瑞年國際
Real Nutriceutical

瑞年國際有限公司
REAL NUTRICEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2010

Professional
Devotion to Health
ANNUAL REPORT 2017

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Wang Fucai *(Chairman and Chief Executive Officer)*
Mr. Yu Yan
Mr. Li Lin
Mr. Yi Lin
Mr. Zhang Yan

Independent Non-executive Directors

Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

AUDIT COMMITTEE

Dr. Fong Chi Wah *(Chairman)*
Mr. Xu Hua Feng
Mr. Chan Kee Ming

REMUNERATION COMMITTEE

Dr. Fong Chi Wah *(Chairman)*
Mr. Wang Fucai
Mr. Xu Hua Feng

NOMINATION COMMITTEE

Mr. Wang Fucai *(Chairman)*
Mr. Zhang Yan
Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Poon Yick Pang, Philip

AUTHORISED REPRESENTATIVES

Mr. Wang Fucai
Mr. Poon Yick Pang, Philip

AUDITOR

Elite Partners CPA Limited
Certified Public Accountants
10/F, 8 Observatory Road
Tsim Sha Tsui, Kowloon
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box. 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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The Hennessy
256 Hennessy Road
Wan Chai, Hong Kong

FINANCIAL HIGHLIGHTS

	2017 RMB'000	2016 RMB'000 (Restated)	Change %
Revenue	**357,661**	886,431	(59.7)
Gross profit	**211,704**	550,765	(61.6)
Loss for the year attributable to owners of the Company	**(86,667)**	(65,376)	(32.6)
Basic loss per share (cents)	**(5.4)**	(4.1)	(31.7)
Declared final dividend (HK cents)	**–**	–	–

FINANCIAL HIGHLIGHTS

Revenue
(RMB'000)

2017 **357,661** — 59.7%

2016 886,431

Gross Profit
(RMB'000)

2017 **211,704** — 61.6%

2016 550,765

Loss attributable to owners of the company
(RMB'000)

2017 **(86,667)** — 32.6%

2016 (65,376)

Basic loss per share
(Cents)

2017 **(5.4)** — 31.7%

2016 (4.1)

Sales analysis by categories
(RMB'000)

18% **66,012**
Health drinks

82% **291,649**
Health and nutritional supplements

CHAIRMAN'S STATEMENT

We present the final results of **Real Nutriceutical Group Limited (the "Company")** and its subsidiaries (collectively the "Group") for the year ended December 31, 2017 (the "Year").

Chairman
Mr. Wang Fucai

BUSINESS REVIEW

The Group's major business recorded a significant decrease in sales compared with that in 2016 due to the slowdown in China's economy and consumer market. Sales of the Group's core health and nutritional supplement products decreased by 59.4% to RMB291.6 million as sales of the amino acid tablets and liquid products decreased considerably for the year ended December 31, 2017 (the "Year"). Meanwhile, sales of health drinks decreased by 60.7% to RMB66.0 million. As a result, the Group's revenue decreased by 59.7% to RMB357.7 million.

The Group's overall gross profit margin continued to stand at a healthy level but decreased to 59.2% from 62.1% in 2016, due to higher production costs in 2017 and the change in sales mix. The Group reported an attributable loss of RMB86.7 million for 2017 compared with a loss of RMB65.4 million in 2016. This was mainly because gross profit decreased by RMB339.1 million and the impairment loss on trade receivable of RMB160.3 million recognised during the Year.

During the Year, the Group adopted a prudent approach to the development of its sales network. In addition to consolidating its footholds in its major markets in eastern and southern China, the Group also enhanced its cooperation with both distributors and retail outlets in tapping into the potential of the new sales network. During the Year, newly developed retail outlets included Foshan Zhong Kang Tang Chain Pharmacy Store, Zhong Tian Chain Pharmacy Store, Zhong Rui Chain Pharmacy Store and Gu Zhen Yan Pharmacy Store in Inner Mongolia. Meanwhile the Group also actively developed new sales channels for health drinks, at convenience stores, supermarkets and petrol stations' retail stores.

The Group continuously expanded both its online and offline sales and marketing networks for its health supplements products to achieve integration of multiple channels during the Year. Besides reinforcing the management of existing online platforms and the efforts in online sales and marketing, the Group constantly enriched its health products portfolio to further develop new e-commerce network to promote products' online sales performance. The Group sold its health products through the key e-commerce platforms like Tmall, YHD.Com and JD.Com. The Group's online direct sales business generated revenue of RMB11.0 million, which accounted for 3.2% of the total revenue during the Year. Besides, the Group continued to utilize WeChat Mall platform to expedite WeChat Mall sales team building. Through the launch of training courses for WeChat Mall marketing, the Group strengthened the fostering of WeChat Mall sales talents and fastened the development of offline regional agents for the promotion of WeChat Mall sales.

