016)
Mr. Li Junhong
Mr. Jin Xuekun

MEMBERS OF NOMINATION COMMITTEE

Ms. Zhan Lili *(Chairman)*
Mr. Xue Zhaofeng *(appointed on 18 January 2016)*
Mr. Gong Anmin *(appointed on 26 August 2016)*

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 678 Tianchen Avenue
Jinan High-tech Development Zone
Jinan City
Shandong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 501
Hutchison House
No 10 Harcourt Road
Central
Hong Kong

Corporate Information

AUDITORS

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAWS

Sidley Austin
39/F
Two International Finance Centre
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Wai Chai
Hong Kong

STOCK CODE

00963

COMPANY WEBSITE

www.bloomagebio-tech.com

PRINCIPAL BANKERS

Shandong Branch of the Bank of China
China Everbright Bank

Group Overview

Bloomage BioTechnology Corporation Limited (the "Company", together with its subsidiaries, the "Group") was listed on the main board of the Stock Exchange in 2008. The Company is principally engaged in the development, manufacture and sales of raw materials and end products for a diversified range of hyaluronic acid (also known as hyaluronan, hyaluronic acid sodium, abbreviated as "HA"), and is a leading provider of medical aesthetics products and services in the People's Republic of China (the "PRC" or "China") and one of the world's largest producers of HA raw materials. The Group devotes to develop itself to be an integrated medical aesthetic solutions prorider with HA as the core.

Since its establishment, the Group leverages on the development, manufacture and sales of a diversified range of HA and derivative raw materials based on bio-fermentation technology. The HA raw material products of the Group are classified into three major grades, namely pharmaceutical grade, cosmetic grade and food grade, covering more than 70 series of products, which are widely applied to various respects such as pharmaceutical, cosmetic and food. The Group also customizes products on demand to meet the needs of customers.

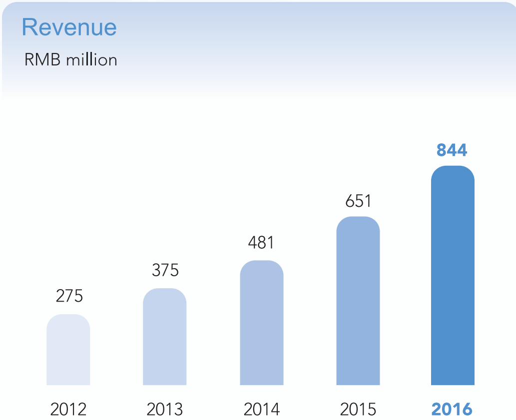
Leveraging on the outstanding research and development capability of the Group, the Group successfully launched its HA fillers - Hyaluronan Soft Tissue Filling Gel in 2012 and extended its business scope to HA end products. Currently, the self-developed end products of the Group comprise Hyaluronan Soft Tissue Filling Gel (including BioHyalux and Dermallure), HA+ medical skin care products (including professional pre-operation and post-operation repair products and daily maintenance and moisturizing products), Medical HA Gel for ophthalmologic use (trade name "Hymois") and intra-articular injectable products (trade name "Hyprojoint").

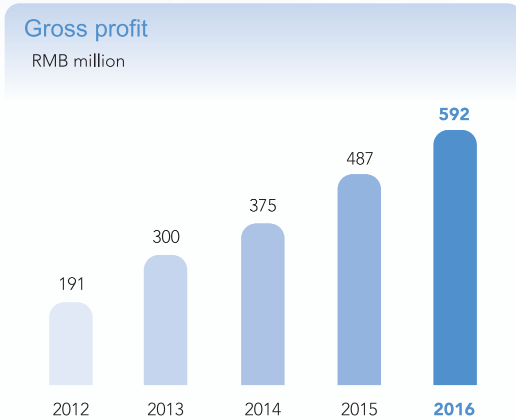
Based on its existing products and through integrating and utilizing global new technologies and products, the Group formed strategic cooperation with an European renowned HA fillers manufacturer, Laboratoires Vivacy SAS ("Vivacy"), and an international corporation of high-end toxin products, Medytox Inc. ("Medytox") to become the regional exclusive distributor for their products. Meanwhile, the Group also entered into business cooperation with internationally renowned device manufacturers such as Syneron Medical Ltd. ("Syneron"), in order to obtain the distributor licenses for relevant beauty devices and to realize comprehensive development of medical aesthetics products and solutions.

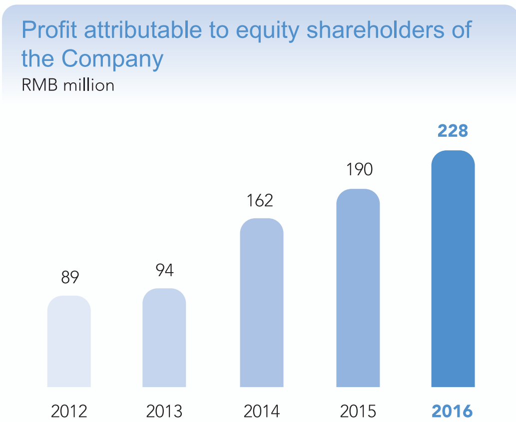
The Group always treats technological innovation as its driving force and two decades' research and development efforts as the foundation to seek breakthroughs in technological innovation and to capture first mover opportunities for future growth.

Current and Five Year Financial Summary

1. FIVE-YEAR CONSOLIDATED STATEMENT OF PROFIT OR LOSS

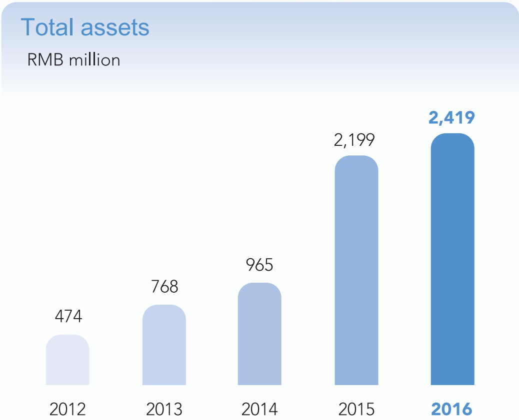


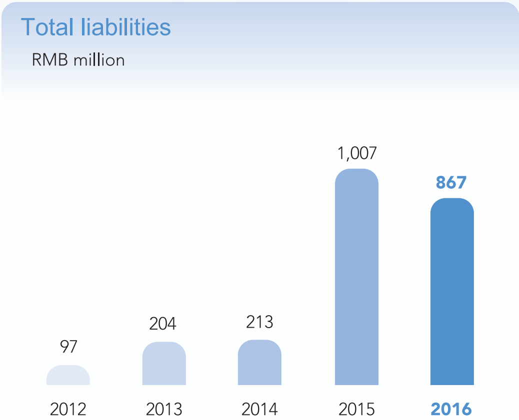


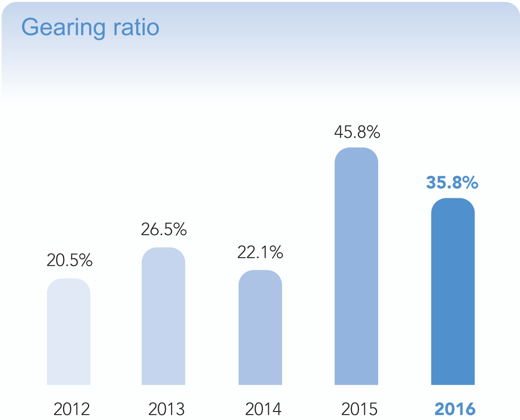


Current and Five Year Financial Summary

2. FIVE-YEAR CONSOLIDATED STATEMENT OF FINANCIAL POSITION

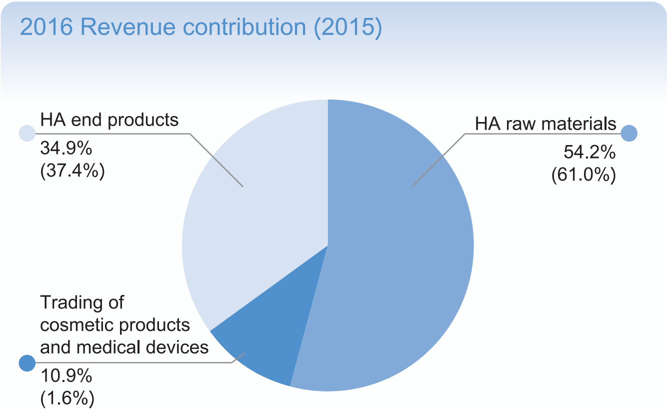




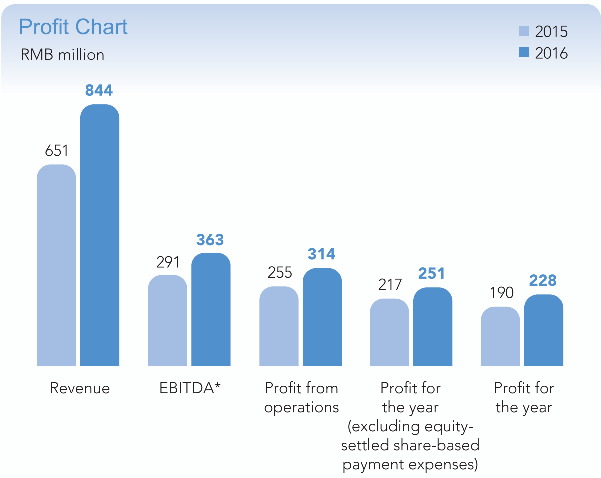


3. DETAILED FINANCIAL DATA COMPARISON BETWEEN 2016 AND 2015

1) Revenue chart: HA raw materials, HA end products, Trading of cosmetic products and medical devices



2) Profit chart: Revenue, EBITDA*, Profit from operations, Profit for the year (excluding equity-settled share-based payment expenses), Profit for the year



* EBITDA – Earnings before interest, taxes, depreciation and amortisation (excluding share of profits less losses of associates and share of loss of a joint venture).

Chairman's Statement

To all Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Bloomage BioTechnology Corporation Limited (the "Company"), I am pleased to present the annual report of the Company (together with its subsidiaries, the "Group") for the year ended 31 December 2016.

The Group's result achieved continuous and healthy growth in 2016. The annual revenue amounted to approximately RMB844,388,000, representing an increase of approximately 29.7% as compared to the year ended 31 December 2015 and the profits attributable to equity holders of the Company was approximately RMB228,101,000 with a growth of approximately 19.8% as compared to the year ended 31 December 2015. The above growth was mainly attributable to the rapid expansion of all the business segments and the smooth implementation of the Group's business transformation.

FINAL DIVIDEND AND CLOSURE OF REGISTER

The Board has recommended the payment of a final dividend of HKD3.1 cents per share of the Company (the "Share") for the year ended 31 December 2016 (2015: HKD2.7 cents per Share). Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting (the "AGM") to be held on Tuesday, 6 June 2017 or any adjourned meeting, the above dividend is expected to be paid on or around Wednesday, 12 July 2017.

The transfer books and register of members of the Company will be closed from 1 June 2017 to 6 June 2017 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 31 May 2017. In addition, the transfer books and register of members of the Company will be closed from 14 June 2017 to 16 June 2017 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the proposed final dividend (if approved at the AGM). In order to qualify for the proposed final dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, for registration no later than 4:30 p.m. on Tuesday, 13 June 2017. During such periods, no share transfers will be effected.

BUSINESS REVIEW

In 2016, the Group remained stable growth amid fierce market competition, and further moved forward to become a medical aesthetics solutions provider. Capitalizing on its advantages in resources and platform, the Group focused on traditional HA raw material business, while continued to expand higher value end product business with HA as its core. We co-operated with domestics and overseas technologies and brands, and took customer experience as our fundamental concern, relentlessly developing us as an international enterprise with a variety of products of different brands which can be purchased from various channels.

The market competition has been intensified in this year, however, through early deployment and resources optimization, both HA raw material and end product business of the Group recorded satisfactory results. HA raw materials business continued to expand in overseas market and realized an annual sales of approximately RMB458,015,000, representing an increase of approximately 15.4% compared with the corresponding period in 2015. The end product business has continued to transform into a multi-products solutions provider with an annual sales of approximately RMB294,786,000, representing an increase of approximately 21.1% compared with the corresponding period in 2015. With respect to trading business, the Group co-operated with overseas renowned brands to explore Asia market with an annual sales of approximately RMB91,587,000.

With respect to raw material business, the Group vigorously prepared for our exploration into overseas medical HA markets. Relevant registration certificates were obtained in several countries and cooperative relationship with internationally renowned pharmaceutical companies was formed, strengthening the development in overseas market. The Group leveraged on professional fermentation technology platform to innovate and launch a series of new products based on HA, satisfying the demand of customer at multi-level while effectively enhancing our competitiveness.

Facing rapid development in medical aesthetics market and more intense market competition, the Group continued to invest in corresponding resources to enrich our product portfolio and launch more medical aesthetics solutions with an aim to ensure a stable growth of our end product business. Despite adverse effects from the increased competition and price reduction pressure on the sales of HA injection fillers (BioHyalux), continuous optimization of Bio-MESO product lines and successful development of HA+ medical skin care product business have strongly underpinned further advancement of our entire end product business.

Research & development and innovation have been the most significant driver of our development. At the end of this year, several products have obtained different milestone results in respect of technology development, clinical trial and product filing, it is expected that it will provide beneficial support to our future business expansion.

OUTLOOK

In 2017, severe competition is expected to remain, the Group will continue to be customer-oriented, integrate domestic and overseas resources and endeavor to reinforce our development strategy as a medical aesthetics solutions provider, doing our utmost to sustain the stable growth momentum of the Group. Raw material business will keep on maintaining its global perspective and leverage on technology and product innovation to strengthen and further sales of pharmaceutical grade HA and new products so as to realize our continuous and steady growth. For end product business, on the one hand, the Group will consolidate its share in injection fillers' market by establishing its differentiated presence with Dermallure, the newly launched HA injection fillers, and BioHyalux products; on the other hand, the Group will also further promote the development of advanced technology and new product within skin care through Revitacare in France, a company the Group completed the acquisition on 19 January 2017, enriching our product portfolio for realization of steady growth in results and creation of more values for the shareholders of the Company.

APPRECIATION

I would like to take this opportunity, on behalf of the Board, to express our gratitude for the continuous support and trust of the Shareholders, customers, business partners and bankers and also for the contribution made by the management and all the members of the staff.

Zhao Yan
Chairman

22 March 2017

Management's Discussion and Analysis

BUSINESS REVIEW

The Group's revenue for the year ended 31 December 2016 amounted to approximately RMB844.388 million, representing an increase of approximately 29.7% compared with the corresponding period in 2015. The Group's gross profit increased by approximately 21.6% from approximately RMB487.239 million for the year ended 31 December 2015 to approximately RMB592.429 million for the year ended 31 December 2016. Profit attributable to equity shareholders of the Company increased by approximately 19.8% from approximately RMB190.393 million for the year ended 31 December 2015 to approximately RMB228.101 million for the year ended 31 December 2016. Subject to approval by the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting, the Directors recommend the payment of a final dividend for the year ended 31 December 2016 of HKD3.1 cents per share (2015: HKD2.7 cents per share) to the Shareholders whose names appear on the register of members of the Company on Friday, 16 June 2017, amounting to approximately HKD11,257,000 (equivalent to approximately RMB10,070,000) in total. The financial summary and an analysis of the key financial indicators of the Group are provided on pages 16 and 17 of this annual report.

HA raw material and end products business

Raw material product

For the year ended 31 December 2016, the Group's raw material business continued to grow steadily, recording sales of approximately RMB458.015 million in 2016, representing an increase of approximately 15.4% year-on-year.

Benefitting from the Group's global strategic plan and in-depth capturing of the pharmaceutical market, the Group and the renowned international pharmaceutical companies reached cooperation successively, resulted in a significant improvement in the Group's raw material business, driven by medical-grade products sales and overseas sales. The Group also participated deeply in world leading technological conferences, such as TFOS (Tear Film & Ocular Surface) and WBC (World Biomaterials Congress), to continue the nurturing of medical-grade HA global market and accumulate momentum for the growth of its medical-grade raw material business.

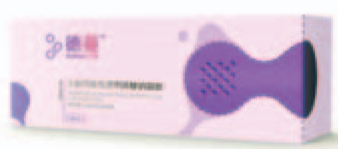
In the international registration of HA, the Group obtained the Russian registration certificate and CEP registration certificates for two products with new specifications. In addition, substantive progress in registration was achieved in other countries, including India and South Korea. Annual reviews of food grade HA and products such as γ-aminobutyric acid for Kosher and HALAL certification, reviews of cosmetic grade HA for ECOCERT certification and Hydrolyzed Hyaluronic Acid for ECOCERT initial certification were completed, providing the necessary conditions to develop overseas markets for existing products. On 18 March 2016, one of the Group's principal operating subsidiaries Bloomage Freda Biopharmaceutical

Co., Ltd. ("Bloomage Biopharm") established its office in Japan, which was the second overseas business development centre after its US subsidiary, representing an important step of the Group towards its strategic plan of business globalization.

The Group insisted on technological innovations and persisted to leverage on the Group's professional fermentation technology platform with HA as the core to develop HA derivatives and non-HA products for pursuing the diversification strategy. In 2016, the Group successively launched a number of products, including Hyafactor™-PGA (聚谷氨酸鈉) which has better moisturizing effect and enhanced synergy with HA, and Hymagic™-AcHA (乙醯化透明質酸鈉), a superb hydrating sodium acetylated hyaluronate with double moisturizing effect. Existing products also won more awards in the industry. For example, miniHA® was awarded the "Innovative Product Award of the Cosmetic Industry (化妝品行業創新產品獎)" by the China Association of Fragrance Flavor and Cosmetic Industries (中國香料香精化妝品工業協會). Hyacross™, a hyaluronic acid elastomer, was also awarded the "Personal Care and Cosmetics Technology Innovation Award in China (中國個人護理品及化妝品技術創新獎)", adding new momentum of growth to the raw material business of the Group. Meanwhile, by leveraging on the advanced hyaluronic acid research technology, microbiological fermentation technology and the results obtained, Bloomage Biopharm was awarded with honorable titles, including "National High and New Technology Enterprise (國家高新技術企業)", "Outstanding Enterprise Technological Centre in Shandong Province (山東省優秀企業技術中心)", "Hyaluronic Acid Engineering Technology Demonstration Centre in Shandong Province (山東省透明質酸工程技術示範中心)" and "Excellent Innovative Team in Hyaluronic Acid Fermentation Technology in Jinan City (濟南市透明質酸發酵技術優秀創新團隊)", and its solid research and development capabilities accumulated strength for the Group's sustainable development in raw material business.

End product

For the year ended 31 December 2016, the Group entered into the third year of launching serial product solutions and marketing product portfolios comprising a variety of categories. Underpinned by a diversified layout and the skin management business, the Group achieved steady improvements in the end product business. In 2016, sales revenue realized by the Group's end product business was approximately RMB294.786 million, representing an increase of approximately 21.1% compared with the corresponding period in 2015.



Management's Discussion and Analysis

The medical aesthetics market in the PRC was still under rapid development, however, imbalanced development trend existed across the market, market competition also intensified. With refinement and improvement in the laws and regulations of the medical aesthetics industry and the implementation of policy which allows medical doctors' multi-location practices, many large-scale medical institutions faced challenges from medium and small size medical clinics, and consumers' loyalty to large medical institutions was reduced. Faced with such changes in the market, the Group capitalized on the advantages of its resources focusing on providing support to its major customers, deploying more efforts to develop second-tier and third-tier cities as well as medium and small size customers, and providing customers with customized and comprehensive services and support, as at the end of 2016, successfully covered over one thousand effective customers across the nation. On the other hand, with the launch of a wide range of HA injectable filler products and increasingly fierce competition in the market, as at the end of December 2016, China Food and Drug Administration (CFDA) granted medical device registration approvals for a total of 17 HA injectable filler products under 13 brands. Among these brands, 6 came from mature medical aesthetics markets, such as Europe, US, South Korea and Taiwan. With intensive competition in the injectable filler industry, many brands increased their marketing efforts and adopted price cutting measures to fight for market shares, creating pressure on the sales performance of the Group's "BioHyalux", a HA injectable filler, to a certain extent. The Group continued to adhere to its product combo strategy, on the one hand, minimized pricing pressure through comprehensive services and portfolio proposal; on the other hand, intensified its efforts in development and launch of new HA injectable filler products. The Group launched a brand new product, Dermallure, which was an injectable hyaluronic soft tissue filling gel containing lidocaine hydrochloride in September 2016, targeting at high-end individuals in the mass market and in the medical aesthetic industry. The Group aims to satisfy customized needs of facial shaping by different users through product differentiation positioning, thereby enhancing the competitiveness for the Group's injection products.

For the year ended 31 December 2016, the Group continued to lead the domestic medical aesthetics market in the promotion of skin management business. Through comprehensive training programs, accurate market positioning and diversified product portfolio, the Group further enhanced the Bio-MESO product line, and created a strong driving force to business development during the year. In 2016, the Group achieved great results in HA+ medical skincare products business under the support of its unique "skin repairing" philosophy. HA Fast Repair Mask and Single-Use HA Aqua Stoste (HA次抛原液) were highly praised in the professional cosmetic market. Meanwhile the commencement of online business and publicity through new media platforms helped the Group's skincare beauty products establish extensive awareness and good comments among the Group's broad target consumer groups as well. The Group expects that all of these will provide a strong support to the development of the Group's overall end product business.

Management's Discussion and Analysis

Research and development and innovations are driving forces for sustainable development of the Group's business. For the year ended 31 December 2016, the Group completed a number of medical aesthetics skincare technological development. Moreover, the clinical trials for a range of sodium hyaluronate filler products, Bio-MESO products and hemostatic products were progressing smoothly. For international registration of end products, renewal of listing certificate for Medical HA Gel for ophthalmologic use "HYMOIS" in Hong Kong was completed, while registration procedures for BioHyalux and its product series in Russia were in active progress. Obtaining these new qualifications, the development and marketing of new products and the promotion and application of new technologies will enrich the product line and provide sustainable support for the Group to be an integrated solutions provider.

Trading business

As at 31 December 2016, the total revenue of trading business amounted to approximately RMB 91.587 million, which was mainly attributable to the promotion and sales of products of Laboratoires Vivacy SAS ("Vivacy") in the Asia Pacific region, as well as distribution of aesthetic devices. Since the obtaining of the exclusive distribution rights of Vivacy products in the Asia Pacific region in 2015, the Group has been actively expanding its sales networks in Asia Pacific and launched the registration of Vivacy products in a number of countries and regions. In August 2016, the Vivacy Stylage series of facial injectable products (Vivacy Stylage系列面部注射產品) has obtained the Certificate for Listing of Medical Device (療儀器表列證書) issued by the Department of Health of the Hong Kong Special Administrative Region, which has greatly enhanced the recognition of the product among local medical aesthetics institutions and doctors and enabled the product to enter the Hong Kong mainstream market. Apart from Hong Kong, the Vivacy products have successfully entered into countries and regions such as Taiwan, Singapore and Thailand. In addition, Vivacy products have strong foothold in Japan and South Korea with relatively strong market competitiveness. With the gradual implementation of its medical aesthetic solution strategy and further promotion of the marketing plan with a combination of "devices + product + service", the Group also made some progress in devices distribution.

Acquisition Business

Following the cooperation with Vivacy, a company incorporated in France and Medytox Inc. ("Medytox"), a company incorporated in South Korea, the globalization strategy of the Group made new achievement. On 6 January 2017, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement to acquire the entire equity interest of Revitacare ("Revitacare France"), a company incorporated in France which focuses on the research and development and sales of skin repair and hair growth products with powerful strength in preparation and formula. The acquisition of Revitacare France (the "Acquisition") greatly supplements the skin management business of the Group, which is the focus of development of the Group. By acquiring of Revitacare France, the Group can fully master advanced technologies and new products in the field of skin management to further enrich the Group's product line, while leveraging its technological advantages and the scalability of product development to continuously expand the product portfolio and develop more products and solutions. On the other hand, the Acquisition enables the Group to explore more market opportunities through the "Made in France" high-end brand image and to speed up the globalization process with its multi-products, multi-brands and multi-channels strategy, thereby further enhancing the Group's competitiveness in the field of medical aesthetics. The Acquisition was completed on 19 January 2017. For details of the Acquisitions, please refer to the announcements of the Company dated 6 January 2017 and 19 January 2017, respectively.

Human Resources

At 31 December 2016, the Group had a total of 789 employees. With continuous expansion of business both at home and abroad, the Group insists on actively attracting high-level talents and providing corresponding personnel training and reserve to ensure smooth implementation of the Group's long-term strategy. Meanwhile, in order to further improve its executive capability, the Group actively made adjustment to its organizational structure, implemented the "triple delegation" model of management including management delegation, R&D delegation and product management delegation, and established and improved the marketing mechanism with product manager as the center of connection to form a multi-department linkage for its efficient operation.

OUTLOOK AND PROSPECTS

In 2017, the economic condition and the competition of medical aesthetics industry in the PRC will further intensify. The Group will implement a medical aesthetics ecological chain strategy by providing greater product portfolio and solution with a focus on customer experience. The Group will optimize the organizational structure and enhance the execution capability of its team. Facing with the characteristics of fast upgrade and regeneration as well as the unregulated competition of medical aesthetics industry, the Group will also accelerate the change in the development pace with innovation and diversification to strive for sustainable growth.

Raw material product business

The Group will continue to take HA as the core raw material and diversify HA's traditional applications by vigorous exploration of domestic and international markets of medical-grade HA and opening new areas of HA applications. Leveraging on professional R&D platform and production technology of fermentation, the Group will strengthen the R&D and marketing of non-HA fermental products and their derivative products, striving to achieve medium- and long-term sustained and steady growth of the Group's raw materials business segment.

End product business

The market demand for medical aesthetics in China continues to expand. Meanwhile, as the market matures, the fierce industry competition is also intensifying. In 2017, the sales of HA injectable filler products will still face difficulties and challenges. The Group will continue to develop the marketing strategy supported by skin care product portfolio, keep track of the medical aesthetic development trend, strengthen product and service innovation with a focus on customer to provide the industry with more precise services and business options.

The Group will continue to promote the clinical registration of various domestic and imported brands of HA injectable filler to cope with more fierce competition and more refined demands from consumer groups. In 2017, the Group will strengthen the construction of the sales team, reinforce market positioning and brand segmentation of BioHyalux and Dermallure, and carry out accurate marketing and sales of product combo in collaboration with other skincare treatments to consolidate its market share of HA injectable filler.

In 2017, the Group will further develop and expand the BACT (biological activated combined treatment) project as well as medical skincare business to create more skin beauty solution and medical skincare products with a focus on HA benefiting from the full launch of the CYTOCARE series of Revitacare France, whose entire equity interest was acquired by the Group in January 2017, the Group will redefine the breadth of skin beauty, from facial skin to body skin and then to scalp skin, so as to comprehensively meet the ultimate demand for beauty from consumers. The Bloomage Academy will also launch trainings for the use of HA products and related equipment for skin in different parts of the body. In 2017, the Group will strengthen consumer education and brand concepts cultivation by focusing more on the demand from consumers, pay more attention to consumer experience, and launch more skincare products to cater for consumers' demands.

Trading business

The Group expects that in the next two years it will successively obtain the access approval for the Stylage series of facial injectable products of Vivacy and the series of products of Revitacare in more countries and regions in Asia. The Group will achieve steady growth in trading business by enhancing investment in market promotion through running various marketing activities jointly with local distributors to introduce new technologies and new application concepts to local medical aesthetics institutions.

Management's Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2016 was approximately RMB844.388 million, representing an increase of approximately 29.7% or approximately RMB193.520 million as compared to the corresponding period of 2015.

The breakdown of the Group's revenue by products was as follows:

	For the year ended 31 December			
	2016		2015	
	RMB'000	**%**	*RMB'000*	*%*
Sales of self-produced products:				
– HA raw materials	**458,015**	**54.2**	396,932	61.0
– HA end products	**294,786**	**34.9**	243,360	37.4
Trading Business	**91,587**	**10.9**	10,576	1.6
Total	**844,388**	**100.0**	650,868	100.0

Cost of sales

Cost of sales for the year ended 31 December 2016 was approximately RMB251.959 million, representing an increase of approximately 54.0% as compared to approximately RMB163.629 million for the corresponding period of 2015. The increase was mainly due to the increase of sales volume.

Gross profit margin

The Group's gross profit margin for the year ended 31 December 2016 slightly decreased to approximately 70.2% from approximately 74.9% in the year ended 31 December 2015. The decrease was mainly due to the new business segment of trading of cosmetics products and devices, which has a lower gross profit margin than that of the existing business from HA raw materials and HA end products.

Other revenue

Other revenue of the Group was approximately RMB26.752 million for the year ended 31 December 2016, representing an increase of approximately 69.3% from approximately RMB15.799 million for the year ended 31 December 2015. The increase in other revenue was mainly attributable to the increase of interest income from deposit at bank.

Distribution costs

The Group's distribution costs for the year ended 31 December 2016 were approximately RMB128.744 million, representing an increase of approximately 20.2% from approximately RMB107.070 million for the year ended 31 December 2015. The increase was mainly attributable to the combined effect of the increase in amortisation expense of intangible assets related to the exclusive distribution agreements for the distribution of Vivacy's products in certain countries in the Asia-Pacific region and increase in marketing costs of HA end products, which is in line with the Group's strategy on promotion enhancement and business development. The amortisation expenses of intangible assets included in the distribution costs for the year ended 31 December 2016 were approximately RMB22.209 million (2015: approximately RMB9.557 million).

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2016 were approximately RMB175.753 million, representing an increase of approximately 23.8% from approximately RMB141.910 million for the year ended 31 December 2015. The increase in administrative expenses was mainly due to the increase in staff costs as a result of increase in the number of staff. The non-cash equity-settled share-based payment expenses included in the administration expenses for the year ended 31 December 2016 were approximately RMB22.852 million (2015: approximately RMB26.538 million).

Other operating expenses/income, net

The Group's other operating expenses for the year ended 31 December 2016 were approximately RMB0.932 million, representing an increase of approximately RMB1.501 million from approximately RMB0.569 million of other operating income for the year ended 31 December 2015.

Finance costs

The Group's finance costs for the year ended 31 December 2016 were approximately RMB45.383 million, representing an increase of approximately 171.3% from approximately RMB16.727 million for the year ended 31 December 2015. The Group's finance costs include the dividends on the preferred shares, interest on bank loans and interest on convertible bonds.

Profit for the year

The Group's profit for the year ended 31 December 2016 was approximately RMB228.100 million, representing an increase of approximately 19.8% from approximately RMB190.395 million for the year ended 31 December 2015. The earnings before interest, taxes, depreciation and amortisation (excluding share of profits less losses of associates and share of loss of a joint venture) of the Group for the year ended 31 December 2016 was approximately RMB363,407,000 (2015: approximately RMB290,997,000), representing an increase of approximately RMB72,410,000 or 24.9% as compared to the corresponding period of 2015.

Final dividend

The Board proposed the payment of a final dividend of HKD3.1 cents (2015: HKD2.7 cents) per share for the year ended 31 December 2016 to the Shareholders whose names appear on the register of members of the Company on 16 June 2017. Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company to be held on Tuesday, 6 June 2017 (the "AGM"), it is expected that the final dividend will be paid on or around Wednesday, 12 July 2017.

There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividend.

Purchase, sale or redemption of the Company's listed securities

Pursuant to the management subscription agreements (the "Management Subscription Agreements") dated 6 November 2015 entered into by the Company and each of the 23 subscribers (the "Subscribers"), being senior management personnel of the Group, the Company conditionally agreed to allot and issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 9,687,500 Shares (the "Management Subscription Shares") at HKD12.00 per Management Subscription Share (the "Management Subscription"). The Management Subscription was completed on 8 January 2016 and an aggregate of 9,687,500 Management Subscription Shares, representing approximately 2.76% of the issued share capital of the Company as at 8 January 2016, were allotted and issued to the Subscribers at the aggregate subscription consideration of HKD116,250,000 under the specific mandate granted to the Board by the independent Shareholders at the extraordinary general meeting of the Company held on 17 December 2015.

For details of the Management Subscription, please refer to the announcements of the Company dated 6 November 2015, 17 December 2015 and 8 January 2016, respectively, and the circular of the Company dated 2 December 2015.

Further details of the Management Subscription are also set out in the paragraph headed "Connected Transactions" in this annual report.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

Closure of register of members

The transfer books and register of members of the Company will be closed from 1 June 2017 to 6 June 2017 (both days inclusive) for the purpose of ascertaining Shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 31 May 2017. In addition, the transfer books and register of members of the Company will be closed from 14 June 2017 to 16 June 2017 (both days inclusive) for the purpose of ascertaining Shareholders' entitlement to the proposed final dividend for the year ended 31 December 2016 (if approved at the AGM). In order to qualify for the proposed final dividend for the year ended 31 December 2016, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at the above-mentioned address for registration no later than 4:30 p.m. on Tuesday, 13 June 2017. During such periods, no share transfers will be effected.

Liquidity, capital structure and financial resources

As at 31 December 2016, the Group had current assets of approximately RMB1,380.025 million (2015: approximately RMB1,275.516 million) and current liabilities of approximately RMB328.339 million (2015: approximately RMB624.100 million). The current ratio of the Group as at 31 December 2016 was approximately 420.3% (2015: approximately 204.4%).

As at 31 December 2016, the Group had cash and cash equivalents of approximately RMB646.887 million (2015: approximately RMB651.050 million), of which approximately 68% (2015: approximately 10%) was denominated in RMB, approximately 1% (2015: approximately 4%) in HKD, approximately 28% (2015: approximately 84%) in United States Dollars ("USD"), approximately 2% (2015: approximately 1%) in Euro and approximately 1% (2015: approximately 1%) in Japanese Yen ("JPY").

Total liabilities of the Group amounted to approximately RMB867.028 million (2015: approximately RMB1,007.214 million) as at 31 December 2016.

As at 31 December 2016, the Group's total bank borrowing was approximately RMB348.860 million (31 December 2015: approximately RMB472.873 million). Out of the total borrowings, approximately RMB220.000 million was repayable within one year while approximately RMB128.860 million was repayable after one year.

As at 31 December 2016, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was approximately 35.8% (2015: approximately 45.8%). The decrease in gearing ratio as at 31 December 2016 as compared to that as at 31 December 2015 was principally attributable to partial repayment of bank loans.

Net cash generated from operating activities for the year ended 31 December 2016 was approximately RMB183.134 million (2015: approximately RMB159.161 million).

Net cash used in investing activities for the year ended 31 December 2016 was approximately RMB36.283 million (2015: approximately RMB681.733 million), mainly representing the expenditure for the purchase of equipments.

Net cash used in financing activities for the year ended 31 December 2016 was approximately RMB161.058 million (2015: net cash generated from financing activities of approximately RMB975.264 million), mainly representing the repayment of the bank loans.

The Board is of the opinion that the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures. The Group expects that the short-term funding and the long-term funding of the Group will be primarily derived from income generated from its core business operations in the coming year and bank borrowings.

Treasury Policy

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. During the year ended 31 December 2016, the Group continued to adopt a conservative approach to financial risk management.

Exchange risk exposure

The Group's sales were principally made in RMB, USD, HKD and Euro, with the majority of which were denominated in RMB. The Group's bank loans at 31 December 2016 were denominated in RMB and USD. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to have a material impact on the Group's operations. The Group had not adopted formal hedging policies and no instruments had been applied for foreign currency hedging purposes during the year ended 31 December 2016. The Group will closely monitor the foreign exchange risk and take appropriate measures when needed to address the risk.

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

Capital commitment

As at 31 December 2016, the capital commitment of the Group was approximately RMB0.787 million (2015: approximately RMB8.000 million).

Employee information

As at 31 December 2016, the Group had a total of 789 (2015: 717) employees, the majority of whom were stationed in the PRC. Total remuneration for the year ended 31 December 2016 amounted to approximately RMB170.772 million (2015: approximately RMB132.877 million). The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed on a performance-related basis. The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the paragraph headed "Share Option Scheme" in this annual report. In relation to staff training, the Group also provides different types of programs for its staff to improve their skills, develop their respective expertise and showcase their potentials.

Charge on assets

As at 31 December 2016, the Group's borrowing of RMB 220.000 million is secured by a pledge over the Group's bank deposits of RMB 230.000 million.

Significant investment, material acquisitions and disposal of subsidiaries and associated companies

During the year ended 31 December 2016, there was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Group.

DIRECTORS

As at 31 December 2016, the Board comprises eight Directors, among which there are four executive Directors, one non-executive Director and three independent non-executive Directors.

EXECUTIVE DIRECTORS

Ms. Zhao Yan, aged 50, is the chairman and an executive Director. Ms. Zhao is the director of several subsidiaries of the Company. Ms. Zhao graduated with a bachelor's degree in science with major in biology from the East China Normal University (華東師範大學) in 1986 and completed an international MBA program organized by the China Center for Economic Research at Peking University from 2000 to 2002, and was awarded a master degree of business administration by Fordham University of the US in 2002. Ms. Zhao started her business from 1989 and had engaged in various sectors, including real estate development, culture and sports, biotechnology, investment and management. She has over 27 years of experience in investment and management. Presently, Ms. Zhao is also the chairman of Bloomage International Investments Group Inc. ("Bloomage International"). Ms. Zhao is the sole director and shareholder of AIM First Investments Limited which holds approximately 50.3% of the shares of the Company as at the date of this annual report.

Mr. Jin Xuekun, aged 52, is an executive Director and the chief executive officer of the Company. Mr. Jin is the director of several subsidiaries of the Company and the general manager of Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc"). Mr. Jin obtained from Fordham University a master's degree of Business Administration in 2002. Before joining the Group, Mr. Jin served as the general manager of the PRC division of Esaote (Shenzhen) Medical Equipment Co., Ltd., with profound understanding in the corporate strategic management, innovation of business model, and in fostering corporate culture. Mr. Jin also previously worked in various large international medical instrument groups. Mr. Jin has over 20 years' experience in the sales and marketing of international medical instruments in the PRC. Mr. Jin is fully responsible for the Group's business planning and operations management. Mr. Jin had been an independent non-executive Director from 18 June 2012 to 29 October 2013.

Mr. Gong Anmin, aged 51, is an executive Director of the Company appointed on 26 August 2016. Mr. Gong joined the Group as the chief financial officer of the Company in January 2014, and he is also the general manager of Bloomage Freda Biopharmaceutical Co., Ltd. ("Bloomage Biopharm") and Shandong Bloomage Hyinc Biopharm Company Limited ("Shandong Bloomage Hyinc"). Mr. Gong graduated with a bachelor's degree in economics from the Central University of Finance and Economics in the People's Republic of China in 1988 and completed an international MBA program organized by the China Center for Economic Research at Peking University from 2000 to 2002, and was awarded a master degree of business administration by Fordham University in the US in 2002. He had worked in several large state-owned enterprises and foreign enterprises for years, and thus had extensive experience in financial management and corporate governance.

Biography of Directors and Senior Management

Ms. Liu Aihua, aged 54, was an executive Director of the Company and resigned on 26 August 2016. She had been the chief executive officer of the Company from 18 June 2012 until 20 December 2013, and had been the general manager of Bloomage Biopharm and Shandong Bloomage Hyinc and resigned in January 2016 and March 2016 respectively. Ms. Liu graduated from the pharmaceutical department of Shenyang Pharmaceutical University in 1983 with a bachelor's degree in science. Ms. Liu had worked for Jinan Yongning Pharmaceutical Ltd. during the period between August 1983 and July 1998 and was responsible for research and technical management. Before joining the Group, Ms. Liu was the vice-president of Biopharmaceuticals Research Institute during the period between August 1998 and December 2001. Ms. Liu has over 30 years' experience in both of pharmaceutical research and management. Ms. Liu is the director of several subsidiaries of the Company. She joined the Group in January 2002 and now is the chief operating officer of the Company.

Ms. Wang Aihua, aged 38, is an executive Director. She graduated from Yanshan University (燕山大學) (formerly known as The Northeast Heavy Machinery Institute (東北重型機械學院)) in 1999 with a bachelor's degree in economic major in international economic and trading. She further obtained a master of business administration degree from Yanshan University in 2004 with a major in the management science and engineering from 2001 to 2004. Ms. Wang worked as an analyst for Golden Credit Rating International Co., Ltd. and was responsible for analysis and assessment of company solvency and major loan projects. She is responsible for the office operation of the Board and capital management of the Group. Ms. Wang is the director of several subsidiaries of the Company. She joined the Group in December 2008.

NON-EXECUTIVE DIRECTORS AND COMPANY SECRETARY

Mr. Yau Wai Yan, aged 41, is a non-executive Director and the company secretary of the Company appointed on 18 January 2016. Mr. Yau is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Yau graduated from the Hong Kong University of Science and Technology with a bachelor's degree in professional accounting. Prior to joining the Company, Mr. Yau had worked for an international accounting firm for over 10 years. Mr. Yau is the financial controller, the authorised representative of the Company and is a director of a subsidiary of the Company.

Mr. Guo Jiajun (Song), aged 41, was a non-executive Director of the Company and resigned on 18 January 2016. He had been an executive Director and the chief executive officer of the Company. He graduated from Shandong University at Weihai (山東大學威海分校) in 1998 with a bachelor's degree in science major in electronics and information systems and completed an international MBA program organized by the China Center for Economic Research at Peking University from 2005 to 2008, and was awarded a master degree of business administration by Fordham University of the US in 2008. He is the vice general manager of Bloomage International. Mr. Guo is responsible for supervising the performance of the Group and advising on its development plan. Mr. Guo joined the Group in March 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Zhan Lili, aged 44, is an independent non-executive Director. She completed her studies in business administration at the Faculty of Business Administration of Capital University of Economics and Business in 2003. Ms. Zhan was an assistant to the General Manager of Tomson (Shanghai) Company Limited (湯臣高爾夫 (上海) 有限公司) from 2000 to 2001, worked in the human resource department of the Beijing branch of Industrial Bank Co., Ltd. (興業銀行) from 2003 to 2007 and has been a president assistant of Beijing Hai Dian Science & Technology Development Co., Ltd. (北京海澱科技發展有限公司), a company engaged in electronics and information technology, environmental protection materials, property development and e-business, from 2007 to 2015.

Mr. Li Junhong, aged 50, is an independent non-executive Director. He graduated from Central University of Finance and Economics (中央財經大學) with a Bachelor's degree in accounting in 1989. He obtained a Master of Business Administration from Fordham University in 2002. He is also a member of The Chinese Institute of Certified Public Accountants. From January 2008 to December 2008, Mr. Li had been an executive director of Hong Kong Life Sciences and Technologies Group Ltd. (香港生命科學技術集團有限公司) (formerly known as Zmay Holdings Limited and New Chinese Medicine Holdings Limited) (stock code: 8085), a company listed on the Growth Enterprise Market of SEHK and he is an independent director of Hubei Honghu Ecological Agriculture Company Limited (湖北洪湖生態農業股份有限公司) since 7 June 2016 which was listed on National Equities Exchange and Quotations System (全國中小企業股份轉讓系統) since 7 June 2016. He has over 20 years of experience in auditing, accounting, merger and acquisition consultancy and management consultancy with local accountants firms and private companies. He was a partner in Beijing Tianhua CPAs (北京天華會計師事務所).

Mr. Xue Zhaofeng, aged 49, is an independent non-executive Director appointed on 18 January 2016. He holds a doctorate of philosophy (PhD) in economics from George Mason University and was a postdoctoral fellow at School of Law, Northwestern University in the United States from 2008 to 2010. Mr. Xue is currently a professor at National School of Development and a co-director of the Institute for Law and Economics, Peking University. In 2006, Mr. Xue was awarded the title of "Youth of the Year" by Southern People Magazine. Mr. Xue is a member of "Information Society 50 Forum" (信息社會50人論壇), a co-founding member of "Micro-Finance 50 Forum" (微金融50人論壇) and the invited-economist of Alibaba Inc.. Mr. Xue is also the author of various books, including "Global Trend: The Modularized Innovation and the New Opportunity of China" (《全球風口—積木式創新與中國新機會》), "Common Sense in Economics" (《經濟學通識》) and "Commerce without Frontiers: The Economics Revolution in Antitrust" (《商業無邊界—反壟斷法的經濟學革命》).

Biography of Directors and Senior Management

Mr. Hai Wen, aged 64, was an independent non-executive Director of the Company and resigned on 18 January 2016. He graduated from Peking University with a Bachelor's degree in economics in 1982. He obtained a doctorate degree in Economics from the University of California, Davis in 1991. He is a professor in Economics and doctoral supervisor of Peking University and currently serves as the deputy director of the University Council of Peking University (北京大學校務委員會) and the dean of the HSBC Business School of Peking University (北京大學滙豐商學院). He had been a permanent deputy director of The China Center for Economic Research at Peking University (北京大學中國經濟研究中心), vice principal of Peking University and the dean of the Shenzhen Graduate School of Peking University (北京大學深圳研究生院). Mr. Hai had compiled and translated more than ten books on economics and has won several awards in the fields of economics and education. Mr. Hai is an independent director of China Vanke Co., Ltd., a company listed on Shenzhen Stock Exchange (stock code: 000002) and the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") (stock code: 2202).

SENIOR MANAGEMENT

Apart from the Directors, the senior management of the Group includes:

Mr. Guo Xueping, aged 52, is the vice general manager and a director of Bloomage Biopharm. Mr. Guo graduated from Shandong University (山東大學), majoring in pharmacy, microbiology and biochemical pharamcy, and was awarded a Ph.D. Mr. Guo worked for Biopharmaceuticals Research Institute for 10 years before joining the Group in January 2000. Mr. Guo obtained the National Technology Advancement Third-Class Award awarded by the National Technology Committee (國家科學技術委員會) (which has been renamed as 科學技術部 ("The Ministry of Science and Technology")), an independent third party, in 1995 for his research in the production of injection grade hyaluronic acid, the Great Achievement Award of the "Ninth five-years" National Key Technology Tackle Project in 2001 jointly organized by the Ministry of Science and Technology (科學技術部), Ministry of Finance (財政部), National Development and Planning Committee (國家發展計劃委員會) and State Economic and Trading Committee (國家經濟及貿易委員會), all being independent third parties, for his research in "the production of hyaluronic acid pharmaceuticals by fermentation", and obtained the Wu Jie Ping Medical Research Award, Paul Janssen Pharmaceutical Research Award–Medical Production Third Class Award (吳階平醫學研究獎-保羅 • 楊森藥學研究獎製藥工程專業三等獎) in 2002, which is an award established by International Health Exchange and Cooperation Centre of Ministry of Health (衛生部國際交流與合作中心) and a pharmaceutical enterprise to award the medical and pharmaceutical researches in the PRC, both being independent third parties.

Mr. Wang Chunxi, aged 49, is the vice general manager of Bloomage Biopharm. Mr. Wang graduated from East China University of Science & Technology (華東化工學院) with a bachelor's degree in engineering major in biochemistry engineering. Mr. Wang worked for the Biopharmaceuticals Research Institute for 10 years. He joined the Group in January 2000.

Mr. Luan Yihong, aged 53, is the vice general manager of Bloomage Biopharm. Mr. Luan graduated from Shandong University (山東大學) with a master's degree in microbiology and biochemical pharmacy. He was awarded the Scientific and Technological Advancement Award in Shandong Province, the PRC. Mr. Luan has nearly 30 years' experience in pharmaceutical production process and quality control of medicine. He joined the Group in 2004.

Ms. Xu Guixin, aged 44, is the vice general manager of Bloomage Biopharm. Ms. Xu graduated from Shandong University (山東大學) with a bachelor's degree in Biology. Ms. Xu has nearly 20 years' experience in pharmaceutical sales. She joined the Group in January 2000 and is a director of a subsidiary of the Company.

Mr. Hu Ning, aged 46, is the vice general manager of Beijing Bloomage Hyinc. Mr. Hu graduated from the University of Nottingham in England with a master degree in operation management. He had worked in multinational companies and state-owned enterprises with over 20 years' working experience in marketing, products and channel operation. He joined the Group in 2014.

Report of the Directors

The Directors herein present to the shareholders the annual report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year ended 31 December 2016 was investment holding and those of the subsidiaries are set out in Note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 68 and 69.

Subject to the approval by the shareholders of the Company at the AGM, the Directors recommended the payment of a final dividend of HKD3.1 cents for the year ended 31 December 2016 to shareholders whose names appear on the register of members of the Company on 16 June 2017, amounting to approximately HKD11,257,000 in aggregate.

There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from 1 June 2017 to 6 June 2017 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 31 May 2017. In addition, the transfer books and register of members of the Company will be closed from 14 June 2017 to 16 June 2017 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the proposed final dividend (if approved at the AGM). In order to qualify for the proposed final dividend (if approved at the AGM), all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, for registration no later than 4:30 p.m. on 13 June 2017. During such periods, no share transfers will be effected.

GROUP FINANCIAL SUMMARY

The summary of the results of the Group for each of the five years ended 31 December 2016 and the assets and liabilities of the Group as at 31 December 2012, 2013, 2014, 2015 and 2016 are set out on page 164.

PROPERTY, PLANT AND EQUIPMENT, NET

Details of movements in property, plant and equipment, net of the Group during the year ended 31 December 2016 are set out in Note 11 to the financial statements.

SIGNIFICANT CHANGE IN CONSTRUCTION IN PROGRESS

Details of the movements in the Group's construction in progress during the year ended 31 December 2016 are set out in Note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 31 December 2016 are set out in Note 30(c) to the financial statements.

RESERVES

As at 31 December 2016, the distributable reserve of the Company amounted to approximately RMB355,377,000.

Details of movements in reserves of the Group and the Company during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity and Note 30(a) to the financial statements, respectively.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the paragraph headed "Share Option Scheme" below.

REMUNERATION OF DIRECTORS AND KEY MANAGEMENT

Pursuant to code provision B.1.5 of the Code, the emoluments of the key management, including amounts paid to the Company's directors as disclosed in Note 8, are within the following bands:

	2016	2015
HKD 0 ~ HKD 500,000	**6**	10
HKD 500,001 ~ HKD 1,000,000	**4**	2
HKD 1,000,001 ~ HKD 1,500,000	**4**	2
HKD 1,500,001 ~ HKD 2,000,000	**—**	1
HKD 2,000,001 ~ HKD 2,500,000	**—**	—
HKD 2,500,001 ~ HKD 3,000,000	**1**	—
HKD 29,500,001 ~ HKD 30,000,000	**1**	—
HKD 34,500,001 ~ HKD 35,000,000	**—**	1

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, there are no transaction, arrangement or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest whether directly or indirectly subsisted at the end of the year or at any time during the year ended 31 December 2016.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year ended 31 December 2016 were:

Executive Directors:

Ms. Zhao Yan *(Chairman)*
Mr. Jin Xuekun *(Chief Executive Officer)*
Ms. Liu Aihua *(resigned on 26 August 2016)*
Mr. Gong Anmin *(appointed on 26 August 2016)*
Ms. Wang Aihua

Non-executive Director:

Mr. Guo Jiajun *(resigned on 18 Jaunary 2016)*
Mr. Yau Wai Yan *(appointed on 18 Jaunary 2016)*

Independent non-executive Directors:

Ms. Zhan Lili
Mr. Hai Wen *(resigned on 18 Jaunary 2016)*
Mr. Li Junhong
Mr. Xue Zhaofeng *(appointed on 18 Jaunary 2016)*

Each of Mr. Gong Anmin, Ms. Zhan Lili, Mr. Li Junhong will retire at the AGM and, all of them being eligible, will offer themselves for re-election at the said meeting.

The Company has received annual confirmations of independence from Ms. Zhan Lili, Mr. Li Junhong and Mr. Xue Zhaofeng, all being independent non-executive Directors. The Board has assessed their independence and concluded that, as at the date of this annual report, the independent non-executive directors are considered to be independent pursuant to the Listing Rules.

Ms. Zhao Yan has entered into a service contract for a term commencing from 18 June 2015 to the 2017 annual general meeting to be convened in 2018. Each of Mr. Jin Xuekun and Ms. Wang Aihua has entered into a service contract for a term commencing from 6 June 2016 to the 2018 annual general meeting to be convened in 2019. Mr. Gong Anmin has entered into a service contract for a term of two year commencing from 26 August 2016. Each of the executive Directors and the Company may terminate the appointment by giving the other party not less than three months' prior notice in writing. Mr. Yau Wai Yan has entered into a service contract for a term of three years commencing from 18 January 2016. Mr. Yau Wai Yan and the Company may terminate the appointment by giving the other party not less than one months' prior notice in writing. Ms. Zhan Lili has entered into a service contract for a term commencing from 18 June 2015 to the 2016 annual general meeting to be convened in 2017. Mr. Li Junhong has entered into a service contract for a term commencing from 28 February 2015 to the 2016 annual general meeting to be convened in 2017. Mr. Xue Zhaofeng has entered into a service contract for a term of three years commencing from 18 January 2016. Each of the independent non-executive Directors and the Company may terminate the appointment at any time during the term by giving the other party at least one month's notice in writing.

Save as disclosed above, none of the Directors has entered into a service contract with the Company, which is not determinable by the Company within one year without payment other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 21 to 25 of this annual report.

SHARE OPTION SCHEME

In order to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 3 September 2008 whereby the Board is authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants and advisers or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 3 October 2008 and shall be valid and effective for a period of ten years commencing on 3 September 2008, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HKD1.00. The subscription price of a Share in respect of any particular option granted under the Scheme shall be solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

The Company shall be entitled to issue options, provided that the maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 31,200,000 which is equivalent to 10% of the Shares in issue on the date of listing of the Shares on the Stock Exchange. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

At the annual general meeting convened on 6 June 2016, the shareholders of the Company approved the refreshment of the scheme mandate limit. Upon the refreshment of the scheme mandate limit of the Scheme, the Company was authorized to grant options entitling holders of the options to subscribe for a maximum of 36,183,483 shares, representing 10% on the total number of shares of the Company in issue as at the date of passing of the resolutions to refresh the scheme mandate limit. The total number of shares available for issue under the Scheme as at the date of this annual report was 36,183,483 shares which represented approximately 9.96% of the total issued share capital of the Company as at the date of this annual report.

On 24 December 2012, 12,480,000 share options to subscribe for up to a total of 12,480,000 Shares were granted to certain grantees under the Scheme and each share option shall entitle the holder to subscribe for one Share at the exercise price of HKD4.422 per Share. 50% of the share options may be exercised within the period from 25 December 2013 to 24 December 2017 and the remaining 50% of the share options may be exercised within the period from 25 December 2014 to 24 December 2017. Details of the grant of share options are set out in the announcement of the Company dated 24 December 2012.

In addition, on 29 October 2013, 3,320,000 share options to subscribe for a total of 3,320,000 Shares were granted to certain employees of the Company under the Scheme and each share option shall entitle the holder to subscribe for one Share at the exercise price of HKD16.652 per Share, provided that all share options would become exercisable on the condition that the performance target for the relevant period has been achieved. 25% of the share options may be exercised within the period from 30 October 2014 to 29 October 2018, 25% of the share options may be exercised within the period from 30 October 2015 to 29 October 2018, 25% of the share options may be exercised within the period from 30 October 2016 to 29 October 2018, and the remaining 25% of the share options may be exercised within the period from 30 October 2017 to 29 October 2018. Details of the grant of share options are set out in the announcement of the Company dated 29 October 2013.

Furthermore, on 29 October 2013, 6,640,000 share options to subscribe for a total of 6,640,000 Shares were granted to Mr. Jin Xuekun under the Scheme and each share option shall entitle Mr. Jin to subscribe for one Share at the exercise price of HKD16.652 per Share, provided that all share options would become exercisable on the condition that the performance target for the relevant period has been achieved. 25% of the share options may be exercised within the period from 23 December 2014 to 22 December 2018, 25% of the share options may be exercised within the period from 23 December 2015 to 22 December 2018, 25% of the share options may be exercised within the period from 23 December 2016 to 22 December 2018, and the remaining 25% of the share options may be exercised within the period from 23 December 2017 to 22 December 2018. Details of the grant of share options are set out in the announcement of the Company dated 29 October 2013.

The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

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

The status of the share options granted up to 31 December 2016 is as follows:

Name and category of participant	Number of unlisted share options: As at 1 January 2016	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	Outstanding as at 31 December 2016	Date of grant of share options	Vesting period of share options*	End of exercise period	Share price of the Company as at the date of grant of share options HKD per share
Directors									
Wang Aihua	680,000	–	–	–	680,000	24 December 2012	50%: 24 December 2012 to 24 December 2013 50%: 24 December 2012 to 24 December 2014	24 December 2017	4.3
Jin Xuekun	310,000	–	–	–	310,000	24 December 2012	50%: 24 December 2012 to 24 December 2013 50%: 24 December 2012 to 24 December 2014	24 December 2017	4.3
	6,640,000	–	–	–	6,640,000	29 October 2013	25%: 23 December 2013 to 22 December 2014 25%: 23 December 2013 to 22 December 2015 25%: 23 December 2013 to 22 December 2016 25%: 23 December 2013 to 22 December 2017	22 December 2018	15.8
Yau Wai Yan	99,600	–	–	–	99,600	29 October 2013	25%: 29 October 2013 to 29 October 2014 25%: 29 October 2013 to 29 October 2015 25%: 29 October 2013 to 29 October 2016 25%: 29 October 2013 to 29 October 2017	29 October 2018	15.8

Name and category of participant	As at 1 January 2016	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	As at 31 December 2016	Date of grant of share options	Vesting period of share options*	End of exercise period	Share price of the Company as at the date of grant of share options
	Number of unlisted share options								
									HKD per share
Other employees	8,316,000	—	—	2,000,500	6,315,500	24 December 2012	50%: 24 December 2012 to 24 December 2013 50%: 24 December 2012 to 24 December 2014	24 December 2017	4.3
	3,220,400	—	199,200	—	3,021,200	29 October 2013	25%: 29 October 2013 to 29 October 2014 25%: 29 October 2013 to 29 October 2015 25%: 29 October 2013 to 29 October 2016 25%: 29 October 2013 to 29 October 2017	29 October 2018	15.8
Total	19,266,000	—	199,200	2,000,500	17,066,300				

Notes to the table of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period. Such share options will only become vested upon expiry of the relevant vesting period.

For the year ended 31 December 2016, some employees (other than directors of the Company) exercised 2,000,500 share options granted on 24 December 2012 pursuant to the Scheme at the exercise price of HKD4.422 per share. The weighted average closing price of the Shares immediately before the exercise date was approximately HKD14.06 per share.

For the year ended 31 December 2016, 199,200 share options granted on 29 October 2013 pursuant to the Scheme at the exercise price of HKD16.652 per share were cancelled.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and/or chief executive of the Company in any shares (the "Shares"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to Section 352 of the Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Interests and short positions in Shares and underlying Shares

Name of Director	Nature of interest	Number of Shares/underlying Shares held/ interested	Approximate percentage of issued share capital of the Company
Ms. Zhao Yan	Interest of a controlled corporation *(Note 2 and 5)*	182,520,000(L) *(Note 1)*	50.28%
		9,960,000(L)	2.74%
		9,960,000(S)	2.74%
	Beneficial owner	1,200,000(L)	0.33%
Mr. Jin Xuekun	Interest of a controlled corporation *(Note 4 and 5)*	16,600,000(L)	4.57%
		9,960,000(L)	2.74%
		9,960,000(S)	2.74%
	Beneficial owner *(Note 3 and 6)*	12,363,750(L)	3.41%
Mr. Gong Anmin	Beneficial owner *(Note 6)*	968,750(L)	0.27%
	Interest of spouse	52,500(L)	0.01%
Ms. Wang Aihua	Beneficial owner *(Note 3 and 6)*	922,188(L)	0.25%
Mr. Yau Wai Yan	Beneficial owner *(Note 3 and 6)*	341,788(L)	0.09%

Notes:

(1) The letter "L" denotes a long position in the Shares and the letter "S" donotes a short position in the Shares.

(2) The 182,520,000 Shares are held by AIM First Investments Limited ("AFI"), which is wholly-owned by Ms. Zhao Yan. Therefore, Ms. Zhao is deemed, or taken to be, interested in all the Shares which are beneficially owned by AFI for the purpose of the SFO.

(3) On 24 December 2012, 680,000 and 310,000 share options were granted to Ms. Wang Aihua and Mr. Jin Xuekun respectively pursuant to the Scheme. On 29 October 2013, 99,600 share options were granted to Mr. Yau Wai Yan, and 6,640,000 share options were conditionally granted to Mr. Jin Xuekun pursuant to the Scheme and were approved by the independent shareholders at the extraordinary general meeting held on 23 December 2013. Mr. Jin Xuekun holds 570,000 Shares through his individual security account.

(4) The 16,600,000 warrants are held by Wealthy Delight Group Limited ("Wealthy Delight"), which is wholly-owned by Mr. Jin Xuekun. Therefore, Mr. Jin Xuekun is deemed, or taken to be, interested in all the warrants beneficially owned by Wealthy Delight for the purpose of the SFO.

(5) On 22 May 2014, AFI had granted a call option to Wealthy Delight (the "AFI Call Option") exercisable during the period from 22 May 2014 to 22 May 2019 to require AFI to transfer an aggregate of 9,960,000 shares of the Company or any part thereof held by AFI (the "Option Shares") to Wealthy Delight at HKD5.8 per share (the "Transfer Price"); and Wealthy Delight had granted a call option to AFI exercisable during the period commencing on the completion date of the transfer of the relevant Option Shares under the AFI Call Option and ending on 22 May 2019 to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AFI at the Transfer Price on the condition that the AFI Call Option has been exercised by Wealthy Delight and Mr. Jin Xuekun resigns as the chief executive officer of the Company due to personal reason(s).

(6) On 6 November 2015, the Company and each of Mr. Jin Xuekun, Mr. Gong Anmin, Ms. Wang Aihua and Mr. Yau Wai Yan entered into respective management subscription agreements, pursuant to which the Company conditionally agreed to allot and issue, and Mr. Jin Xuekun, Mr. Gong Anmin, Ms. Wang Aihua and Mr. Yau Wai Yan conditionally agreed to subscribe for 4,843,750, 968,750, 242,188 and 242,188 Shares of the Company, respectively.

(ii) Long position in the ordinary shares of associated corporation

Name of Director	Name of associated corporation	Capacity	Number of securities	Percentage of shareholding
Ms. Zhao Yan	AFI	Beneficial owner	50,000 ordinary shares	100%

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2016, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of substantial shareholders	Nature of interest	Number of Shares/underlying Shares held	Approximate percentage of the issued capital of the Company
AFI *(Note 2 and 6)*	Beneficial owner	182,520,000(L) *(Note 1)*	50.28%
		9,960,000(L)	2.74%
		9,960,000(S)	2.74%
Mr. Wang Yi *(Note 3)*	Interest of spouse	183,720,000(L)	50.61%
		9,960,000(L)	2.74%
		9,960,000(S)	2.74%
Wealthy Delight *(Note 4 and 6)*	Beneficial owner	16,600,000(L)	4.57%
		9,960,000(L)	2.74%
		9,960,000(S)	2.74%
Ms. Zhang Lanying *(Note 5)*	Interest of spouse	28,963,750(L)	7.98%
		9,960,000(L)	2.74%
		9,960,000(S)	2.74%
Ora Investment Pte. Ltd.	Beneficial owner	43,180,717(L)	11.90%
GIC (Ventures) Pte. Ltd.	Interest of a controlled corporation	43,180,717(L)	11.90%
GIC Special Investments Pte. Ltd.	Interest of a controlled corporation	43,180,717(L)	11.90%
GIC Private Limited	Interest of a controlled corporation	43,180,717(L)	11.90%
JPMorgan Chase & Co.	Beneficial owner	1,565,000(L)	0.43%
		700,000(S)	0.19%
	Custodian corporation/ approved lending agent	25,342,600(L)	6.98%
Templeton Asset Management Ltd.	Investment manager	29,213,300(L)	8.05%

Notes:

(1) The letter "L" denotes a long position in the Shares and the letter "S" donotes a short position of the Shares.

(2) AFI is wholly-owned by Ms. Zhao Yan. Ms. Zhao is the sole director of AFI.

(3) Mr. Wang Yi is the spouse of Ms. Zhao Yan. Under the SFO, Mr. Wang Yi is deemed, or taken to be, interested in all the Shares in which Ms. Zhao is interested.

(4) On 27 December 2013, 16,600,000 warrants of the Company were granted to Wealthy Delight, entitling the holder thereof to subscribe for 16,600,000 Shares.

(5) Ms. Zhang Lanying is the spouse of Mr. Jin Xuekun. Under the SFO, Ms. Zhang Lanying is deemed, or taken to be, interested in all the shares options and warrants in which Mr. Jin Xuekun is interested.

(6) On 22 May 2014, AFI had granted a call option to Wealthy Delight ("AFI Call Option") exercisable during the period from 22 May 2014 to 22 May 2019 to require AFI to transfer an aggregate of 9,960,000 shares of the Company or any part thereof held by AFI (the "Option Shares") to Wealthy Delight at HKD5.8 per share (the "Transfer Price"); and Wealthy Delight had granted a call option to AFI exercisable during the period commencing on the completion date of the transfer of the relevant Option Shares under the AFI Call Option and ending on 22 May 2019 to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AFI at the Transfer Price on the condition that AFI Call Option has been exercised by Wealthy Delight and Mr. Jin Xuekun resigns as the chief executive officer of the Company due to personal reason(s).

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred therein.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the sections headed "Directors' interests and short positions in shares, underlying shares and debentures" and "Share Option Scheme" above, at no time during the year ended 31 December 2016 was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company.

APPOINTMENT, REDESIGNATION AND CHANGE OF MEMBERS OF COMMITTEES

The following changes took effect from 18 January 2016:

(1) Upon the resignation of Mr. Hai Wen ("Mr. Hai") as an independent non-executive Director, Mr. Hai has resigned as a member of the audit committee and nomination committee and the chairman of the remuneration committee; and

(2) Mr. Xue Zhaofeng ("Mr. Xue") have been appointed as an independent non-executive Director. Mr. Xue has been appointed as a member of the audit committee and nomination committee and the chairman of the remuneration committee.

The following changes took effect from 26 August 2016:

(1) Ms. Liu Aihua resigned as an executive Director and a member of the Nomination Committee; and

(2) Mr. Gong Anmin has been appointed as an executive Director and a member of the Nomination Committee

COMPETING INTERESTS

None of the Directors and the substantial shareholders had any interests in any business, which competed with or might compete with the business of the Group.

All the independent non-executive Directors are delegated with the authority to review on an annual basis of the non-competition undertakings given by Ms. Zhao Yan in a deed of non-competition dated 3 September 2008 (an extract of the material terms of such undertakings had been set out in the prospectus of the Company dated 19 September 2008). Ms. Zhao confirmed that (a) she has provided all information necessary for the enforcement of her respective deed of non-competition as requested by the independent non-executive Directors from time to time; and (b) during the year ended 31 December 2016, she had complied with her non-competition undertaking. The independent non-executive Directors also confirmed that they were not aware of any non-compliance of the non-competition undertakings given by Ms. Zhao during the year ended 31 December 2016.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the Group's sales to the largest and five largest customers accounted for approximately 6.3% and 23.2% respectively of the Group's total revenue while the Group's purchase from the largest and five largest suppliers accounted for approximately 25.1% and 56.9% respectively of the Group's total purchases. During the year ended 31 December 2016, the aggregate sales to the five largest customers were less than 30% of the Group's total sales.

To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders, who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year under review.

CONNECTED TRANSACTIONS

On 6 November 2015, the Company and each of the 23 subscribers (the "Subscribers") entered into respective management subscription agreements (the "Management Subscription Agreements"), pursuant to which the Subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, an aggregate of 9,687,500 subscription shares (the "Management Subscription Shares"), in cash at the aggregate consideration of HKD116,250,000, being the subscription price of HKD12.00 per Management Subscription Share multiplied by the number of Management Subscription Shares (the "Management Subscription"). Please refer to the announcements of the Company dated 6 November 2015, 17 December 2015, and 8 January 2016, and the circular of the Company dated 2 December 2015, respectively for details of the transaction.

Mr. Jin Xuekun and Ms. Wang Aihua, being one of the Subscribers, are also executive Directors. Therefore each of Mr. Jin Xuekun and Ms. Wang Aihua are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the issue of the Management Subscription Shares to Mr. Jin Xuekun and Ms. Wang Aihua constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

The Management Subscription was completed on 8 January 2016 and an aggregate of 9,687,500 Management Subscription Shares, representing approximately 2.76% of the issued share capital of the Company as at 8 January 2016, were allotted and issued to the Subscribers at the aggregate subscription consideration of HKD116,250,000 under the specific mandate granted to the Board by the independent shareholders at the extraordinary general meeting of the Company held on 17 December 2015.

It is expected that the subscription of the Management Subscription Shares will incentivize and reward each of the Subscribers who has throughout his/her service shown tremendous contribution to the Group and is considered by the Board to be vital to the success and the long-term growth of the Group.

The net proceeds from the Management Subscriptions, (i) netting off applicable expenses, amounted to approximately HKD115,355,000, representing a net price of approximately HKD11.91 per Management Subscription Share; and (ii) netting off the loan made by the Company to the Subscribers of HKD98,812,500 and other applicable expenses, amounted to approximately HKD16,542,500.

As disclosed in the circular of the Company dated 2 December 2015, the net proceeds was expected to be used by the Company for working capital and general corporate purposes, including administrative expenses of the Group. As at 31 December 2016, the net proceeds has been fully utilized as planned as general working capital.

CONTINUING CONNECTED TRANSACTIONS

On 4 January 2016, Beijing Bloomage Hyinc Technology Company Limited, an indirect wholly-owned subsidiary of the Company ("Beijing Bloomage Hyinc") entered into a property leasing agreement (the "Property Leasing Agreement") with Beijing Bloomage Central Property Management Co., Ltd ("Bloomage Property"), pursuant to which Beijing Bloomage Hyinc agreed to lease from Bloomage Property certain properties located in Beijing, the PRC (the "Property") as office for a term from 1 January 2016 to 31 December 2016 at an annual rental cap of RMB6,745,861.2. On 30 December 2016, Beijing Bloomage Hyinc further entered into a property leasing agreement (the "Renewed Property Leasing Agreement") with Bloomage Property to renew the Property Leasing Agreement. Pursuant to the Renewed Property Leasing Agreement, Beijing Bloomage Hyinc agreed to lease from Bloomage Property the Property as office for a term from 1 January 2017 to 31 December 2017 at an annual rental cap of RMB6,745,861.2. As Bloomage Property is ultimately owned as to 100% by Ms. Zhao Yan, the controlling shareholder of the Company, the chairman of the Company and an executive Director, Bloomage Property is a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

As none of the applicable percentage ratios (other than the profits ratio) for each of the Property Leasing Agreement and the Renewed Property Leasing Agreement, on an annual basis, exceeds the 5% threshold under Rule 14A.76 of the Listing Rules, each of the Property Leasing Agreement and the Renewed Property Leasing Agreement is only subject to the reporting, annual review and announcement requirements and is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Details of the Property Leasing Agreement and the Renewed Property Leasing Agreement are set out in the announcements of the Company dated 4 January 2016 and 30 December 2016, respectively.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirm that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditors have also confirmed in writing to the Board that nothing had come to their attention which caused them to believe that:

- the above connected transactions had not been approved by the Board;
- the connected transactions had not been entered into, in all material respects, in accordance with the relevant agreement governing the transactions;
- the connected transactions had not been entered into, in all material respects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group; and
- the transaction amount for the above connected transactions in 2016 was not within the cap amount stipulated in the Property Leading Agreement as disclosed in the Company's announcement on 4 January 2016.

Save as disclosed above, the Directors consider that the material related party transactions disclosed in Note 33 to the financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules. The Company also confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

Save for the Management Subscription (details of which are set out in the paragraph headed "Purchase, sale or redemption of the Company's listed securities" in the section headed "Management's Discussion and Analysis" of this annual report), for the year ended 31 December 2016, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that the employees, customers and suppliers are the key to corporate sustainability and are keen on developing long-term relationships with these stakeholders.

The Group places significant emphasis on human capital and strives to foster an environment in which the employee can develop to their fullest potential and can assist their personal and professional growth. The Group provides a fair and safe workplace, promotes diversity to our staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance.

The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfy needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner.

The Group is also dedicated to develop good relationship with suppliers and customers as long-term business partners by ongoing communication in a proactive and effective manner.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has strictly complied with applicable environmental regulations and policies and adhered to the object of building green plants, devoting to environment protection, energy saving and safe production.

In the year of 2016, the key indicators of effluent discharge had met the standards. The manufacturing plant of hyaluronic acid had also successively passed site safety inspection and environmental completion inspection to ensure safe and environmental production.

The Group actively reviews its environmental protection activities from time to time in order to consider further implementation policies on environmental protection in the Group's business operations, thereby enhancing environmental sustainability.

COMPLIANT WITH RELEVANT LAWS AND REGULATIONS

During the year under review, to the best knowledge of the Board and the management, the Group is in compliance with applicable laws and regulations that may have significant effect on the business and operations of the Group.

Report of the Directors

MAJOR RISKS AND UNCERTAINTIES FACING THE COMPANY

In addition to exchange risk exposure as set out under the section headed "Management's Discussion and Analysis", the Group's business scatters across many countries around the world and is subject to laws and regulations in the localities. Any revision or change of applicable laws and regulations may have an adverse effect on the development of the Group's business. Changes in the relevant laws and regulations are therefore monitored regularly in order to respond to changes in a timely manner.

With intensifying competition in the market, the Group is also confronted with possibly intensified competition which could have an adverse effect on its price of products and profitability.

EVENTS AFTER THE REPORTING PERIOD

As disclosed in the paragraph headed "Acquisition Business" under the section headed "Management's Discussion and Analysis – Business Review" in this annual report, the Group entered into a sale and purchase agreement to acquire the entire equity interest in Revitacare France, a company incorporated in France which focuses on the research and development and sales of skin repair and hair growth products with powerful strength in preparation and formula. The Acquisition was completed on 19 January 2017.

Further details of the acquisition of Revitcare France and additional events after the reporting period are set out in Note 35 to the financial statements.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association, all directors, secretary or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which they may sustain or incur by reason of the execution of their duties. The Company has taken out liability insurance for directors and senior officers over the years, which provides the directors and officers of the Group with indemnity assurance in respect of the their potential liabilities arising from the Group's business activities.

AUDITORS

The financial statements for the year ended 31 December 2016 have been audited by the Group's auditors, KPMG (who shall retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting). A resolution for its re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhao Yan
Chairman

Hong Kong, 22 March 2017

Corporate Governance Report

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all shareholders.

During the year ended 31 December 2016, the Company had complied with all the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details of the Company's corporate governance for the year ended 31 December 2016 are summarized below.

BOARD OF DIRECTORS

As at 31 December 2016, the Board comprises eight Directors including four executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

Ms. Zhao Yan *(Chairman)*
Mr. Jin Xuekun *(Chief Executive Officer)*
Mr. Gong Anmin
Ms. Wang Aihua

Non-executive Director

Mr. Yau Wai Yan

Independent non-executive Directors

Ms. Zhan Lili
Mr. Li Junhong
Mr. Xue Zhaofeng

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance. The management is delegated with the authority and responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the board committees of the Company (the "Board Committees"). Further details in relation to the Board Committee are set out in the "Corporate Governance Report" section of this annual report. All Board members have separate and independent access to the Company's management to fulfil their duties, and upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. All Directors also have access to the company secretary who is responsible for ensuring that the Board procedures and all applicable rules and regulations are followed. An agenda accompanying Board or the Board Committee meeting materials are distributed to the Directors or the Board Committee members (as the case may be) with reasonable notice in advance of the meetings. Minutes of board meetings and meetings of Board Committees, which recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by the Directors or dissenting views expressed, are kept by the company secretary and are open for inspection by the Directors.

Key information regarding the Directors' academic and professional qualifications and other appointments are set out in the section headed "Biography of Directors and Senior Management" of this annual report.

The Company has complied with Rules 3.10(1) and 3.10A of the Listing Rules. During the year ended 31 December 2016, there were three independent non-executive Directors in the Board and the number of independent non-executive Directors represents at least one-third of the Board. The Company has also complied with Rule 3.10(2) of the Listing Rules, which stipulates that one of the independent non-executive Directors must possess appropriate professional qualifications or accounting or related financial management expertise. The Board considers that the independent non-executive Directors are all independent persons with appropriate qualifications or expertise and the Company has complied with the relevant requirements of the Listing Rules.

The Board is responsible for performing the corporate governance functions set out in code provision D.3.1 of the Code. As at the date of this annual report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct and (e) the Company's compliance with the Code disclosures requirements.

Ms. Zhao Yan and Mr. Jin Xuekun are business partners of companies which are outside the Group. Save as disclosed above, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between Board members and between the chairman of the Board ("Chairman") and the chief executive officer of the Company ("Chief Executive Officer").

CHAIRMAN AND CHIEF EXECUTIVE

Ms. Zhao Yan serves as the Chairman and Mr. Jin Xuekun serves as the Chief Executive Officer. They have separate defined responsibilities whereby the Chairman is primarily responsible for leadership and effective functioning of the Board, and the Chief Executive Officer is responsible for the day-to-day management of the Company's business and the effective implementation of corporate strategy and policies.

BOARD MEETINGS ATTENDANCE

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. During the financial year ended 31 December 2016, the Board held seven meetings and the individual attendance of the Directors at the board meetings is as follows:

	Attendance/ Number of meetings eligible to attend
Ms. Zhao Yan *(Chairman)*	7/7
Mr. Jin Xuekun *(Chief Executive Officer)*	7/7
Ms. Liu Aihua *(resigned on 26 August 2016)*	4/5
Mr. Gong Anmin *(appointed on 26 August 2016)*	2/2
Ms. Wang Aihua	7/7
Mr. Guo Jiajun *(resigned on 18 January 2016)*	2/2
Mr. Yau Wai Yan *(appointed on 18 January 2016)*	5/5
Ms. Zhan Lili	5/7
Mr. Hai Wen *(resigned on 18 January 2016)*	1/2
Mr. Li Junhong	5/7
Mr. Xue Zhaofeng *(apppinted on 18 January 2016)*	3/5

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT PROGRAMME

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities as a director under the Listing Rules and the relevant statutes, laws, rules and regulations. Directors' training is an ongoing process. During the year ended 31 December 2016, the Directors were provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to keep abreast of responsibilities as a director of the Company and to ensure then contribution to the Board remains informed and relevant. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2016, the Company had also organized briefing sessions conducted by the legal advisers of the Company, Sidley Austin as to Hong Kong laws and provided relevant training materials for the Directors.

The briefing sessions covered topics including the roles, functions and duties of a director of a listed company in compliance with the Code, listed company regulations and disclosure obligations of a decried compapny in Hong Kong such as, in the context of, disclosable transactions and connected transactions, etc.

According to the records provided by the Directors and maintained by the Company, a summary of training received by the Directors for the year ended 31 December 2016 is as follows:

	Attending seminar(s)/ conference(s) relevant to the business or directors' duties, and reading materials
Ms. Zhao Yan	√
Mr. Jin Xuekun	√
Ms. Liu Aihua (resigned on 26 August 2016)	√
Mr. Gong Anmin (appointed on 26 August 2016)	√
Ms. Wang Aihua	√
Mr. Guo Jiajun (resigned on 18 January 2016)	√
Mr. Yau Wai Yan (appointed on 18 January 2016)	√
Ms. Zhan Lili	√
Mr. Hai Wen (resigned on 18 January 2016)	√
Mr. Li Junhong	√
Mr. Xue Zhaofeng (appointed on 18 January 2016)	√

All the Directors also understand the importance of continuous professional development and are committed to participating in any suitable training to develop and refresh their knowledge and skills.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors (including Mr. Xue Zhaofeng who was appointed on 18 January 2016) a written annual confirmation confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent to the Company.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Ms. Zhao Yan has entered into a service contract for a term commencing from 18 June 2015 to the 2017 annual general meeting to be convened in 2018. Each of Mr. Jin Xuekun and Ms. Wang Aihua has entered into a service contract for a term commencing from 6 June 2016 to the 2018 annual general meeting to be convened in 2019. Mr. Gong Anmin has entered into a service contract for a term of two year commencing from 26 August 2016. Each of the executive Directors and the Company may terminate the appointment by giving the other party not less than three months' prior notice in writing. Mr. Yau Wai Yan has entered into a service contract for a term of three years commencing from 18 January 2016. Mr. Yau Wai Yan and the Company may terminate the appointment by giving the other party not less than one months' prior notice in writing. Ms. Zhan Lili has entered into a service contract for a term commencing from 18 June 2015 to the 2016 annual general meeting to be convened in 2017. Mr. Li Junhong has entered into a service contract for a term commencing from 28 February 2015 to the 2016 annual general meeting to be convened in 2017. Mr. Xue Zhaofeng has entered into a service contract for a term of three years commencing from 18 January 2016. Each of the independent non-executive Directors and the Company may terminate the appointment at any time during the term by giving the other party at least one month's notice in writing.

Pursuant to Article 86 of the Articles, any Director appointed by the Board to fill casual vacancy shall hold office until the first general meeting after his/her appointment, and shall be eligible for re-appointment at the relevant meeting. Any Director appointed by the Board as an additional member to the existing Board shall hold office only until the next annual general meeting of the Company, and shall be eligible for re-election and re-appointment. In accordance with Article 87 of the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

Pursuant to Article 86, Mr Gong Anmin, and pursuant to Article 87, Ms. Zhan Lili and Mr. Li Junhong will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company has also adopted the Model Code for the relevant employees.

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2016. Moreover, no incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

RESPONSIBILITIES OF DIRECTORS

All appointed Directors received comprehensive, formal training on the first occasion of their appointments and were ensured to have a proper understanding of the businesses and development of the Group and that they were fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

To facilitate the Directors to discharge their responsibilities, they are continuously updated with regulatory developments, business and market changes and the strategic development of the Group.

SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular board meeting, and so far as practicable in all other cases, an agenda and accompanying board meeting materials are sent in full to all Directors in a timely manner and at least 3 days before the intended date of a board meeting.

All Directors are entitled to have access to board papers, minutes and related materials.

AUDIT COMMITTEE

The primary duties of the audit committee of the Company (the "Audit Committee") are to review and supervise the financial reporting process and internal control procedures of the Group. The members of the Audit Committee consist of three independent non-executive Directors, namely Mr. Li Junhong, Ms. Zhan Lili and Mr. Xue Zhaofeng. Mr. Li Junhong, who possesses rich financial management experience and relevant expertise, is the chairman of the Audit Committee.

The written terms of reference of the Audit Committee adopted by the Board are in line with the provisions of the Code and are available on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2016, the Audit Committee has reviewed the Group's risk management and internal controls system. The Group's annual report for the year ended 31 December 2016 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee confirms that it is complete and accurate and in compliance with the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held three meetings during the year ended 31 December 2016, and performed major works as follows during the year under review:

1. reviewed the annual financial results and report for the year ended 31 December 2015 and interim financial results and report for the six months ended 30 June 2016;
2. reviewed the internal audit department's report regarding the review and procedures of the internal control and risk management of the Company;
3. reviewed the effectivies of the Company's internal audit function, and
4. provided opinions to the Board in respect of the terms of appointment of external auditors.

The attendance record of each member of the Audit Committee is as follows:

	Attendance/ Number of meetings eligible to attend
Mr. Li Junhong *(Chairman)*	3/3
Ms. Zhan Lili	3/3
Mr. Xue Zhaofeng *(Appointed on 18 January 2016)*	3/3
Mr. Hai Wen *(resigned on 18 January 2016)*	0/0

AUDITORS' REMUNERATION

During the year ended 31 December 2016, the fee incurred for audit and non-audit services provided by the auditors for the Group is approximately set out as follows.

Type of services	**2016**	2015
	RMB'000	*RMB'000*
Non-audit services	**40**	20
Audit services	**1,850**	1,750
	1,890	1,770

NOMINATION COMMITTEE

The primary duties of the nomination committee of the Company (the "Nomination Committee") are to make recommendations to the Board on the appointment of Directors and management of the Board's succession and to ensure that the candidates to be nominated as Directors are experienced, and high calibre individuals. The Nomination Committee consists of Mr. Gong Anmin, an executive Director and two independent non-executive Directors, namely Ms. Zhan Lili and Mr. Xue Zhaofeng. Ms. Zhan Lili is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year for reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors of the Company and other related matters.

The written terms of reference of the Nomination Committee adopted by the Board are in line with the provisions of the Code and are available on the websites of the Company and the Stock Exchange.

The Nomination Committee held three meeting during the year ended 31 December 2016, and performed the major work as follows during the year under review:

1. examined the structure, size and composition of the Board, to ensure the Directors have the expertise, skills and experience required to meet the Company's business;
2. assessed the independence of all independent non-executive directors of the Company; and
3. reviewed and discussed the appointment of Mr. Yau Wai Yan as the non-executive Director, Mr. Xue Zhaofeng as the independent non-executive Director and Mr. Gong Anmin as the executive Director to replace Mr. Guo Jiajun, Mr. Hai Wen and Ms. Liu Aihua respectively and made recommendations to the Board in this regard.

The attendance record of each member of the Nomination Committee is as follows:

	Attendance/ Number of meetings eligible to attend
Ms. Zhan Lili *(Chairman)*	3/3
Ms. Liu Aihua *(resigned on 26 August 2016)*	3/3
Mr. Gong Anmin *(appointed on 26 August 2016)*	0/0
Mr. Xue Zhaofeng *(appointed on 18 January 2016)*	2/2
Mr. Hai Wen *(resigned on 18 January 2016)*	1/1

At the meetings of the Nomination Committee, the Nomination Committee reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors, the qualification of the proposed Directors, the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy and other related matters of the Company.

DIVERSITY OF THE BOARD

The Stock Exchange issued certain amendments to the Code contained in Appendix 14 to the Listing Rules in relation to diversity of the members of the Board, effective on 1 September 2013. The amended Code provides that the Nomination Committee shall fully take into account the formation of the Board and relevant principles regarding appointment, re-election and dismission set out in the Code when performing their duties. In achieving the diversity of the members of the Board, the Board may consider various factors such as gender, age, cultural and educational background or professional experience. The terms of reference of the Nomination Committee had been amended to take into account its responsibilities to monitor the implementation of policy in relation to the diversity of the members of the Board.

The Group has adopted policies in relation to the diversity of the members of the Board and the summary of these policies is as follows:

(1) selection of Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service; and

(2) the Nomination Committee will monitor the implementation of the diversity policy from time to time to ensure the effectiveness of the diversity policy.

REMUNERATION COMMITTEE

The primary duties of the remuneration committee of the Company (the "Remuneration Committee") are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and other senior management. It will make recommendation to the Board on the remuneration packages of individual executive directors and senior management. The Remuneration Committee comprises Mr. Jin Xuekun, an executive Director and two independent non-executive Directors, namely Mr. Xue Zhaofeng and Mr. Li Junhong. Mr. Xue Zhaofeng is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once every year to discuss remuneration related matters. No executive Director is allowed to be involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the provisions of the Code and are available on the websites of the Company and the Stock Exchange.

The Remuneration Committee held three meeting during the year ended 31 December 2016, and performed the major work as follows during the year under review:

1. reviewed and discussed the remuneration policy and structure of the Company and the remuneration and performance of duties of the executive Directors and senior management and the terms of executive directors' service contracts in the year under review;
2. assessed performance of executive Directors;
3. made recommendation to the Board on the remuneration packages of individual executive directors and senior management; and
4. reviewed and discussed the terms regarding the Directors' remuneration, benefits and privilege of the appointment contracts for Mr. Yau Wai Yan, Mr. Xue Zhaofeng and Mr. Gong Anmin.

The attendance record of each member of the Remuneration Committee is as follows:

	Attendance/ Number of meetings eligible to attend
Mr. Xue Zhaofeng *(Chairman) (appointed as Chairman on 18 January 2016)*	2/2
Mr. Jin Xuekun	3/3
Mr. Li Junhong	3/3
Mr. Hai Wen *(resigned as Chairman on 18 January 2016)*	1/1

At the meeting, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages and performance of the Directors (including proposed Directors) for the year ended 31 December 2015.

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements for the year ended 31 December 2016. The statement of the independent auditors of the Company about their reporting responsibilities is net out on page 65 of the section "Independent Auditor's Report"in this annual report. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

INTERNAL CONTROL

The Board has overall responsibility to maintain a sound and effective internal control of the Company to safeguard the shareholders' investments and the Company's assets. The primary role of the internal audit function of the Group is to help the Board and senior management of the Group to protect the assets, reputation and sustainability of the Group. The Company will continue to review its risk management and internal control function on a regular basis.

The management has conducted a review during the year under review on the effectiveness of the system of risk management and internal control of the Group, covering all material controls including financial, operational, compliance controls and risks management functions with recommendations for improvement. The recommendations have been reviewed by the Audit Committee of the Board. The Board has adopted the recommendations of the Audit Committee to enhance the Group's system of risk management and internal control system. The Board is satisfied that such systems are effective and adequate.

COMPANY SECRETARY

Mr. Loong Ping Kwan ("Mr. Loong") has been the company secretary of the Company since May 2009 and resigned on 18 January 2016. Mr. Loong is a practising solicitor admitted in Hong Kong and is a founder and a partner of Messrs. Loong and Yeung in Hong Kong.

Mr. Yau Wai Yan ("Mr. Yau") has been appointed as the company secretary since 18 January 2016.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going communication with shareholders by way of annual general meetings or other general meetings and to encourage their arrive participation.

The Chairman and chairman of the Audit Committee, Nomination Committee and Remuneration Committee will make themselves available at the annual general meeting to meet with shareholders. The Company will ensure that there are separate resolutions for separate issues at general meetings.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on its business in a timely manner, subject to relevant regulatory requirement.

GENERAL MEETINGS WITH SHAREHOLDERS

There was one general meetings held during the year under review, which was the annual general meeting held on 6 June 2016. The attendance record of the Directors at the general meetings in 2016 was as follows:

Directors	Attendance/ Number of general meetings eligible to attend
Ms. Zhao Yan *(Chairman)*	1/1
Mr. Jin Xuekun	1/1
Ms. Liu Aihua	1/1
Ms. Wang Aihua	1/1
Mr. Yau Wai Yan	1/1
Ms. Zhan Lili	1/1
Mr. Li Junhong	1/1
Mr. Xue Zhaofeng	1/1

The Company's external auditor also attended the annual general meeting held on 6 June 2016.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing for the attention of the company secretary of the Company at the Company's principal place of business in Hong Kong at Room 501, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

Pursuant to Article 58 of the Articles of Association, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist (s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist (s) as a result of the failure of the Board shall be reimbursed to the requisitionist (s) by the Company.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to Article 88 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice (s) are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice (s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Shareholders may at any time lodge the aforesaid requisition or notice to the Board in writing for the attention of the company secretary of the Company at the Company's principal place of business in Hong Kong at Room 501, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at www.bloomagebio-tech.com.

During the year ended 31 December 2016, there had been no significant change in the Company's constitutional documents.

Environmental, Social & Governance Report

INTRODUCTION

This is the first environmental, social and governance (the "ESG") report (the "ESG Report") of Bloomage BioTechnology Corporation Limited (the "Company" and together with its subsidiaries, the "Group") for the year ended 31 December 2016. The principal activities of the Company involved development, manufacture and sales of raw materials and end products for a diversified range of hyaluronic acid, and is a leading provider of medical aesthetics products and services in the PRC and one of the world's largest producers of HA raw materials.

The Company believes that this ESG Report enables the Company to communicate the Group's sustainability related matters in a transparent and accountable manner, which is key to gaining the trust of its stakeholders. The Group is committed to making continuous contribution to the sustainable development in the PRC, and fulfilling its corporate social responsibilities at various operational levels thereby contributing to a better environment for the next generation. This ESG Report provides an overview of the Group's performance related to areas of the environment, community, employment and labor practices and operation convention for the year ended 31 December 2016, with a coverage of the Company's PRC operations.

Reporting Standard and Scope

This ESG Report has been prepared by the management of the Group and approved by the Board, with reference to the ESG Reporting Guide as set forth under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. This ESG Report describes the initiatives of the Group and its progress with regard to ESG issues for the period from 1 January 2016 to 31 December 2016.

OVERVIEW OF SUSTAINABILITY PRACTICES OF THE COMPANY

Since its establishment, the Company has been placing increasing emphasis on sustainable development which is in line with the Group's role as the leading player in the medical aesthetics product market in the PRC, and reflects the Group's continual commitment to environmental protection and social contributions. The Report illustrates the Company's policies and philosophies to further its performance with respect to core sustainability initiatives, namely, environmental, employment and labour practices, operating practices and community. These core sustainability initiatives underlie the various key business decisions made by the Group in its operations and demonstrates the willingness of the Group to create a better environment and to enhance greater returns for its stakeholders, including its employees, shareholders, customers, suppliers, and local communities etc.

ENVIRONMENT

The Group always strictly complies with environmental laws and regulations such as PRC Environmental Protection Law (《中華人民共和國環境保護法》), PRC Law on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), PRC Law on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》 and takes the initiative to strengthen management in environmental protection and energy conservation with an objective to (i) minimize the adverse impact that its operations may bring to the environment; and (ii) promote a more harmonious development of the Group by adopting a more sustainable means of operations.

The Group has established a special working committee to lead the work relating to energy saving. By setting up tools and apparatus that are reasonably necessary, the Group has maintained a good record of energy consumption and statistical analysis. The Group has also commenced the promotion of energy saving and gathered justified proposals for energy saving. One of the measures to actively increase our energy saving efforts is to encourage the improvement of energy saving technologies. Meanwhile, environmental assessments have been carried out for all construction projects of the Group, and such projects have passed the environmental inspection for completion.

During 2016, the Group carried out 12 clean production schemes, mainly comprised technological adjustment of sewage treatment process and the re-use of water though the ring vacuum pump water recycling process, to reduce energy consumption and pollutant emissions, to realized savings in water, natural gas, power and packaging materials.

In 2016, the Group did not have any environmental pollution accident and was not subject to any complaints, fines and sanctions due to environmental pollution or breaches of environmental regulations. For the year ended 31 December 2016, the Group has therefore complied with all relevant laws and regulations in relation to the pollutant emission that have a significant impact on the Company.

EMPLOYEES

The Group and each of its subsidiaries have complied with the relevant employment laws and regulations of their respective place of registration, such as the Labor Law of the People's Republic of China (中華人民共和國勞動法) and the Employment Ordinance in Hong Kong. The Group adopts a hiring criteria such that the Group recruits employees who are voluntarily employed, and it strictly prohibits any practice of charging referral fees, receiving security deposits, and detaining identification documents within the Group. Also, the Group strictly adheres to Social Responsibilities SA 8000 to ensure that its employees are entitled to statutory benefits such as insurance and statutory holidays and that no child labour and forced labour are employed by the Group. When the Group make job offers the practice is to retain a copy of identification documents of new employees and verify their age so that the Group can avoid making job offers to children. The Group have also formulated relevant policies and remedial measures including Child Labour and Underage Management Procedure (童工及未成年管理程序) which effectively prevent the Group from employing child labour and protect the rights of child and juvenile employees. Any practice of forcing labour to work against their will, and any practice of extorting interests and services from employees by threats of penalties is prohibited to fulfill our greater social responsibilities.

The Company rewards its employees with competitive remuneration packages and fringe benefits which commensurate with their experience and job task. The Group did not breach any relevant laws and regulations in respect of employment and labor practices in the year ended 31 December 2016.

The Group is concerned with the development and accumulation of our human resources. The Group have adopted a policy of diversity and has adopted a comprehensive appraisal system which assesses the competence of employees for training, job rotation and internal promotion so that employees are provided with an equal opportunity of development and are not differently treated by reason of their gender, age, geographical origin, nationality, race and religious belief. For the development needs, employees are encouraged to attend regular internal and external training courses unleash their own potential and develop their expertise so that they can actualize their own value while serving the Group.

In compliance with GMP regulations and national law and regulations including IS09001:2015 and IS013485:2008, the Group has developed various ways of training for our employees. In 2016, a total of 562 internal and external training courses were organized for the employees of the Group, covering topics such as management knowledge, marketing, latest law and regulations, job-based knowledge and skills, and orientation for new employees. Such training courses have created an atmosphere of life-long learning for all employees.

The Company provides opportunities of external training for employees and bears such training expenses.

	Internal training	**External training**	**Total**
Number of training courses	512	50	562
Number of employees attended	7,340	500	7,840

PRODUCTION SAFETY

The fundamental concern of the Group is the safety of our employees and production. A occupational health and safety management system has been established by incorporating the relevant requirements of laws and regulations including Production Safety Law of the People's Republic of China (中華人民共和國安全生產法), Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法) and Fire Control Law of the PRC (中華人民共和國消防法) with the circumstances of our actual operation. By managing our safety goals, safety training, safety inspection, risk identification, risk assessment and contingency plans, and our insistence on the principle of prevention, there was no material safety incident in 2016. Also, a system for the grading of occupational diseases and the control of potential risks has been established to identify the risks and hidden dangers for occupational diseases in each department, workplace and position. Control measures were also specifically proposed to deal with such hazardous factors. Such measures include equipping our labour with protective gears and ear protectors and the provision of occupational health check for employees, which strive to keep our employees away from occupational diseases.

For the year ended 31 December 2016, the Group has complied with all relevant laws and regulations in relation to the health and safety of the employees that have a significant impact on the Company.

SUPPLY CHAIN MANAGEMENT

The Group maintains a list of qualified suppliers. To be eligible to register themselves in the list, suppliers must pass the assessments in relation to sample appraisal, on-site review, proof of research and development as well as production. Furthermore, the supply history of each supplier and the handling history of substandard products will be assessed annually to eliminate suppliers which fail to meet the standard. Thus, the product quality of the Group can be assured from the initial stage.

Environmental, Social & Governance Report

PRODUCT LIABILITY

The Group has complied with the Product Quality Law of the People's Republic of China (中華人民共和國產品質量法), Provisions on Indicating Product Identification (產品標識標注管理規定), Law of the People's Republic of China on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法) and Advertising Law of the People's Republic of China (中華人民共和國廣告法). Under such laws and regulations, the Group have commenced the production of our products and carried out the activities for product health and safety, product inspection, product identification and product promotion. A recall system has been implemented for products which are defective and contain hazardous problems. Recall procedures will be followed within 24 hours upon reports of products' hazardous problems. Such defective products will be recalled via regulated and well-established channels. Plans and details of recalls will also be reported to the relevant government authorities as soon as possible. In addition, to ensure the smooth implementation of the recall system and minimizing the damage that might be suffered by society and the people, the Group carries out a recall drill annually. Further, the Company adheres to strict ethical principles against deceptive or unfair advertisements in order to ensure fair market competition. In 2016, there was no safety or quality issue which required us to recall our products. For the year ended 31 December 2016, the Group has complied with all relevant laws and regulations in relation to product responsibility that have a significant impact on the Company.

ANTI-CORRUPTION

The Group has complied with Contract Law of the People's Republic of China (中華人民共和國合同法), Economic Law of the People's Republic of China (中華人民共和國經濟法) and the Bidding Law of the People's Republic of China (中華人民共和國招投標法). Under such laws and regulations, the Group have established an auditing and monitoring system and strengthened our internal control. Also, regarding procurement, the Group have establish a procurement system, under which public bidding is required for the procurement of substantial goods and equipment and price comparison is required for small-scale procurement. Thus, various undesirable conducts during the process of procurement can be prohibited. For the year ended 31 December 2016, the Group has complied with all relevant laws and regulations in relation to anti-corruption that have a significant impact on the Company.

COMMUNITY INVESTMENTS

The Group is concerned with its harmonious development with the neighboring community and is an active investor in terms of safety production, environmental protection and energy saving. In 2016, the selection panel of experts for the campaign "Three Aspects of Grading with an Evaluation" (三評級一評價), which was initiated by Shandong Province over enterprises, unanimously recognized the management efforts of Bloomage Biopharm and Shandong Bloomage Hyinc in terms of safety production, environmental protection and energy saving. Bloomage Biopharm obtained a certificate for passing the level 3 standard inspection for safety, and was awarded as a "Model Unit of Fire Drill for the People" (百萬群眾消防演練示範單位) by Jinan Fire Department. Shandong Bloomage Hyinc was awarded as a "Provincial Hi-Tech Industrial Development Zone's Leading Working Unit" (高新區省級生態工業園區創建工作先進單位) by the Environmental Protection Bureau of Hi-Tech Industrial Development Zone of Jinan (濟南市高新區環保局), and a "Jinan's Leading Safety Production Unit" (濟南市安全生產先進單位) by Jinan Administration of Work Safety (濟南市安監局).

Independent Auditor's Report

Independent Auditor's Report to the Shareholders of
Bloomage BioTechnology Corporation Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Bloomage BioTechnology Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 163, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirement and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Revenue recognition: sales to distributors	
Refer to note 4 to the consolidated financial statements and the accounting policies on page 92.	
The Key Audit Matter	**How the matter was addressed in our audit**
Revenue of the Group mainly comprises sales of Hyaluronic acid ("HA") raw material products, HA end products and cosmetic products and devices. The HA raw material products business is a mature business whilst the HA end products business and trading of cosmetic products and devices are relatively new businesses which are the key contributors to the Group's revenue growth. Sales of HA end products and cosmetic products and devices are mainly to distributors. The Group enters into distribution agreements with its distributors which can include complex terms that impact the timing and amount of revenue recognition, including the right of return of the products sold and sales rebates. The Group evaluates the terms of individual contracts in order to determine the appropriate timing and amount for revenue recognition. Revenue from sales of the Group's HA end products and cosmetic products and devices is generally recognised when the Group delivers the goods to the locations designated by the distributors whereupon the significant risks and rewards of ownership of the goods are considered to have been transferred to the distributors. We identified revenue recognition from sales to distributors as a key audit matter because the complex terms in the distribution agreements require significant management estimation and judgement in determining the timing and amount of revenue recognition which increases the risk of error in revenue recognition and because revenue is one of the key performance indicators of the Group and is assessed in determining the compensation of management therefore there is an inherent risk of manipulation of the timing and amount of revenue recognition by the management to meet specific targets or expectations.	Our audit procedures to assess the recognition of revenue from sale to distributors included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting key customer contracts to identify terms and conditions relating to goods acceptance, the right of return and rebate arrangements and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • scrutinising all manual journal entries raised during the year which related to revenue and inspecting underlying documentation for journal entries which were considered to be material or met other specified risked-based criteria; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation including goods delivery notes and evidence of the acceptance of the goods sold by distributors to determine whether the related revenue had been recognised in the appropriate financial period; • inspecting details of the ownership of major distributors in the National Enterprise Credit Information Publicity System to identify if there were any undisclosed related party relationships between the Group and these distributors; • inspecting a sample of credit notes issued and sales rebates granted during the financial year and after the financial year end and evaluating whether the related adjustments to revenue had been recorded in the appropriate financial period.

Valuation of trade receivables	
Refer to note 20 to the consolidated financial statements and the accounting policies on page 82.	
The Key Audit Matter	**How the matter was addressed in our audit**
As at 31 December 2016, trade receivables amounted to RMB274 million, which included trade receivables of RMB96 million due from a number of independent customers, which mainly comprised distributors, which were past due. The Group's provisions for doubtful debts are based on management's estimate of the expected credit losses to be incurred, which is estimated by taking into account the credit history of the Group's distributors and current market and customer-specific conditions all of which involve a significant degree of management judgement. The Group's provision for doubtful debts includes a specific element based on individual debtors and a collective element based on historical experience adjusted for certain current factors. We identified the valuation of trade receivables as a key audit matter because some of the Group's customers are facing challenges in terms of profitability and liquidity which increases the risk that individual trade receivables may not be recoverable and because assessing the appropriate level of provisions for doubtful debts involves the exercise of significant management judgement.	Our audit procedures to assess the valuation of trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, debt collection and making provisions for doubtful debts; • assessing whether items were appropriately categorised in the trade receivables ageing report by comparing a sample of individual items with the underlying sales invoices and goods delivery notes; • obtaining an understanding of the basis of management's judgement about the recoverability of individual material balances and evaluating the provisions for doubtful debts made by management for these individual balances with reference to the debtors' financial condition, the ageing of overdue balances, historical and post year-end payment records; • assessing the assumptions and estimates made by the management for the provisions for doubtful debts calculated based on a collective assessment by performing a retrospective review of the historical accuracy of these estimates; • inspecting cash receipts from customers subsequent to the financial year end relating to trade receivable balances at 31 December 2016, and assessing the need for provisions for the debtors which were not settled subsequent to the financial year end, which included inspecting correspondence between the Group and its debtors to identify any disputes and settlement arrangements agreed with the debtors.

Valuation of an exclusive distribution right	
Refer to note 13 to the consolidated financial statements and the accounting policies on page 84.	
The Key Audit Matter	**How the matter was addressed in our audit**
The carrying value of an exclusive distribution right, which was acquired by the Group for the distribution of Laboratoires Vivacy SAS ("Vivacy")'s products in certain countries in the Asia-Pacific region and is recorded as part of intangible assets in the consolidated financial statements, amounted to RMB196 million and accounted for 8% of the Group's total assets as at 31 December 2016. The profits generated from the use of the exclusive distribution right have not matched expectations since the acquisition of the exclusive distribution right. There is a risk that the value of the exclusive distribution right may not be recoverable in full through the future cash flows to be generated from its continued use or from its disposal. The recoverable amount of the exclusive distribution right is determined by management at the greater of the value in use and the fair value less cost of disposal. Management assessed the value in use by preparing a discounted cash flow forecast. The preparation of a discounted cash flow forecast involves the exercise of significant management judgement, in particular in estimating future revenue and gross margins and determining an appropriate discount rate. We identified valuation of the exclusive distribution right as a key audit matter because the balance of the exclusive distribution right is significant to the consolidated financial statements and because the identification of indicators of potential impairment and the determination of the recoverable amounts of the asset involves the exercise of significant management judgement and estimation which could be subject to potential management bias.	Our audit procedures to assess the valuation of the exclusive distribution right included the following: • assessing the internal and external impairment indicators identified by management and using our internal valuation specialists to assist us in evaluating the methodology used by management in the preparation of the discounted cash flow forecast, with reference to the requirements of the prevailing accounting standards; • comparing the most significant inputs used in the discounted cash flow forecast, including future revenue and future gross margins, with historical performance, management's forecasts, budgets approved by the board of directors and available industry reports; • assessing the discount rate used in the discounted cash flow forecast by benchmarking against those of similar companies in the same industry; • performing a sensitivity analysis of both the discount rate applied and major assumptions, including future revenue and future gross margins, and considering the resulting impact on the value in use calculation and whether there were any indicators of management bias; • considering the disclosures in the consolidated financial statements in respect of impairment assessment of the exclusive distribution right, including the key assumptions and sensitivities to changes in such assumptions, with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Cheung Tsz Chung.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Revenue	4	**844,388**	650,868
Cost of sales		**(251,959)**	(163,629)
Gross profit		**592,429**	487,239
Other revenue	5	**26,752**	15,799
Distribution costs		**(128,744)**	(107,070)
Administrative expenses		**(175,753)**	(141,910)
Other operating (expenses)/income, net		**(932)**	569
Profit from the operation		**313,752**	254,627
Finance costs	6(a)	**(45,383)**	(16,727)
Share of profits less losses of associates		**20,481**	91
Share of loss of a joint venture		**(27)**	(66)
Profit before taxation	6	**288,823**	237,925
Income tax	7	**(60,723)**	(47,530)
Profit for the year		**228,100**	190,395
Other comprehensive income for the year (after tax adjustments):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(1,737)**	(23)
Share of other comprehensive income of equity-accounted investees		**10,999**	5,841
Other comprehensive income for the year		**9,262**	5,818
Total comprehensive income for the year		**237,362**	196,213

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Profit attributable to:			
Equity shareholders of the Company		**228,101**	190,393
Non-controlling interests		**(1)**	2
Profit for the year		**228,100**	190,395
Total comprehensive income attributable to:			
Equity shareholders of the Company		**237,358**	196,211
Non-controlling interests		**4**	2
Total comprehensive income for the year		**237,362**	196,213
Earnings per share (RMB)			
Basic	10(a)	**0.630**	0.565
Diluted	10(b)	**0.620**	0.553

The notes on pages 75 to 163 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 30(b).

Consolidated Statement of Financial Position

at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment, net	11	**331,994**	362,731
Construction in progress	12	**16,768**	5,383
Intangible assets	13	**199,492**	208,093
Lease prepayments	14	**57,852**	59,161
Interest in associates	16	**278,642**	240,949
Interest in a joint venture	17	**17,862**	—
Deferred tax assets	28(b)	**10,864**	11,615
Other non-current assets	18	**125,775**	35,723
Total non-current assets		**1,039,249**	923,655
Current assets			
Inventories	19	**178,702**	117,592
Trade and other receivables	20	**324,436**	251,874
Restricted cash	21	**230,000**	255,000
Cash and cash equivalents	21	**646,887**	651,050
Total current assets		**1,380,025**	1,275,516
Current liabilities			
Bank loans	23	**220,000**	472,873
Trade and other payables	24	**77,018**	117,801
Current portion of preferred shares	25	**12,461**	11,538
Income tax payable	28(a)	**18,860**	21,888
Total current liabilities		**328,339**	624,100
Net current assets		**1,051,686**	651,416
Total assets less current liabilities		**2,090,935**	1,575,071
Non-current liabilities			
Bank loans	23	**128,860**	—
Preferred shares	25	**35,398**	39,933
Convertible bonds	26	**360,948**	326,938
Deferred income	29	**13,483**	16,243
Total non-current liabilities		**538,689**	383,114
NET ASSETS		**1,552,246**	1,191,957

The notes on pages 75 to 163 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
CAPITAL AND RESERVES			
Share capital	30(c)	**3,219**	3,117
Reserves	30(d)	**1,548,970**	1,188,787
Total equity attributable to equity shareholders of the Company		**1,552,189**	1,191,904
Non-controlling interests		**57**	53
TOTAL EQUITY		**1,552,246**	1,191,957

Approved and authorised for issue by the board of directors on 22 March 2017.

Zhao Yan
Director

Jin Xuekun
Director

The notes on pages 75 to 163 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

		Attributable to equity shareholders of the Company								
	Note	Share capital RMB'000	Share premium RMB'000 30(d) (i)	Statutory reserve RMB'000 30(d) (ii)	Exchange reserve RMB'000 30(d) (iii)	Other reserve RMB'000 30(d) (iv)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		2,969	97,308	61,192	(3,314)	104,044	490,257	752,456	51	752,507
Changes in equity for 2015:										
Profit for the year		—	—	—	—	—	190,393	190,393	2	190,395
Other comprehensive income		—	—	—	5,818	—	—	5,818	—	5,818
Total comprehensive income for the year		—	—	—	5,818	—	190,393	196,211	2	196,213
Equity settled share-based transactions		—	—	—	—	26,538	—	26,538	—	26,538
Appropriation to statutory reserve		—	—	20,941	—	—	(20,941)	—	—	—
Shares issued on the exercise of share options granted under share option scheme		17	9,581	—	—	(2,226)	—	7,372	—	7,372
Equity component of convertible bonds		—	—	—	—	59,627	—	59,627	—	59,627
Issuance of new shares		131	156,147	—	—	—	—	156,278	—	156,278
Dividends for the year ended 31 December 2014	30(b)	—	—	—	—	—	(6,578)	(6,578)	—	(6,578)
		148	165,728	20,941	—	83,939	(27,519)	243,237	—	243,237
Balance at 31 December 2015		3,117	263,036	82,133	2,504	187,983	653,131	1,191,904	53	1,191,957

The notes on pages 75 to 163 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Note	Attributable to equity shareholders of the Company								
		Share capital	Share premium	Statutory reserve	Exchange reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			30(d) (i)	30(d) (ii)	30(d) (iii)	30(d) (iv)				
Balance at 1 January 2016		3,117	263,036	82,133	2,504	187,983	653,131	1,191,904	53	1,191,957
Changes in equity for 2016										
Profit for the year		—	—	—	—	—	228,101	228,101	(1)	228,100
Other comprehensive income		—	—	—	9,257	—	—	9,257	5	9,262
Total comprehensive income for the year		—	—	—	9,257	—	228,101	237,358	4	237,362
Appropriation to statutory reserve		—	—	22,745	—	—	(22,745)	—	—	—
Dividends for the year ended 31 December 2015	30(b)	—	—	—	—	—	(8,350)	(8,350)	—	(8,350)
Equity settled share-based transactions		—	—	—	—	22,852	—	22,852	—	22,852
Shares issued on the exercise of share options granted under share option scheme		20	12,347	—	—	(2,313)	—	10,054	—	10,054
Issuance of shares to directors and employees at discount		82	99,865	—	—	(1,576)	—	98,371	—	98,371
		102	112,212	22,745	—	18,963	(31,095)	122,927	—	122,927
Balance at 31 December 2016		3,219	375,248	104,878	11,761	206,946	850,137	1,552,189	57	1,552,246

The notes on pages 75 to 163 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations	21(b)	**243,454**	193,245
PRC income tax paid		**(63,000)**	(39,268)
Interest received on cash at bank		**2,680**	5,184
Net cash generated from operating activities		**183,134**	159,161
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress and intangible assets		**(33,578)**	(266,974)
Government grants received		**—**	7,750
Payments for acquisition of interest in associates and a joint venture		**(30,356)**	(230,083)
Loans paid by employees		**1,152**	—
Decrease/(increase) in restricted cash		**25,000**	(239,197)
Proceeds from disposal of available-for-sale financial assets		**—**	80,000
Investment income received from available-for-sale financial assets		**1,499**	2,494
Deposits made in relation to certain proposed acquisitions		**—**	(35,723)
Net cash used in investing activities		**(36,283)**	(681,733)
Financing activities			
Proceeds from exercise of share options		**10,054**	7,372
Proceeds from issuance of convertible bonds, net of issuing expenses		**—**	379,817
Proceeds from issuance of shares to directors and employees		**14,755**	—
Proceeds from issuance of new shares, net of issuing expenses		**—**	156,278
Proceeds from bank loans		**348,860**	454,362
Repayment of bank loans		**(488,880)**	—
Interests paid		**(25,959)**	(5,304)
Dividends paid on preferred shares		**(11,538)**	(10,683)
Dividends paid to equity shareholders of the Company		**(8,350)**	(6,578)
Net cash (used in)/generated from financing activities		**(161,058)**	975,264
Net (decrease)/increase in cash and cash equivalents		**(14,207)**	452,692
Cash and cash equivalents at 1 January		**651,050**	187,840
Effect of foreign exchange rate changes		**10,044**	10,518
Cash and cash equivalents at 31 December	21(a)	**646,887**	651,050

The notes on pages 75 to 163 form part of these financial statements.

1 CORPORATE INFORMATION

Bloomage BioTechnology Corporation Limited (the "Company", and together with its subsidiaries, the "Group") was incorporated in the Cayman Islands on 3 April 2006 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. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 October 2008. The Group is principally engaged in the manufacture and sale of bio-chemical products (including hyaluronic acid ("HA") raw materials and end products) and trading of cosmetic products and medical devices through its principal subsidiaries Bloomage Freda Biopharmaceutical Co., Ltd. ("Bloomage Biopharm"), Beijing Bloomage Hyinc Technology Company Limited ("Beijing Bloomage Hyinc"), Shandong Bloomage Hyinc Biopharm Company Limited ("Shandong Bloomage Hyinc") and Fumax Investment Limited and investment holding in associates and a joint venture engaging in design, development, manufacturing and sales of cosmetic products.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and the Group's interest in associates and a joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis except that available-for-sale financial assets are stated at their fair values (see Note 2(f)).

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

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

Judgements made by management in the application of IFRSs that have significant effect on these consolidated financial statements and major sources of estimation uncertainty are discussed in Note 3.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company's principal subsidiaries operating in the PRC. The Company's functional currency is Hong Kong dollar ("HKD").

(c) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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

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

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 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.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(j)).

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Associates and joint ventures *(continued)*

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

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

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

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

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

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

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see Note 2(j)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Available-for-sale financial assets

The investments in securities, other than investments in subsidiaries, which do not fall into any other categories are classified as available-for-sale financial assets. These investments are initially stated at fair value, which is their transaction price. Cost includes attributable transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Investment income from these investments is recognised in profit or loss in accordance with the policy set out in Note 2(v) (v). When these investments are derecognised or impaired (see Note 2(j)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Property, plant and equipment and construction in progress

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the statement of financial position at cost less impairment losses (see Note 2(j)). Cost comprises the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(x)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment and construction in progress *(continued)*

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 years
Plant and machinery	5-10 years
Motor vehicles	5 years
Office equipment and others	5 years

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

(h) Intangible assets

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Intangible assets *(continued)*

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

Technology know-how	10-20 years
Software	2-10 years
Exclusive distribution right	10 years

Both the period and method of amortisation are reviewed annually.

(i) Leased assets

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

(i) Classification of assets leased to the Group

Assets that are held by 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) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets *(continued)*

(iii) 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 assets. 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.

Lease prepayments (see Note 14) represent cost of land use rights paid to the government authority. Land use rights are carried at cost less accumulated amortisation and impairment losses (see Note 2(j)). Amortisation is charged to profit or loss on a straight-line basis over the lease period of land use rights.

(j) Impairment of assets

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

Investments in securities and trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

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

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

— For trade and other current receivables 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 carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

— For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

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

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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

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;

— construction in progress;

— intangible assets;

— lease prepayments; and

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

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

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell (if measurable), or value in use (if determinable).

— Reversals of impairment loss

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 years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Inventories

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

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

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

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

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interests method, less allowance for impairment of doubtful debts (see Note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Convertible bonds

Convertible bonds that can be converted into equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Convertible bonds *(continued)*

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserve until either the bond is converted or redeemed.

If the bond is converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the other reserve is released directly to retained earnings.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Preferred share capital

Preferred share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preferred share capital classified as equity are recognised as distributions within equity.

Preferred share capital is classified as a liability if it is redeemable on a specific date or at the option of the holder of the preferred shares, or if dividend payments are not discretionary. The liability is recognised in accordance with the Group's policy for interest-bearing borrowings set out in Note 2(n) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Warrants

The issue of warrants will be settled by the exchange of fixed amount of cash for a fixed number of the Company's own equity instruments.

The fair value of warrants on the date of issue is recognised in warrant reserve, or other reserve when this is related to share-based payments to directors and employees (see Note 2(s) (ii)). The warrant reserve will be transferred to share capital and share premium upon exercise of the warrants, where the warrants remain unexercised at the expiry date, the amount previously recognised in warrant reserve will be released to the retained earnings.

(r) 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.

(s) Employee benefits

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Employee benefits *(continued)*

(ii) Share-based payments

The fair value of shares, share options (including those settled by the controlling shareholder) and warrants (net of net proceeds received from the issues of shares, share options and warrants) granted to directors and employees is recognised as an employee cost with a corresponding increase in other reserve within equity. The fair value of shares is measured at grant date market price taking into account the effect of the restriction, if any, on transferring. The fair value of share options and warrants is measured at grant date using Dividend Adjusted Black-Scholes Options Pricing model, taking into account the terms and conditions upon which the options and warrants were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares, options and warrants, the total estimated fair value of the shares, options and warrants is spread over the vesting period, taking into account the probability that the shares, options and warrants will vest.

During the vesting period, the number of shares, share options (including those settled by the controlling shareholder) and warrants 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 with a corresponding adjustment to other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of shares, options and warrants that vest (with a corresponding adjustment to other 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 other reserve until either the options and warrants are exercised and shares are issued (when it is transferred to the share premium account) or the options and warrants expire (when it is released directly to retained earnings).

(iii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case 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 year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

Apart from certain limited exception, 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax *(continued)*

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

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 reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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

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

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

  - the same taxable entity; or

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Provisions and contingent liabilities

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

(v) Revenue recognition

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

(i) Sales of goods

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

(ii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Revenue recognition *(continued)*

(iii) Rental income from operating lease

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) Interest income

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

(v) Investment income on available-for-sale financial assets

Investment income on available-for-sale financial assets is recognised when the holder's right to receive payment is established.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) 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.

(y) 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 entity.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the 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 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of these consolidated financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing these consolidated financial statements. The significant accounting policies are set forth in Note 2. Note 27 contains information about the assumptions and their risk factors relating to fair value of shares, share options and warrants granted to the directors and employees. In addition, the Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(a) Impairment for non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36, *Impairment of assets*. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less cost to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price, amount of operating costs and discount rate. 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 sale volume, selling price and amount of operating costs.

(b) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into the account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) Withholding tax

Withholding tax is recognised on profits of Bloomage Biopharm and other PRC established subsidiaries which are to be distributed to their overseas holding companies in the foreseeable future. Note 28(c) contains information on the unrecognised deferred tax liabilities relating to the undistributed profits of the PRC established subsidiaries as the Company controls the dividend policy of the PRC established subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future. Any significant change in the dividend policy of the PRC established subsidiaries would result in adjustment in the amount of withholding tax charged to profit or loss for the period and deferred tax liabilities recognised as at the end of the reporting period.

(e) Impairment of interest in the associates

In determining whether an interest in the associates is impaired or the event previously causing impairment no longer exists, the Group has to exercise judgement in the area of impairment of assets relevant to the associates (the "Relevant Assets"), particularly in assessing: (1) whether an event has occurred that may affect the value of Relevant Assets or such event affecting the value of Relevant Assets have not been in existence; (2) whether the carrying value of Relevant Assets can be supported by the net present value of future cash flows which are estimated based upon the continued use of the Relevant Assets or de-recognition; (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate and (4) dividend policy of the associates.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents the sales value of goods sold, net of value-added tax.

	2016	2015
	RMB'000	RMB'000
Sales of self-produced products:		
– HA raw materials	**458,015**	396,932
– HA end products	**294,786**	243,360
Revenue from trading of cosmetic products and medical devices	**91,587**	10,576
	844,388	650,868

The Group's customer base is diversified and includes no customer (2015: no customer) with whom transactions have exceeded 10% of the Group's revenues. Details of concentrations of credit risk arising from the largest customer and the five largest customers are set out in Note 31(a).

(b) Segment reporting

Segment information disclosed in the financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments.

The Group completed an update of its long-term business strategy in 2016. This strategic update along with the establishment of a separate business line for trading of cosmetic products and devices led to a reassessment of the operating segments. As a result, the Group revised the reportable segments to better align with the current management of the businesses. The Group presented two reportable segments before 2016, namely domestic customers and overseas customers, for which business were mainly derived from the production and sale of bio-chemical products. The Group has presented the following two reportable segments for the year ended 31 December 2016. The corresponding segment information for the comparative period presented in the financial report has been restated to reflect the new reporting segment presentation. No operating segments have been aggregated to form the following reportable segments.

- production and sale of HA raw materials and end products: this segment manages and operates manufacturing plants and generates income from production and sale of HA raw materials and end products to external customers; and
- trading of cosmetic products and medical devices: this segment purchases cosmetic products and devices from external suppliers and sells them to external customers.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results, assets and liabilities

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

Segment assets include all tangible assets, intangible assets and current assets with the exception of interest in associates and deferred tax assets. Segment liabilities include trade and other payables, deferred income, preferred shares and bank loans managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint venture.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation". To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

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

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results, assets and liabilities *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 are set out below.

	Production and sale of HA raw materials and end products		Trading of cosmetic products and medical devices		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue	**752,801**	640,292	**91,587**	10,576	**844,388**	650,868
Reportable segment profit/(loss) (adjusted EBITDA)	**397,541**	341,520	**17,963**	(1,817)	**415,504**	339,703
Interest income	**9,842**	7,340	**—**	—	**9,842**	7,340
Interest expense	**(7,927)**	(8,525)	**—**	—	**(7,927)**	(8,525)
Depreciation and amortisation for the year	**(37,561)**	(31,996)	**(22,406)**	(9,558)	**(59,967)**	(41,554)
Reportable segment assets	**1,624,399**	1,134,256	**294,906**	241,053	**1,919,305**	1,375,309
(including investment in a joint venture)						
Additions to non-current segment assets during the year	**8,075**	6,752	**17,862**	—	**25,937**	6,752
Reportable segment liabilities	**355,224**	165,640	**1,030**	391	**356,254**	166,031

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

	2016	2015
Revenue	***RMB'000***	*RMB'000*
Reportable segment revenue and consolidated revenue	**844,388**	650,868
Profit		
Reportable segment profit	**415,504**	339,703
Share of profits less losses of associates	**20,481**	91
Interest income	**14,695**	7,678
Depreciation and amortisation	**(59,967)**	(41,554)
Finance costs	**(45,383)**	(16,727)
Unallocated head office and corporate expenses	**(56,507)**	(51,266)
Consolidated profit before taxation	**288,823**	237,925

	2016	2015
Assets	***RMB'000***	*RMB'000*
Reportable segment assets	**1,919,305**	1,375,309
Interests in associates	**278,642**	240,949
Deferred tax assets	**10,864**	11,615
Unallocated head office and corporate assets	**210,463**	571,298
Consolidated total assets	**2,419,274**	2,199,171
Liabilities		
Reportable segment liabilities	**356,254**	166,031
Income tax payable	**18,860**	21,888
Bank loans (unallocated)	**128,860**	472,873
Convertible bonds	**360,948**	326,938
Other unallocated head office and corporate liabilities	**2,106**	19,484
Consolidated total liabilities	**867,028**	1,007,214

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets with the exception of deferred tax assets ("specified non-current assets"). The geographical location of customers is based on the location at which the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, lease prepayments and construction in progress, the location of the operation to which they are allocated, in the case of intangible assets and other non-current assets, and the location of operations, in the case of interest in associates and interest in a joint venture.

	Revenues from external customers		**Specified non-current assets**	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
China (including Hong Kong)	**665,102**	540,728	**749,587**	670,883
Americas	**82,703**	50,465	**156**	208
Asia	**60,340**	31,492	**30,535**	18,748
Europe	**36,165**	26,350	**248,107**	222,201
Other regions	**78**	1,833	**—**	—
	844,388	650,868	**1,028,385**	912,040

5 OTHER REVENUE

	Note	**2016**	2015
		RMB'000	*RMB'000*
Government grants	(a)	**9,244**	4,447
Interest income on cash at bank		**10,312**	5,184
Interest income on loans made to directors and employees		**2,884**	—
Investment income on available-for-sale financial assets		**1,499**	2,494
Rental income		**1,515**	2,141
Others		**1,298**	1,533
		26,752	15,799

5 OTHER REVENUE *(continued)*

(a) Government grants

The grants represent incentives and awards of RMB9,244,000 which are mainly in relation to the Group's technical achievement on the research and development of HA products and its expansion of business to overseas markets during the year ended 31 December 2016 (2015: incentives and awards of RMB4,447,000 mainly in relation to the Group's technical achievement on the research and development of HA products).

There are no unfulfilled conditions and other contingencies attached to the receipt of these government grants. There is no assurance that the Group will receive government grants in the future in respect of any of the Group's research and development and other activities.

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans	**9,805**	5,304
Dividends on preferred shares (Note 25)	**7,926**	8,525
Interest on convertible bonds (Note 26)	**27,652**	2,898
	45,383	16,727

(b) Staff costs

	2016	2015
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**139,160**	99,464
Contributions to defined contribution retirement plan	**8,760**	6,875
Equity-settled share-based payment expenses		
– share option scheme (Note 27(i))	**3,642**	6,972
– share-based payment transaction settled by the controlling shareholder (Note 27(iii))	**19,210**	17,990
– shares granted to employees at discount (Note 27(iv))	**—**	1,576
	170,772	132,877

6 PROFIT BEFORE TAXATION *(continued)*

(b) Staff costs *(continued)*

Pursuant to the relevant labour rules and regulations in the PRC, the subsidiaries of the Group established in the PRC (the "PRC subsidiaries") participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby the PRC subsidiaries are required to make contributions to the Schemes at 18%~20% (2015: 18%~20%) of the eligible employees' salaries during the year. The local government authorities are responsible for the entire retirement plan obligation payable to retired employees.

The employees of the Company who are stationed in Hong Kong participates in the Mandatory Provident Fund Scheme ("MPF Scheme"), whereby the Company is required to contribute to the MPF Scheme at 5% of the employee's basic salaries.

For those forfeited contributions under the Schemes and MPF Scheme, the amounts could not be used by the Group to reduce the existing level of contributions.

The Group has no other obligation for the payment of pension benefits beyond the contributions described above.

(c) Other items

	Note	**2016** *RMB'000*	2015 *RMB'000*
Amortisation			
– intangible assets		**22,888**	9,905
– lease prepayments		**1,309**	1,309
Auditors' remuneration		**1,850**	1,770
Depreciation		**35,770**	30,340
Net foreign exchange gain		**(3,860)**	(1,455)
Net loss on disposal of property, plant and equipment		**1,098**	8
Provision for impairment loss on trade receivables		**13,765**	732
Operating lease charges in respect of leased property, plant and equipment		**8,700**	6,407
Cost of inventories	(i)	**251,959**	163,629
Research and development costs	(ii)	**34,624**	29,803

(i) Cost of inventories for the year ended 31 December 2016 included RMB68,608,000 (2015: RMB 53,388,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

(ii) Research and development costs for the year ended 31 December 2016 included RMB 18,033,000 (2015: RMB12,319,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2016 RMB'000	2015 RMB'000
Current tax - PRC income tax		
Provision for the year (Note 28(a))	**59,272**	47,974
Under/(over)-provision in respect of prior year (Note 28(a))	**700**	(212)
Deferred tax		
Origination and reversal of temporary differences (Note 28(b))	**(3,309)**	(232)
Effect of change in tax rate* (Note 28(b))	**4,060**	—
	60,723	47,530

* Pursuant to the notice [Guo Ke Huo Zi (2016) No.187] issued by the Department of Science & Technology of Shandong Province, Finance Bureau of Shandong Province, National Taxation Bureau of Shandong Province and Local Taxation Bureau of Shandong Province on 30 December 2016, Shangdong Bloomage Hyinc was granted the qualification of advanced and new technology enterprise and enjoyed a tax concession of 10% for the three years from 1 January 2016 to 31 December 2018. As a result, the applicable PRC income tax rate of Shangdong Hyinc changed from 25% in 2015 to 15% in 2016.

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

	Note	2016 RMB'000	2015 RMB'000
Profit before taxation		**288,823**	237,925
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned		**89,754**	72,848
Tax effect of tax concession	(i)	**(36,690)**	(29,639)
Tax effect of non-deductible expenses		**3,535**	4,605
Tax effect of unused tax losses not recognised (Note 28(d))		**76**	1,092
Utilisation of previous years' unrecognised tax losses		**(712)**	(1,164)
Under/(over) provision in respect of prior year		**700**	(212)
Effect of change in tax rate		**4,060**	—
Income tax		**60,723**	47,530

7 INCOME TAX (CONTINUED)

(b) Reconciliation between actual tax expense and accounting profit at applicable tax rates: *(continued)*

(i) The statutory income tax rate is 25% for the PRC subsidiaries. Certain subsidiaries established in the PRC are entitled to a concession on the PRC income tax of 10% as they have satisfied certain conditions in the income tax law and was granted the qualification of advanced and new technology enterprise. As a result, the PRC subsidiaries are subject to income tax rates ranging from 15% to 25% for the year ended 31 December 2016 (2015: 15% to 25%).

(ii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2016 (2015: Nil).

8 DIRECTORS' EMOLUMENTS

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

	2016						
	Fees	Basic salaries, allowances and other benefits in kind	Discretionary bonuses	Contributions to retirement benefit schemes	Subtotal	Equity-settled share-based payments *(note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman							
Zhao Yan	130	—	—	—	130	—	130
Executive directors							
Jin Xuekun	531	4,758	1,001	63	6,353	22,280	28,633
Liu Aihua (resigned on 26 August 2016)	113	479	380	79	1,051	—	1,051
Wang Aihua	173	451	270	48	942	—	942
Gong Anmin (appointed on 26 August 2016)	61	1,688	523	48	2,320	—	2,320
Non-executive directors							
Guo Jiajun (resigned on 18 January 2016)	4	—	—	—	4	—	4
Yau Waiyan (appointed on 18 January 2016)	83	795	323	16	1,217	62	1,279
Independent non-executive directors							
Zhan Lili	130	—	—	—	130	—	130
Li Junhong	130	—	—	—	130	—	130
Hai Wen (resigned on 18 January 2016)	—	—	—	—	—	—	—
Xue Zhaofeng (appointed on 18 January 2016)	124	—	—	—	124	—	124
	1,479	8,171	2,497	254	12,401	22,342	34,743

8 DIRECTORS' EMOLUMENTS *(continued)*

	2015						
	Fees	Basic salaries, allowances and other benefits in kind	Discretionary bonuses	Contributions to retirement benefit schemes	Subtotal	Equity-settled share-based payments *(note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman							
Zhao Yan	122	—	—	—	122	—	122
Executive directors							
Jin Xuekun	499	3,788	—	59	4,346	23,966	28,312
Liu Aihua	163	412	—	9	584	—	584
Wang Aihua	163	402	—	44	609	39	648
Non-executive directors							
Guo Jiajun (resigned on 18 January 2016)	81	—	—	—	81	—	81
Yau Waiyan (appointed on 18 January 2016)	—	717	60	15	792	39	831
Independent non-executive directors							
Zhan Lili	122	—	—	—	122	—	122
Li Junhong	122	—	—	—	122	—	122
Hai Wen (resigned on 18 January 2016)	—	—	—	—	—	—	—
Xue Zhaofeng (appointed on 18 January 2016	—	—	—	—	—	—	—
	1,272	5,319	60	127	6,778	24,044	30,822

Note:

These represent the estimated value of shares, share options and warrants granted to the directors. The value of these shares, share options and warrants granted to directors is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(s) (ii).

The details of these benefits in kind, including the principal terms and number of shares, options and warrants granted, are disclosed in Note 27.

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

Save for Mr. Hai Wen, the independent non-executive director of the Company, who has waived his emoluments for the period from the date of his appointment in February 2014 to the data of his resignation in January 2016, no other director waived or agreed to waive any emoluments during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, two of them (2015:one) are directors of the Company whose emoluments is disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2015: four) individuals of the Group are as follows:

	2016	2015
	RMB'000	*RMB'000*
Basic salaries, allowances and other emoluments	**3,358**	4,190
Bonus	**866**	100
Contributions to retirement benefit schemes	**95**	129
Equity settled share-based transaction expenses	**—**	307
	4,319	4,726

The emoluments of the three (2015: four) individuals with the highest emoluments are within the following bands:

	2016	2015
	RMB'000	*RMB'000*
HKD 1,000,001 ~ HKD 1,500,000	**2**	2
HKD 1,500,001 ~ HKD 2,000,000	**—**	2
HKD 2,000,001 ~ HKD 2,500,000	**1**	—

No individual disclosed above received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the year ended 31 December 2016 of RMB228,101,000 (2015: RMB 190,393,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2016 of 361,976,000 shares (2015: 336,907,000 ordinary shares), calculated as follows:

(i) Weighted average number of ordinary shares (basic)

	2016	2015
	'000	*'000*
Issued ordinary shares at 1 January	**351,320**	333,124
Effect of shares issued to directors and employees at discount (Note 27(iv))	**9,687**	1,460
Effect of issuance of new shares	**—**	1,814
Effect of exercise of share options granted under share option scheme	**969**	509
Weighted average number of ordinary shares (basic) at 31 December	**361,976**	336,907

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB228,101,000 (2015: RMB190,393,000) and the weighted average number of ordinary shares of 367,686,000 shares (2015: 344,437,000 ordinary shares), calculated as follows:

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

	2016	2015
	'000	*'000*
Weighted average number of ordinary shares at 31 December (basic)	**361,976**	336,907
Effect of deemed issue of shares for nil consideration for the share options granted in 2012 (Note 27)	**5,710**	7,530
Weighted average number of ordinary shares at 31 December (diluted)	**367,686**	344,437

Note: All other potential ordinary shares including convertible bonds, warrants and share options granted in 2013 have anti-dilutive effect to the basic earnings per share for the years ended 31 December 2016 and 2015.

11 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Total RMB'000
Cost:					
At 1 January 2015	255,075	176,843	3,875	14,788	450,581
Additions	—	204	231	7,838	8,273
Transferred from construction in progress (Note 12)	—	9,175	—	9	9,184
Disposal	—	(9)	—	—	(9)
At 31 December 2015	255,075	186,213	4,106	22,635	468,029
At 1 January 2016	255,075	186,213	4,106	22,635	468,029
Additions	—	560	21	565	1,146
Transferred from construction in progress (Note 12)	1,778	3,202	—	5	4,985
Disposal	—	(865)	—	(1,268)	(2,133)
At 31 December 2016	256,853	189,110	4,127	21,937	472,027
Accumulated depreciation:					
At 1 January 2015	24,719	42,753	2,306	5,181	74,959
Charge for the year	11,307	15,531	514	2,988	30,340
Written back on disposal	—	(1)	—	—	(1)
At 31 December 2015	36,026	58,283	2,820	8,169	105,298
At 1 January 2016	36,026	58,283	2,820	8,169	105,298
Charge for the year	14,273	17,661	511	3,325	35,770
Written back on disposal	—	(116)	—	(919)	(1,035)
At 31 December 2016	50,299	75,828	3,331	10,575	140,033
Net book value:					
At 31 December 2015	219,049	127,930	1,286	14,466	362,731
At 31 December 2016	206,554	113,282	796	11,362	331,994

11 PROPERTY, PLANT AND EQUIPMENT, NET *(continued)*

The Group's property, plant and equipment are mainly located in the PRC. As at 31 December 2016, property certificates of certain properties of the Group with an aggregate net book value of RMB 18,050,000 (31 December 2015: RMB19,600,000) are yet to be obtained. Management expects that the related certificates will be obtained within one year.

(a) Buildings and plant leased out under operating leases

The Group leases out part of the buildings and plant to certain related parties (see Note 33(a)) under operating leases. The leases run for a period of one year. None of the leases includes contingent rentals. The Directors consider that these leases are temporary and the Group has the plan to occupy the leased portion of the buildings and plant as factories for the production of HA products or as administrative offices in the short run. Accordingly, the leased portion of the buildings and plant has been accounted for as property, plant and equipment in the consolidated financial statements.

12 CONSTRUCTION IN PROGRESS

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**5,383**	412
Additions	**16,370**	14,155
Transferred to property, plant and equipment (Note 11)	**(4,985)**	(9,184)
At 31 December	**16,768**	5,383

13 INTANGIBLE ASSETS

	2016	2015
	RMB'000	*RMB'000*
Cost:		
At 1 January	**219,171**	2,046
Additions	**1,137**	204,592
Exchange adjustments	**14,544**	12,533
At 31 December	**234,852**	219,171
Accumulated amortisation:		
At 1 January	**11,078**	886
Charge for the year	**22,888**	9,905
Exchange adjustments	**1,394**	287
At 31 December	**35,360**	11,078
Net book value:		
At 31 December	**199,492**	208,093

Intangible assets mainly represent the exclusive distribution right acquired for the distribution of Laboratoires Vivacy SAS ("Vivacy")'s products in certain countries in the Asia-Pacific region.

The exclusive distribution right is fully allocated the cash generating unit ("CGU") of the Group's trading of Vivacy products. The management performed an impairment test on the CGU for the year ended 31 December 2016. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering the effective period of the exclusive distribution right. The cash flows are discounted using a discount rate of 16.2%. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

The carrying amount of the CGU does not exceed its recoverable amount. As a result, no impairment of Intangible assets is recognised for the year.

14 LEASE PREPAYMENTS

	2016	2015
	RMB'000	*RMB'000*
Cost:		
At 1 January and 31 December	**65,442**	65,443
Accumulated amortisation:		
At 1 January	**6,281**	4,973
Charge for the year	**1,309**	1,309
At 31 December	**7,590**	6,282
Net book value:		
At 31 December	**57,852**	59,161

Lease prepayments represent cost of land use rights in the PRC and are amortised on a straight-line basis over the lease period of 50 years.

15 INVESTMENTS IN SUBSIDIARIES

Details of the subsidiaries at 31 December 2016 are set out below:

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid-up capital	Effective percentage of equity attributable to the Company Direct	Indirect	Principal activities
Valuerank Holdings Limited ("Valuerank")	British Virgin Islands ("BVI")	United States Dollars ("USD")1	100%	—	Investment holding
Farstar Enterprises Limited ("Farstar")	BVI	USD 100	100%	—	Investment holding
Tactful World Limited ("Tactful")	Hong Kong	1 share	—	100%	Investment holding and sales of HA raw materials
Fumax Investment Limited	Hong Kong	1 share	—	100%	Investment holding and trading of HA end products and cosmetic derices
Bloomage Biopharm (Note i)	PRC	RMB 88,800,000	—	100%	Production and sale of bio-chemical products
Plumoon Company Limited	Japan	Japanese Yen ("JPY") 12,000,000	—	91%	Sales of bio-chemical products
Beijing Bloomage Hyinc*	PRC	RMB 20,000,000	—	100%	Sales of bio-chemical products and medical instrument
Shandong Bloomage Hyinc*	PRC	RMB 200,000,000	—	100%	Production and sale of bio-chemical products
Bloomage Freda Biopharm USA Inc.	United States	USD 2,000	—	100%	Development, distribution and sales of bio-chemical products and medical instruments

15 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid-up capital	Effective percentage of equity attributable to the Company Direct	Effective percentage of equity attributable to the Company Indirect	Principal activities
Beijing Bloomage Hengmei Shang Mao Co., Ltd.**	PRC	RMB 1,000,000	—	100%	Sales of beauty products
Bloomage Empery Beauty Holdings Limited ("Empery Beauty (BVI)")	BVI	USD 1	100%	—	Investment holding
Bloomage Empery Beauty Investment Limited ("Empery Beauty (HK)")	Hong Kong	1 share	—	100%	Investment holding
Pando Group Limited ("Pando")	BVI	USD 10,000	—	80%	Investment holding
Bloomage Meso Holdings Limited ("Meso (BVI)")	BVI	USD 1	100%	—	Investment holding
Bloomage Meso Investment Limited ("Meso (HK)")	Hong Kong	1 share	—	100%	Investment holding
Bloomage Meso Holdings S.A. ("Meso Holdings")	Luxembourg	EUR 31,000	—	100%	Investment holding

* Wholly foreign owned enterprises established under the PRC law.

** Limited liability company established under the PRC law.

Note i: Bloomage Biopharm was established on 3 January 2000 as a Sino-foreign equity joint venture company. Pursuant to a board resolution dated 30 May 2004, Bloomage Biopharm underwent a restructuring and transformed to a Sino-foreign co-operative joint venture company (the "Transformation"). The Transformation was approved by the Government of Shandong Province on 4 September 2004 and revised business licence was obtained by Bloomage Biopharm on 8 October 2004. In connection with the Transformation, the Group acquired the rights to the 25% equity interest in Bloomage Biopharm from its joint venture partner by issuing a financial instrument that was presented as a liability in the consolidated financial statements (see Note 25), and accordingly, the Group effectively held 100% equity interest in Bloomage Biopharm.

16 INTEREST IN ASSOCIATES

	2016	2015
	RMB'000	*RMB'000*
Interest in a material associate	**248,107**	222,201
Interest in immaterial associates	**30,535**	18,748
	278,642	240,949

(a) Interest in a material associate

The following list contains only the particulars of a material associate whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
V Plus S.A.	Incorporated	Luxembourg	1,560,000 ordinary shares of Euro 1 each	38.18%	—	38.18%	Design, development, manufacturing and sales of medical aesthetics devices

On 15 July 2015, the Group acquired 37.32% of the issued shares of V Plus S.A., an investment holding company with no substantial business activities other than its shareholding of its controlling subsidiaries including Vivacy which is principally engaged in the design, development, manufacturing and sales of medical aesthetics devices including dermal fillers and cosmetics.

On 22 December 2016, V Plus S.A. repurchased 35,000 shares from two shareholders. As a result, the effective interest held by the Group in V Plus S.A. increased from 37.32% to 38.18%. The excess of the deemed cost to acquire the additional 0.86% over the carrying amount of the underlying net asset of the associate in the amount of RMB12,899,000 have been recognised as goodwill which is included in the interest in the associate.

This material associate is accounted for using the equity method of accounting in the consolidated financial statements.

16 INTEREST IN ASSOCIATES *(continued)*

(a) Interest in a material associate *(continued)*

Summarised financial information of this material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Gross amounts of this material associate	**2016**	2015
	RMB'000	RMB'000
Current assets	**188,026**	122,619
Non-current assets	**315,336**	330,121
Current liabilities	**(79,271)**	(35,639)
Non-current liabilities	**(38,703)**	(47,868)
Equity attributable to the shareholders of V Plus S.A.	**346,618**	330,500
Equity attributable to non-controlling interests	**38,770**	38,733
Revenue	**292,865**	83,234
Profit from continuing operations	**66,631**	7,416
Attributable to the shareholders of V Plus S.A.	**60,898**	6,638
Attributable to non-controlling interests	**5,733**	778
Post-tax profit or loss from discontinued operations	**—**	—
Other comprehensive income	**15,393**	17,545
Attributable to the shareholders of V Plus S.A.	**14,251**	15,705
Attributable to non-controlling interests	**1,142**	1,840
Total comprehensive income	**82,024**	24,961
Attributable to the shareholders of V Plus S.A.	**75,149**	22,343
Attributable to non-controlling interests	**6,875**	2,618
Dividend declared from the associate to the Group	**5,375**	—
Reconciled to the Group's interest in this material associate		
Gross amounts of equity attributable to the shareholders of V Plus S.A.	**346,618**	330,500
The Group's effective interest (%)	**38.18%**	37.32%
The Group's share of equity attributable to the shareholders of V Plus S.A.	**132,339**	123,343
Goodwill	**116,428**	100,532
Elimination of unrealised profit on V Plus S.A. group's sales to the Group	**(660)**	(1,674)
Carrying amount in the consolidated financial statements	**248,107**	222,201

16 INTEREST IN ASSOCIATES *(continued)*

(b) Interest in immaterial associates

Aggregate information of associates that are not individually material:

	2016	2015
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**30,535**	18,748
Aggregate amounts of the Group's share of those associates		
Loss from continuing operations	**(3,258)**	(713)
Post-tax profit or loss from discontinued operations	**—**	—
Other comprehensive income	**1,784**	(20)
Total comprehensive income	**(1,474)**	(733)

17 INTEREST IN A JOINT VENTURE

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

Name of joint venture	Form of business structure	Place of incorporation and business	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Medybloom China Limited ("Medybloom")	Incorporated	Hong Kong	50%	—	50%	Registration, promotion and sales of medical aesthetics products

Medybloom, a joint venture of the Group established in 2015, is an unlisted corporate entity whose quoted market price is not available.

18 OTHER NON-CURRENT ASSETS

As at 31 December 2016, other non-current assets mainly represents loans of RMB83,990,000 (31 December 2015: nil) made by the Company to relevant directors and employees in connection with these directors and employees' subscription of the Company's shares (Note 27(iv) and Note 22), and deposits of RMB36,582,000 (31 December 2015: RMB35,723,000) made by the Group in 2015 in relation to the proposed acquisitions of equity interests in certain third-party target companies. During the year ended 31 December 2016, the Group re-negotiated with relevant parties to change these deposits as prepayments for future purchase of cosmetic products. The directors of the Company are of the opinion that the Group can fully recover these deposits.

19 INVENTORIES

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

	2016	2015
	RMB'000	RMB'000
HA products:		
Raw materials and consumables	**32,971**	17,583
Work in progress	**13,251**	11,389
Finished goods	**91,409**	70,996
Cosmetic equipment for trading	**41,071**	17,624
	178,702	117,592

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

	2016	2015
	RMB'000	RMB'000
Carrying amount of inventories sold	**251,959**	163,629

20 TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Trade receivables from:		
– Third parties	**244,059**	147,964
– Related parties	**899**	948
	244,958	148,912
Less: allowance for doubtful debts	**(14,497)**	(732)
	230,461	148,180
Bills receivable	**43,201**	63,598
Prepayments and other receivables from:		
– Third parties	**47,994**	37,843
– Related parties	**2,780**	2,253
	324,436	251,874

All of the trade receivables and bills receivable of the Group are expected to be recovered within one year.

20 TRADE AND OTHER RECEIVABLES *(continued)*

(i) Ageing analysis

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

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**193,359**	190,131
3 to 6 months	**26,732**	9,294
6 to 9 months	**42,246**	7,957
9 to 12 months	**5,046**	195
Over 1 year	**6,279**	4,201
	273,662	211,778

(ii) Impairment of trade receivables and bills receivable

The movement in the allowance for doubtful debts during the year is as follows:

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**732**	—
Impairment loss recognised	**13,765**	732
At 31 December	**14,497**	732

At 31 December 2016, the Group's trade receivables of RMB14,497,000 (31 December 2015: RMB732,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB13,765,000 (2015: RMB732,000) were recognised during the year ended 31 December 2016.

20 TRADE AND OTHER RECEIVABLES *(continued)*

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

The analysis of trade receivables and bills receivable, based on the current and overdue status, that are neither individually nor collectively considered to be impaired are as follows:

	2016	2015
	RMB'000	*RMB'000*
Current	**177,360**	180,634
1 to 3 months overdue	**28,848**	20,699
3 to 6 months overdue	**56,870**	7,676
6 months to 1 year overdue	**7,485**	2,203
More than 1 year overdue	**3,099**	566
	273,662	211,778

The credit term for trade receivables is generally 30 to 120 days. Bills receivable are generally due within 180 days from the date of billing. Further details on the Group's credit policy are set out in Note 31(a).

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, the Group believes that no impairment allowance is necessary as there has not been any significant change in credit quality and these receivables were considered fully recoverable. The Group has not held any collateral over these balances.

21 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) Cash and cash equivalents comprise:

	2016	2015
	RMB'000	*RMB'000*
Cash at bank and in hand	**876,887**	906,050
Less: restricted cash (i)	**230,000**	255,000
Cash and cash equivalents	**646,887**	651,050

(i) At 31 December 2016, restricted cash represents time deposits as a pledge of a bank loan (see Note 23).

All the Group's cash and cash equivalents were placed with banks in the PRC, Hong Kong, Japan and United States. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

21 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH *(continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	**288,823**	237,925
Adjustments for:		
Amortisation of intangible assets	**22,888**	9,905
Amortisation of lease prepayments	**1,309**	1,309
Depreciation	**35,770**	30,340
Dividends on preferred shares	**7,926**	8,525
Equity settled share-based payment expenses (Note 27)	**22,852**	26,538
Interest income on cash at bank	**(10,312)**	(5,184)
Interest income on loans made to directors and employees	**(2,884)**	—
Investment income received from available-for-sale financial assets	**(1,499)**	(2,494)
Share of profits less losses of associates	**(20,481)**	(91)
Share of loss of a joint venture	**27**	66
Net loss on disposal of property, plant and equipment	**1,098**	8
Interests on bank loans	**9,805**	5,304
Interests on convertible bonds	**27,652**	2,898
Changes in working capital:		
Increase in inventories	**(61,110)**	(62,510)
Increase in trade and other receivables	**(63,030)**	(81,642)
(Decrease)/increase in trade and other payables	**(15,380)**	22,348
Cash generated from operations	**243,454**	193,245

(c) Significant non-cash transactions

On 8 January 2016, the Company issued a total of 9,687,500 shares at a total consideration of HKD116,250,000 (equivalent to approximately RMB 98,371,000) to relevant directors and employees (note 27(iv)). 85% of the total consideration being HKD98,813,000 (equivalent to approximately RMB83,616,000) was satisfied by relevant directors and employees through loans from the Company, and there was no cash impact for this part of share issue consideration and loans made to relevant directors and employees.

22 LOANS TO DIRECTORS

Loans to directors of the Group disclosed pursuant to section 383(1) (d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Loans made by the Company

Name of borrower	Jin Xuekun	Wang Aihua	Gong Anmin	Yau Waiyan
Relationship with the Company	Director of the Company	Director of the Company	Director of the Company	Director of the Company
Terms of the loan facilities				
– duration and repayment terms	Repayable on demand	Repayable on demand	Repayable on demand	Repayable on demand
– loan amount	HKD 49,406,250.00	HKD 2,470,317.60	HKD 9,881,250.00	HKD 2,470,317.60
– interest rate	2% per annum	2% per annum	2% per annum	2% per annum
– security	None	None	None	None
Balance of the loan				
– at 1 January 2015	Nil	Nil	Nil	Nil
– at 31 December 2015 and 1 January 2016	Nil	Nil	Nil	Nil
– at 31 December 2016	HKD 49,406,250.00	HKD 2,470,317.60	HKD 9,881,250.00	HKD 2,470,317.60
Maximum balance outstanding				
– during 2016	HKD 49,406,250.00	HKD 2,470,317.60	HKD 9,881,250.00	HKD 2,470,317.60
– during 2015	Nil	Nil	Nil	Nil

There were interests on these loans with an amount of HKD1,285,000 (equivalent to approximately RMB1,149,000) accrued and to be received as at 31 December 2016.

23 BANK LOANS

At 31 December 2016, the bank loans were repayable as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 1 year or on demand	220,000	472,873
After 2 year but within 5 years	128,860	—
	348,860	472,873

At 31 December 2016, the bank loans were secured as follows:

	2016	2015
	RMB'000	*RMB'000*
Bank loans- secured	220,000	472,873
Bank loans- unsecured	128,860	—
	348,860	472,873

As at 31 December 2016, the Group's borrowing of RMB220,000,000 is secured by a pledge over the Group's bank deposits of RMB230,000,000.

As at 31 December 2015, the Group's borrowing of RMB472,873,000 was secured by letters of guarantee issued by a PRC bank. The letters of guarantee issued by the PRC bank are in turn secured by the Group's restricted cash of RMB255,000,000, property, plant and equipment of RMB200,270,000 and lease prepayments of RMB59,161,000.

24 TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	RMB'000
Trade payables	30,528	35,091
Payables for construction of plant and purchase of equipment	6,126	21,504
Receipts in advance	7,603	15,721
Value added tax payable	16,241	12,852
Other payables due to related parties	—	1,563
Accrued expenses and other payables	16,520	31,070
	77,018	117,801

All of the trade and other payables of the Group are expected to be settled within one year or are repayable on demand.

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

	2016	2015
	RMB'000	RMB'000
Within 3 months	29,254	24,884
3 to 6 months	824	9,898
6 months to 1 year	440	186
Over 1year	10	123
	30,528	35,091

The maturity analysis of trade and bills payables is as follows:

	2016	2015
	RMB'000	RMB'000
Due within 1 month or on demand	30,528	35,091

25 PREFERRED SHARES

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**51,471**	53,629
Dividends during the year (Note 6(a))	**7,926**	8,525
Dividends of preferred shares declared	**(11,538)**	(10,683)
	47,859	51,471
Less: current portion of preferred shares	**(12,461)**	(11,538)
	35,398	39,933

In connection with the Transformation, Valuerank and Farstar acquired the rights to the 25% equity interest in Bloomage Biopharm from Shandong Freda Pharmaceutical Group (山東福瑞達醫藥集團公司, "SFP"), the then non-controlling interests holder of Bloomage Biopharm, by issuing a financial instrument with a preference over the Group in payment of dividends and redemption of the financial instrument upon termination of business in Bloomage Biopharm ("preferred shares") as consideration. Pursuant to the cooperative joint venture agreement signed between the Group and SFP on 30 May 2004 ("CJV"), the preferred shares were redeemable by Valuerank, subject to the consensus of SFP, at RMB2,694,000 as at 1 January 2005, or at any subsequent date on or before the earlier of the termination of business in Bloomage Biopharm or the expiry date of the CJV (i.e. 2 January 2015) with an annual increment of 8%. Dividends for the preferred shares of RMB5,344,000 for the year ended 31 December 2005, and thereafter with an annual increment of 8% until the preferred shares are redeemed, are payable by Bloomage Biopharm to SFP annually. The dividend payments are cumulative and not discretionary. The Transformation was approved by the Government of Shandong Province on 4 September 2004 and business licence was obtained by Bloomage Biopharm on 8 October 2004. The preferred shares were initially recognised as a financial liability at its fair value of RMB38,500,000 as at 8 October 2004, representing 25% of the fair value of Bloomage Biopharm as at 8 October 2004 derived from the present value of the future cash flows expected to be derived from Bloomage Biopharm. The financial liability was measured at amortised cost subsequently. Dividends for the preferred shares are accounted for using the effective interest method and recorded as finance costs in the consolidated statement of profit or loss and other comprehensive income.

25 PREFERRED SHARES *(continued)*

Pursuant to a board resolution dated 29 March 2006, with the agreement from SFP, the expiry date of the CJV has been changed. According to the revised arrangement, the preferred shares were redeemable by Valuerank, subject to the consensus of SFP, at any subsequent date on or before the earlier of the termination of business in Bloomage Biopharm or the expiry of the CJV on 2 January 2020, while other terms of the preferred shares remained unchanged. The change of expiry date of the CJV to 2 January 2020 was approved by the Government of Shandong Province on 24 April 2006 and revised business licence was obtained by Bloomage Biopharm on 28 April 2006. There was no significant difference between the carrying amount of preferred shares and the fair value of the preferred shares arising from the change of expiry date to 2 January 2020.

(a) Amount due to the holder of the preferred shares

The present value of the amount due to the holder of the preferred shares of Bloomage Biopharm is repayable as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 1 year	**12,461**	11,538
After 1 year but within 5 years	**35,398**	39,933
	47,859	51,471

The above repayment schedules have been prepared on the basis that the preferred shares would be redeemed on the applicable expiry date of 2 January 2020 of the CJV and included the pre-determined annual dividend payments until the applicable expiry date of the CJV.

26 CONVERTIBLE BONDS

The movement of the carrying amount of the convertible bonds for the year ended 31 December 2016 is set out below:

	Liability component *RMB'000*	Equity component *RMB'000*	Total *RMB'000*
At 1 January 2016	**326,938**	**59,627**	**386,565**
Interest charged during the year (Note 6(a))	**27,652**	**—**	**27,652**
Interest paid	**(16,154)**	**—**	**(16,154)**
Exchange adjustments	**22,512**	**—**	**22,512**
At 31 December 2016	**360,948**	**59,627**	**420,575**

On 20 November 2015, the Company issued convertible bonds in the aggregate principal amount of HKD465,000,000 to Ora Investment Pte. Ltd.. The convertible bonds bear interest rate at 4% per annum payable semi-annually. The maturity date of the convertible bonds is 20 November 2020. The convertible bonds are convertible into ordinary shares at the option of the holders of the convertible bonds at any time on or after the date of issue of the convertible bonds and up to the date falling seven days prior to the maturity date at a conversion price of HKD17.2 per share, subject to adjustments.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(i) Share option scheme

The Company has a share option scheme which was adopted on 3 September 2008 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at consideration of HKD1.0 to subscribe for shares of the Company.

For the options granted in 2012, 50% of the options vest after one year from the date of grant and are then exercisable within a period of four years and the remaining 50% of the options vest after two years from the date of grant and are then exercisable within a period of three years.

For the options granted in 2013, subject to the satisfaction of certain performance conditions, 25% of the options vest after one year from the date of grant and are then exercisable within a period of four years, 25% of the options vest after two years from the date of grant and are then exercisable within a period of three years, 25% of the options vest after three years from the date of grant and are then exercisable within a period of two years and the remaining 25% of the options vest after four years from the date of grant and are then exercisable within a period of one year.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(i) Share option scheme *(continued)*

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 24 December 2012	495,000	One year from the date of grant	5 years
– on 24 December 2012	495,000	Two years from the date of grant	5 years
– on 23 December 2013	1,660,000	One year from the Grant Date and revenue of the Group for the year ended 31 December 2013 is not less than 130% of that for the year ended 31 December 2012 ("FY 2012")	5 years
– on 23 December 2013	1,660,000	Two years from the Grant Date and revenue of the Group for the year ended 31 December 2014 is not less than 169% of that for FY 2012	5 years
– on 23 December 2013	1,660,000	Three years from the Grant Date and revenue of the Group for the year ended 31 December 2015 is not less than 211.25% of that for FY 2012	5 years
– on 23 December 2013	1,660,000	Four years from the Grant Date and revenue of the Group for the year ending 31 December 2016 is not less than 264.0625% of that for FY 2012	5 years

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(i) Share option scheme *(continued)*

(a) The terms and conditions of the grants are as follows: *(continued)*

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to employees*:			
– on 24 December 2012	5,745,000	One year from the date of grant	5 years
– on 24 December 2012	5,745,000	Two years from the date of grant	5 years
– on 29 October 2013	780,200	One year from the date of grant and revenue of the Group for the year ended 31 December 2013 is not less than 130% of that for FY 2012	5 years
– on 29 October 2013	780,200	Two years from the date of grant and revenue of the Group for the year ended 31 December 2014 is not less than 169% of that for FY 2012	5 years
– on 29 October 2013	780,200	Three years from the date of grant and revenue of the Group for the year ended 31 December 2015 is not less than 211.25% of that for FY 2012	5 years
– on 29 October 2013	780,200	Four years from the date of grant and revenue of the Group for the year ending 31 December 2016 is not less than 264.0625% of that for FY 2012	5 years
Total share options granted	22,240,800		

* The options granted to employees on 29 October 2013 include 99,600 options granted to an employee who was appointed as non-executive director on 18 January 2016.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(i) Share option scheme *(continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2016 Weighted average exercise price	**2016** Number of options	2015 Weighted average exercise price	2015 Number of options
Outstanding at the beginning of the year	**HKD 10.745**	**19,266,000**	HKD 10.137	21,316,000
Exercised during the year	**HKD 4.422**	**(2,000,500)**	HKD 4.422	(2,050,000)
Forfeited during the year	**HKD 16.652**	**(199,200)**	—	—
Outstanding at the end of the year	**HKD 11.417**	**17,066,300**	HKD 10.745	19,266,000
Exercisable at the end of the year	**HKD 10.522**	**14,626,100**	HKD 8.685	14,286,000

The options outstanding at 31 December 2016 had an exercise price of HKD4.422 or HKD16.652 (2015: HKD4.422 or HKD16.652) and a weighted average remaining contractual life of 1.4 years (2015: 2.4 years).

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(i) Share option scheme *(continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Dividend Adjusted Black-Scholes Options Pricing model ("Black-Scholes Model"). The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into Black-Scholes Model.

	Share options granted in 2013	**Share options granted in 2012**
Fair value at measurement date	HKD 2.51 to 3.79	HKD 1.30 to 1.37
Share price	HKD 15.80 and 17.22	HKD 4.3
Exercise price	HKD 16.652	HKD 4.422
Expected volatility	32.5%	55%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	3 to 4.5 years	3.25 years
Expected dividends	3%	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.446% to 1.153%	0.108% and 0.156%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service condition and non-market performance condition. These conditions have not been taken into account in the fair value measurement of the services received at the date of grant. There were no market conditions associated with the share option grants.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(ii) Warrants granted to a director

On 29 October 2013, upon the re-designation of Mr. Jin Xuekun ("Mr. Jin") as an executive director from an independent non-executive director and the appointment of Mr. Jin as chief executive officer of the Company, the Company entered into the warrant subscription agreement (the "Warrant Subscription Agreement") with Wealthy Delight Group Limited (as Subscriber), a company the entire issued share capital of which is legally and beneficially owned by Mr. Jin, and Mr. Jin (as guarantor of the Subscriber to guarantee the performance by the Subscriber of its obligations under the Warrant Subscription Agreement), pursuant to which the Company conditionally agreed to issue and the Subscriber conditionally agreed to subscribe for 16,600,000 warrants (the "Warrants") at the issue price of HKD0.01 per Warrant (the "Warrant Subscription"). Each of the Warrants carries the right to subscribe for one warrant share at the exercise price of HKD16.652 per warrant share initially (subject to adjustment) during the period from the date of the first anniversary of the completion of the Warrant Subscription to the date before the fifth anniversary of the warrant completion date in four equal installments.

On 23 December 2013, the shareholders of the Company approved the Warrant Subscription in an extraordinary general meeting. As there were no explicit or implicit vesting conditions attached to the Warrants, the Warrants were treated as granted and vested on 23 December 2013 and relevant share-based payment expenses of the Warrants granted of RMB46,822,000 were charged to profit or loss immediately in 2013.

Relevant details of the Warrants are listed below.

(a) The terms and conditions of the grants are as follows:

Date of grant	Number of instruments	Vesting conditions	Exercisable period	Contractual life of warrants
23 December 2013	4,150,000	None	From 27 December 2014 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2015 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2016 to 26 December 2018	5 years
23 December 2013	4,150,000	None	From 27 December 2017 to 26 December 2018	5 years
	16,600,000			

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(ii) Warrants granted to a director *(continued)*

(b) The number and exercise price of the Warrants are as follows:

	2016		2015	
	Exercise price	**Number of warrants**	Exercise price	Number of warrants
Outstanding at the end of the year	**HKD 16.652**	**16,600,000**	HKD 16.652	16,600,000
Exercisable at the end of the year	**HKD 16.652**	**12,450,000**	HKD 16.652	8,300,000

The Warrants outstanding as at 31 December 2016 had an exercise price of HKD16.652 (2015: HKD16.652) and a weighted average remaining contractual life of 2 years (2015: 3 years).

(c) Fair value of Warrants and assumptions

In 2013, the fair value of services received in return for the Warrants granted was measured by reference to the fair value of the Warrants. The estimate of the fair value of the Warrants was measured based on the Black-Scholes Model. The contractual life of the Warrants was used as an input into this model. Expectations of early exercise were incorporated into Black-Scholes Model.

Fair value at measurement date	HKD 3.26 to 3.79
Share price	HKD 17.22
Exercise price	HKD 16.652
Expected volatility	32.5%
Warrant life (expressed as weighted average life used in the modelling under Black-Scholes Model)	3 to 4.5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.635% to 1.153%

The expected volatility was based on the historical volatility (calculated based on the weighted average remaining life of the Warrants), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were no service or performance conditions associated with the Warrants.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(iii) Group share-based payment transaction settled by the controlling shareholder

On 22 May 2014, AIM First Investments Limited ("AFI", the controlling shareholder of the Company), Ms. Zhao Yan (as warrantor for AFI), Wealthy Delight Group Limited ("Wealthy Delight") and Mr. Jin (as warrantor for Wealthy Delight) entered into an option agreement (the "Option Agreement"). Pursuant to the Option Agreement, AFI granted a call option (the "AFI Call Option") to Wealthy Delight for the purchase of 9,960,000 shares of the Company (the "Option Shares") held by AFI. The AFI Call Option is exercisable from 22 May 2014 to 22 May 2019 at HKD5.80 per share (the "Transfer Price"). Also, pursuant to the same Option Agreement, Wealthy Delight granted a call option to AFI to require Wealthy Delight to transfer the Option Shares or any part thereof held by Wealthy Delight to AFI at the Transfer Price on the condition that AFI Call Option has been exercised by Wealthy Delight and Mr. Jin resigns as the chief executive officer of the Company due to personal reasons. The call option granted by Wealthy Delight to AFI is exercisable from the completion date of the transfer of the relevant Option Shares under the AFI Call Option to 22 May 2019. The Transfer Price and/or the number of the Option Shares are subject to adjustment upon any consolidation or subdivision of shares of the Company during the term of the Option Agreement. The arrangements under the Option Agreement are to provide incentive to Mr. Jin to remain as the chief executive officer of the Company.

This transaction is accounted for as a group share-based payment transaction settled by the controlling shareholder and AFI Call Option is treated as vesting in a five-year period, i.e. the fair value of this share-based payment transaction of HKD110,656,000 is amortised over the 5 years using the straight-line method. During the year ended 31 December 2016, expenses related to this group share-based payment transaction of RMB19,210,000 (2015: RMB17,990,000) have been recognised in profit or loss.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(iii) Group share-based payment transaction settled by the controlling shareholder *(continued)*

(a) Fair value of share options and assumptions

The fair value of services received in return for the AFI Call Option is measured by reference to the fair value of share options granted. The estimate of the fair value of the AFI Call Option is measured based on Black-Scholes Model. The contractual life of the AFI Call Option is used as an input into this model.

Fair value at measurement date	HKD 11.11
Share price	HKD 18.96
Exercise price	HKD 5.80
Expected volatility	35.0%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	1.195%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

The AFI Call Option was granted under service condition. The service condition has not been taken into account in the fair value measurement of the services received at the date of grant. There were no market conditions associated with the AFI Call Option.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(iv) Shares granted to directors and employees at discount

On 4 November 2015, the board of directors of the Company approved the grant of 9,687,500 shares at a subscription price of HKD12.0 per share to certain directors and employees. The shares were granted with a lockup period of six months during which the shares are not transferable. The relevant directors and employees accepted the grant on the same date. As there were no explicit or implicit vesting conditions attached to the shares, the shares were treated as granted and vested on 4 November 2015 and relevant share-based payment expenses of the shares granted of RMB 1,576,000, which were calculated by deducting the proceeds received from the relevant directors and employees from the fair value of shares adjusted for the effect of share transfer restriction, were charged to profit or loss immediately in 2015. The subscription of the shares of the Company by relevant directors and employees was completed on 8 January 2016.

(a) Fair value of the shares and assumptions

The fair value of services received in return for the shares granted is measured at grant date market price of the shares adjusted for the effect of share transfer restriction (net of the proceeds received from the relevant directors and employees).

Market price of share	HKD 13.86
The effect of share transfer restriction	HKD 1.66
Fair value of share adjusted for the effect of share transfer restriction	HKD 12.20

The effect of share transfer restriction is measured by reference to the fair value of a put option that relevant directors and employees would have purchased in order to hedge the drop in share price during the lockup period. The estimate of its fair value is measured based on Black-Scholes Model. Key assumptions used in the valuation of the fair value are:

Market price of share	HKD 13.86
Exercise price of the put option	HKD 13.86
Expected volatility	40.0%
Option life (expressed as weighted average life used in the modelling under Black-Scholes Model)	0.5 years
Expected dividends	3%
Risk-free interest rate (based on Government Bonds of Hong Kong)	0.084%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2016	2015
	RMB'000	*RMB'000*
Balance of PRC income tax relating to prior years	**21,888**	13,394
Provision for PRC income tax for the year (Note 7(a))	**59,272**	47,974
Under/(over)-provision in respect of prior year	**700**	(212)
PRC income tax paid	**(63,000)**	(39,268)
	18,860	21,888

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	**Government grant**	**Property, plant and equipment**	**Bad debt provision**	**Unrealised profits on intra-group transactions**	**Total**
At 1 January 2015	8,663	—	—	2,720	11,383
Charged/(credited) to profit or loss	1,487	(1,444)	109	80	232
At 31 December 2015	10,150	(1,444)	109	2,800	11,615
At 1 January 2016	10,150	(1,444)	109	2,800	11,615
(Credited)/charged to profit or loss	(4,600)	1,444	2,067	338	(751)
At 31 December 2016	5,550	—	2,176	3,138	10,864

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised: *(continued)*

Reconciliation to the consolidated statement of financial position

	2016	2015
	RMB'000	*RMB'000*
Deferred tax assets recognised in the consolidated statement of financial position	**10,864**	11,615

(c) Deferred tax liabilities not recognised:

Pursuant to the PRC income tax law, non-resident enterprises are subject to PRC income tax at the rate of 10% on various types of passive income including dividends derived from sources in the PRC ("withholding tax"). Under the Sino-Hong Kong Double Tax Arrangement and the relevant regulations, the Group's Hong Kong subsidiaries holding the subsidiaries in the PRC are liable for withholding tax at the rate of 5% for dividend income derived from the PRC as the Hong Kong subsidiaries are the "beneficial owner" and hold 25% of equity interests or more of the subsidiaries in the PRC.

As at 31 December 2016, temporary differences relating to the undistributed profits of certain PRC subsidiaries amounted to RMB883,141,000 (31 December 2015: RMB604,267,000). Deferred tax liabilities of RMB44,157,000 (31 December 2015: RMB30,213,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of certain PRC subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

(d) Deferred tax assets not recognised:

In accordance with the accounting policy set out in Note 2(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB2,977,000 (31 December 2015: RMB 8,466,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses will expire on or before 31 December 2021.

29 DEFERRED INCOME

Deferred income represents government grants received to compensate the Group's cost of construction in respect of the HA production facilities which will subsequently be deducted from the carrying amount of assets, and unfulfilled conditional government grants received to compensate the Group for expenses incurred which will subsequently be recognised as revenue in profit or loss in the same periods in which the expenses are incurred.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Share capital	Share premium	Contributed surplus	Exchange reserve	Other reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	30(c)	*30(d) (i)*	*(i) below*	*30(d) (iii)*	*30(d) (iv)*		
Balance at 1 January 2015	2,969	97,308	36,966	(9,828)	82,834	(102,693)	107,556
Changes in equity for 2015							
Loss for the year	—	—	—	—	—	(56,244)	(56,244)
Other comprehensive income	—	—	—	12,297	—	—	12,297
Total comprehensive income for the year	—	—	—	12,297	—	(56,244)	(43,947)
Equity settled share-based transactions	—	—	—	—	26,538	—	26,538
Share issued on the exercise of share options granted under share option scheme	17	9,581	—	—	(2,226)	—	7,372
Equity component of convertible bonds	—	—	—	—	59,627	—	59,627
Issuance of new shares	131	156,147	—	—	—	—	156,278
Dividends for the year ended 31 December 2014	—	—	—	—	—	(6,578)	(6,578)
Balance at 31 December 2015	3,117	263,036	36,966	2,469	166,773	(165,515)	306,846

30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(a) Movements in components of equity *(continued)*

The Company *(continued)*

	Share capital *RMB'000* 30(c)	Share premium *RMB'000* 30(d) (i)	Contributed surplus *RMB'000* (i) below	Exchange reserve *RMB'000* 30(d) (iii)	Other reserve *RMB'000* 30(d) (iv)	Accumulated losses *RMB'000*	Total *RMB'000*
Changes in equity for 2016:							
Loss for the year	–	–	–	–	–	(91,680)	(91,680)
Other comprehensive income	–	–	–	20,604	6	–	20,610
Total comprehensive income for the year	–	–	–	20,604	6	(91,680)	(71,070)
Equity settled share-based transactions	–	–	–	–	22,745	–	22,745
Share issued on the exercise of share options granted under share option scheme	20	12,347	–	–	(2,313)	–	10,054
Issuance of shares to directors and employees at discount	82	99,865	–	–	(1,576)	–	98,371
Dividends for the year ended 31 December 2015	–	–	–	–	–	(8,350)	(8,350)
Balance at 31 December 2016	3,219	375,248	36,966	23,073	185,635	(265,545)	358,596

(i) Contributed surplus represents the excess of fair value of the shares of the Company determined based on the basis of consolidated net assets of Valuerank and Farstar as at 10 April 2008, the date of the acquisition of shares of Valuerank and Farstar by the Company from AFI and Newgrand Holdings Limited ("Newgrand") over the nominal value of the shares issued by the Company in exchange thereof. Under the Companies Law of Cayman Islands, the contributed surplus account of Company is distributable to the equity shareholders of the Company.

30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2016	2015
	RMB'000	*RMB'000*
Final dividends proposed after the end of the reporting period of HKD 3.1 cents per ordinary share (2015: HKD 2.7 cents per ordinary share)	**10,070**	8,350

The final dividends proposed after the end of the reporting period have not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016	2015
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the year, of HKD 2.7 cents per ordinary share (2015: HKD 2.5 cents per ordinary share)	**8,350**	6,578

(c) Share capital

(i) Authorised and issued share capital

	2016		2015	
	No. of shares	***HKD'000***	*No. of shares*	*HKD'000*
Authorised:				
Ordinary shares of HKD 0.01 each	**1,000,000,000**	**10,000**	1,000,000,000	10,000

30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

(i) Authorised and issued share capital *(continued)*

	2016		2015	
	No. of shares	***RMB'000***	*No. of shares*	*RMB'000*
Issued and fully paid:				
At 1 January	**351,319,834**	**3,117**	333,124,000	2,969
New shares issued (note)	**9,687,500**	**82**	16,145,834	131
Shares issued on exercise of share options granted under share option scheme	**2,000,500**	**20**	2,050,000	17
At 31 December	**363,007,834**	**3,219**	351,319,834	3,117

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

Note:

On 4 November 2015, the board of directors of the Company approved the grant of 9,687,500 shares at a subscription price of HKD12.0 per share to certain directors and employees. The shares were granted with a lock up period of six months during which the shares are not transferable. Share based payment expense of RMB1,576,000 related to this share grant was charged to profit or loss immediately in the year ended 31 December 2015. The Company made loans with a total amount of HKD98,812,500 to relevant directors and employees for their subscription of the Company's shares. The subscription of shares by the relevant directors and employees was completed on 8 January 2016.

30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital *(continued)*

(ii) Terms of unexpired and unexercised share options and warrants at the end of the reporting period:

Exercise period	Exercise price	2016 Number of options/ warrants	2015 Number of options/ warrants
25 December 2013 to 24 December 2017	HKD 4.422	**1,065,500**	3,066,000
25 December 2014 to 24 December 2017	HKD 4.422	**6,240,000**	6,240,000
30 October 2014 to 29 October 2018	HKD 16.652	**780,200**	830,000
30 October 2015 to 29 October 2018	HKD 16.652	**780,200**	830,000
30 October 2016 to 29 October 2018	HKD 16.652	**780,200**	830,000
30 October 2017 to 29 October 2018	HKD 16.652	**780,200**	830,000
23 December 2014 to 22 December 2018	HKD 16.652	**1,660,000**	1,660,000
23 December 2015 to 22 December 2018	HKD 16.652	**1,660,000**	1,660,000
23 December 2016 to 22 December 2018	HKD 16.652	**1,660,000**	1,660,000
23 December 2017 to 22 December 2018	HKD 16.652	**1,660,000**	1,660,000
27 December 2014 to 26 December 2018	HKD 16.652	**4,150,000**	4,150,000
27 December 2015 to 26 December 2018	HKD 16.652	**4,150,000**	4,150,000
27 December 2016 to 26 December 2018	HKD 16.652	**4,150,000**	4,150,000
27 December 2017 to 26 December 2018	HKD 16.652	**4,150,000**	4,150,000
		33,666,300	35,866,000

Each option/warrant entitles the holder to subscribe for one ordinary share in the Company. Further details of these options/warrants are set out in Note 27 to the financial statements.

30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purposes of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of Cayman Islands, the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

In accordance with the articles of association of the PRC subsidiaries of the Group, the PRC subsidiaries are required to set up certain statutory reserves, which are non-distributable. The transfers of these reserves are at discretion of the directors of the PRC subsidiaries. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purposes of reserves *(continued)*

(iv) Other reserve

Other reserve as at 31 December 2016 mainly includes:

i) the difference between the historical carrying value of the 25% equity interest right of Bloomage Biopharm then held by SFP and the fair value of financial liability initially recognised (see Note 25);

ii) capitalization of reserve arising from transfer of retained earnings. Pursuant to board resolutions of Bloomage Biopharm passed on 24 August 2005, 23 November 2007 and 12 January 2008, retained earnings/statutory reserve of Bloomage Biopharm in the amount of RMB3,000,000, RMB12,000,000 and RMB38,800,000 was capitalized and transferred to other reserve;

iii) waiver of amounts due to related parties. On 10 July 2008, AFI and Valuerank entered into an agreement to waive repayment of consideration of acquiring Bloomage Biopharm by Valuerank for an amount of RMB3,150,000. On 25 July 2008, Freda International Inc. and Farstar entered into an agreement to waive repayment of consideration of acquiring Bloomage Biopharm by Farstar for an amount of RMB1,575,000. The waiver of amounts due to AFI and Freda International Inc. of RMB4,725,000 was credited to other reserve of the Group;

iv) reserve on equity-settled share-based transactions is the portion of the grant date fair value of unexercised share options and warrants and unissued shares granted to the directors and the employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(s) (ii); and

v) the equity component of the convertible bonds issued in 2015 (see note 26).

(e) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB355,377,000 (31 December 2015: RMB303,729,000), excluding the share capital as disclosed in Note 30. After the end of the reporting period, the directors proposed a final dividend of HKD3.1 cents per ordinary share (2015: HKD 2.7 cents per ordinary share), amounting to HKD11,257,000 (equivalent to RMB10,070,000) (2015: HKD9,770,000 (equivalent to RMB8,350,000)). This dividend has not been recognised as a liability at the end of the reporting period.

30 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(f) Capital management

The Group's objective of managing capital is to optimize the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, the Group may issue new shares and adjust the capital expenditure plan. The Group monitors capital on the basis of debt-to-capital ratio, which is calculated by dividing long term liability by the total equity and long term liability, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets.

The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and to maintain the debt-to-capital ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2016, the debt-to-capital ratio of the Group was 26% (31 December 2015: 24%), and the liability-to-asset ratio of the Group was 36% (31 December 2015: 46%).

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

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

Substantially all of the Group's cash at bank are deposited in the reputable banks, which the management assess the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 120 days from the date of billing. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

31 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

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 the end of the reporting period, 11% (2015: 0%) and 30% (2015: 17%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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 Company's management 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 following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

	As at 31 December 2016				
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Bank loans	**348,860**	**364,469**	**228,393**	**3,608**	**132,468**
Convertible bonds	**360,948**	**482,494**	**16,638**	**16,638**	**449,218**
Trade and other payables	**77,018**	**77,018**	**77,018**	**—**	**—**
Preferred shares	**47,859**	**64,700**	**12,461**	**13,458**	**38,781**
	834,685	**988,681**	**334,510**	**33,704**	**620,467**

31 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

	As at 31 December 2015				
	Carrying amount *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*
Bank loans	472,873	472,873	472,873	—	—
Convertible bonds	326,938	467,492	15,583	15,583	436,326
Trade and other payables	117,801	117,801	117,801	—	—
Preferred shares	51,471	76,238	11,538	12,461	52,239
	969,083	1,134,404	617,795	28,044	488,565

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings.

(i) Interest rate profile

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

	2016		2015	
	Interest rate %	***RMB'000***	Interest rate %	*RMB'000*
Fixed rate borrowing				
Convertible bonds	**8%**	**360,948**	8%	326,938
Bank loans	**4.35%**	**220,000**	N/A	—
Total		**580,948**		326,938
Variable rate borrowing				
Bank loans	**2.80%**	**128,860**	2.52%-2.60%	472,873
Total borrowings		**709,808**		799,811
Fixed rate borrowings as a percentage of total borrowings		**81.85%**		40.88%

31 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the end of the reporting period. For variable-rate borrowings, the analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year.

At 31 December 2016, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained earnings by RMB322,000 (2015: RMB1,182,000).

(d) Currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through The People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be based on market supply and demand with reference to a basket of currencies or subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded. The Group did not hedge its foreign currency exposure during the year.

31 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(i) Exposure to currency risk *(continued)*

	2016 Exposure to foreign currencies (expressed in RMB)			
	RMB	**USD**	**JPY**	**Euros**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Cash on hand and at bank	**4**	**171,682**	**9,975**	**9,145**
Trade and other receivables	**—**	**18,035**	**—**	**7,280**
Trade and other payables	**—**	**(207)**	**—**	**(2)**
Bank loans	**—**	**—**	**—**	**—**
Net exposure arising from recognised assets and liabilities	**4**	**189,510**	**9,975**	**16,423**

	2015 Exposure to foreign currencies (expressed in RMB)			
	RMB	USD	JPY	Euros
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand and at bank	4	546,483	4,453	4,393
Trade and other receivables	—	29,639	1,013	—
Trade and other payables	—	(966)	(1,382)	—
Bank loans	—	(229,640)	—	(243,233)
Net exposure arising from recognised assets and liabilities	4	345,516	4,084	(238,840)

31 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained earnings**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained earnings
		RMB'000		*RMB'000*
USD	**5%**	**8,505**	5%	18,647
	(5%)	**(8,505)**	(5%)	(18,647)
JPY	**5%**	**423**	5%	174
	(5%)	**(423)**	(5%)	(174)
Euros	**5%**	**730**	5%	(10,007)
	(5%)	**(730)**	(5%)	10,007

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rate had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including intercompany payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

31 FINANCIAL RISK MANAGEMENT AND THE FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Fair value measurement

There are no financial instruments measured at fair value as at 31 December 2016

In respect of cash and cash equivalents, restricted cash, trade and other receivables, secured bank loan, trade and other payables and convertible bonds, the carrying amounts approximate fair value due to the relatively short term or the effective interest rates are approximate to the market interest rates.

Upon initial recognition, the estimated fair value amount of preferred shares has been determined by using market information and valuation methodology considered appropriate by the Group. However, considerable judgement is required to interpret market data to develop the estimate of fair value. Accordingly, the estimate presented herein is not necessarily indicative of the amount that the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amount. Due to the limitation of developing estimates, the fair value amount of preferred shares cannot be measured reliably, and therefore the fair value information of preferred shares as at 31 December 2016 has not been disclosed.

32 COMMITMENTS

(a) As at 31 December 2016, the Group had capital commitments for construction of property, plant and equipment as follows:

	2016	2015
	RMB'000	*RMB'000*
Authorised and contracted for	**787**	8,000
Authorised but not contracted for	**—**	—
	787	8,000

(b) As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 1 year	**8,402**	1,533
After 1 year but within 5 years	**1,228**	2,683
	9,630	4,216

33 MATERIAL RELATED PARTY TRANSACTIONS

During the year, the directors are of the view that related parties of the Group include the following companies:

Name of party	**Relationship**
SFP	The holder of the preferred shares of Bloomage Biopharm
Shandong Biopharmaceuticals Research Institute (山東省生物藥物研究院"SBRI")	Under common control with SFP
Shandong Freda Bioengineering Co., Ltd. (山東福瑞達生物工程有限公司"SFB")	Subsidiary of SFP
Shandong Freda Medical Devices Co., Ltd. (山東福瑞達醫療器械有限公司"SFMD")	Subsidiary of SFP
Shandong Freda Biotechnology Co., Ltd. (山東福瑞達生物科技有限公司"LFB")	Subsidiary of SFP
Shandong Mingren Freda Pharmaceutical. Co., Ltd (山東明仁福瑞達製藥有限公司)	Subsidiary of SFP
Beijing Bloomage Central Property Management Co., Ltd. (北京華熙中環物業管理有限公司"BBC")	Affiliate of an equity shareholder of the Company
Blommage International Investment Group Inc. (華熙國際投資集團有限公司)	Affiliate of an equity shareholder of the Company
Blommage International Cultural and Sport Development Co., Ltd. (華熙國際文化體育發展有限公司)	Affiliate of an equity shareholder of the Company
Sichuan Bloomage Longxi Investment Co., Ltd. (四川華熙龍禧投資有限公司)	Affiliate of an equity shareholder of the Company
V Plus S.A.	Associate of the Group

33 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with related parties

Particulars of significant transactions between the Group and the above related parties during the year are as follows:

	2016 *RMB'000*	2015 *RMB'000*
Sales of products to related parties	**3,945**	2,013
Purchase of products from related parties	**44,020**	23,416
Dividends on preferred shares paid to SFP	**11,538**	10,683
Lease of buildings and plant to related parties	**1,515**	1,950
Rental expense for lease of properties from a related party	**6,746**	6,252
Loans to key management personnel*	**85,722**	—

* The loans are repayable on demand and bear an interest rate of 2% per annum.

In the opinion of the directors of the Company, the above related party purchase and lease transactions were conducted in the ordinary and usual course of business and on normal commercial terms.

(b) Balances with related parties:

As at the end of the reporting period, the Group had the following balances with related parties:

	2016 *RMB'000*	2015 *RMB'000*
Trade and other receivables	**3,679**	3,201
Trade and other payables	**—**	1,563
Preferred shares, including current portion	**47,859**	51,471
Loans to key management personnel	**85,722**	—

(c) Key management personnel remuneration:

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Basic salaries, allowances and other emoluments	**19,944**	9,995
Contributions to retirement benefit schemes	**551**	251
Equity compensation benefits (see Note 27(i)(ii))	**22,342**	24,265
	42,837	34,511

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

The Group participates in the defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details are disclosed in Note 6(b).

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investments in subsidiaries	15	**37,010**	34,888
Interest in a joint venture		**17,862**	—
Other receivables due from subsidiaries		**476,468**	531,922
Other non-current assets	18	**120,572**	35,723
Total non-current assets		**651,912**	602,533
Current assets			
Other receivables		**6,506**	—
Cash and cash equivalents		**64,656**	530,770
Total current assets		**71,162**	530,770
Current liabilities			
Bank loans		**—**	472,873
Amounts due to subsidiaries		**1,540**	7,287
Accrued expenses, interest payable and other payables		**1,990**	19,359
Total current liabilities		**3,530**	499,519
Net current assets		**67,632**	31,251
Total assets less current liabilities		**719,544**	633,784
Convertible bonds		**360,948**	326,938
Total non-current liabilities		**360,948**	326,938
NET ASSETS		**358,596**	306,846
CAPITAL AND RESERVES			
Share capital	30(c)	**3,219**	3,117
Reserves	30(d)	**355,377**	303,729
TOTAL EQUITY		**358,596**	306,846

35 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

On 6 January 2017, a wholly-owned subsidiary of the Company (as purchaser) entered into a sale and purchase agreement with an individual and a company (the "Vendors"), pursuant to which the Group agreed to purchase and the Vendors agreed to sell the entire issued and paid-up capital of the Revitacare, a société par actions simplifiée incorporated in France, at a consideration of up to EUR25,150,000 (equivalent to approximately RMB 183,200,000), subject to the terms of the sale and purchase agreement. The acquisition has been completed on 19 January 2017. Upon completion, Revitacare became an indirect wholly-owned subsidiary of the Company.

36 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate and ultimate holding company of the Company at 31 December 2016 to be AFI, which is incorporated in BVI.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting period beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of IFRS 9.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

IFRS 9, Financial instruments *(continued)*

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12- month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(c) Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group currently does not applied any hedge accounting and therefore this new requirement may not have any impact on the Group on adoption of IFRS 9.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(v). Currently, revenue arising from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

IFRS 15, Revenue from contracts with customers *(continued)*

(a) Timing of revenue recognition *(continued)*

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

IFRS 15, Revenue from contracts with customers *(continued)*

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales. The Group expects that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

IFRS 16, Leases

As disclosed in note 2(i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

IFRS 16, Leases *(continued)*

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 32(b), as at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB9,630,000, which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 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 IFRS 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 IFRS 16 and the effects of discounting.

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

Group Financial Highlights

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Results					
Revenue	**844,388**	650,868	481,301	375,180	274,966
Profit from the operation	**313,752**	254,627	207,738	135,742	120,848
Finance costs	**(45,383)**	(16,727)	(9,617)	(9,983)	(9,067)
Profit before taxation	**288,823**	237,925	198,121	125,759	111,781
Income tax	**(60,723)**	(47,530)	(36,055)	(31,362)	(22,511)
Profit for the year	**228,100**	190,395	162,066	94,397	89,270
Basic earnings per share (RMB)	**0.630**	0.565	0.488	0.294	0.286
Diluted earnings per share (RMB)	**0.620**	0.553	0.473	0.282	0.285
Assets and liabilities					
Non-current assets	**1,039,249**	923,655	449,047	336,322	214,966
Current assets	**1,380,025**	1,275,516	516,397	431,984	259,290
Current liabilities	**(328,339)**	(624,100)	(160,654)	(122,644)	(48,669)
Total assets less current liabilities	**2,090,935**	1,575,071	804,790	645,662	425,587
Non-current liabilities	**(538,689)**	(383,114)	(52,283)	(81,317)	(48,617)
Net assets	**1,552,246**	1,191,957	752,507	564,345	376,970
Capital and reserves					
Share capital	**3,219**	3,117	2,969	2,961	2,801
Reserves	**1,548,970**	1,188,787	749,487	561,325	374,091
Total equity attributable to equity shareholders of the Company	**1,552,189**	1,191,904	752,456	564,286	376,892
Non-controlling interests	**57**	53	51	59	78
Total equity	**1,552,246**	1,191,957	752,507	564,345	376,970