In relation to customers' relations management, the Group actively perfected Real Nutri Health Club member services programme and developed membership sales business through diverse membership activities and quality health services including free basic body checks, health indicators' records, health experts' consultations and advices on personalized total solutions combining health supplement products combination and services. All these initiatives forged the interaction and trust between the Group and the Real Nutri Health Club members. During the Year, the Group held a number of health activities for its health club members, including the Real Nutri's 20th Anniversary Shanghai Celebration Event in Shanghai and the "China Dream, Health Dream" Elderly Healthcare Industry Conference in Pingyao Gucheng, Shanxi Province.

For brand promotion, the Group adopted a targeted marketing and promotion strategy, primarily on internet media to increase its brand recognition through online advertorials and activities. During the Year, the Group increased the number of online advertorials on its production technology, corporate culture and products on websites in national health, portals and financial categories, in order to enhance internet users' understanding of the Group and to prioritize the Group's name in key word search. To celebrate the Group's 20th anniversary in 2017, a number of grand celebration events were held, and strategic introduction, live interactive broadcast, and review of different stages of the events were presented in social media and other portals. Such programme strengthened the interactive understanding between the Group and the consumers plus internet users, and enhanced the Group's brand image. During the Year, the Group actively

Health and nutritional supplement products were sold at retail outlets.

The Group participated in a number of large exhibitions

participated in various large health exhibitions and conferences, including the 2017 International Amino Acid Industry Development Symposium in Tianjin, The 78th PharmChina Trade Fair in Guangzhou, and The Amino Acid Sub-committee Founding & First Working Meeting of China Bio-Fermentation Industry Standardization Committee in Shanghai. The Group also organized Real Nutri's — The First China Wealth Summit On Mobile Internet+ Consumption & Finance in Wuxi, Jiangsu Province, to share its strategies for future online and offline business development with more than twenty online media, organizations and industrial elites. Besides, the Group actively continued universal health education and promotion on amino acids to increase public understanding of amino acids and their benefits through a variety of events and activities at "Real Nutri Amino Acids Science Exhibition Hall".

Since the Group's manufacture and sales of pharmaceutical products segment recorded a loss in 2016, the segment's earnings performance was unsatisfactory and profitability is not expected to improve significantly in the near future, in December, 2017 the Group entered into an agreement to dispose of its three pharmaceutical subsidiaries to an independent third party which was completed during the Year. The Group considered that the disposal will not have a material adverse impact on the Group's revenue. The Group intends to use the proceeds from the disposal for general working capital and funds for potential acquisitions and investments, such as the expansion of the Group's distribution channels and online sales platforms. Further details of such disposal are contained in the announcements of the Company dated December 22, 2017 and March 8, 2018.

The Group entered into a sales and purchase agreement with an independent third party seller to acquire the retail pharmacy chain stores network of Shenzhen Ailire Investment Consulting Limited in April, 2017. As certain conditions precedents were not fulfilled by December 31, 2017, being the long stop date for the fulfillment of conditions precedent to completion, the agreement lapsed and the deposit of RMB200.0 million was refunded to the Group in accordance with the terms of the agreement. Notwithstanding the lapse of the agreement, the Group is still actively seeking investment opportunities and will not rule out the possibility of re-negotiating the terms of the acquisition of the retail pharmacy chain.

The Group actively cooperated with professional research and development teams in product development to broaden its product portfolio and maintain its brand's competitiveness. During the Year, the Group signed collaboration agreements with Jiangsu Health Food and Cosmetic Safety Association and Nanjing University of Traditional Chinese Medicine to conduct the development and registration process for three health supplements, namely Amino Acid Peptide Complex for immunity enhancement, Glutathione Amino Acid Complex for liver protection and reinforcement, and Probiotics Dietary Fiber Powder with Fructooligosaccharide (FOS) for maintenance of intestinal microflora. At the same time, the Group conducted the research and development and preparation works for a series of multi-vitamins and minerals products. During the Year, the Group launched a number of high-quality nutritional health foods, including High-Calcium Wheat Germ Mixed Powder, Yam Red Rice and Walnut Mixed Powder, and Red Dates, Ejiao and Wolfberry Mixed Powder. The Group has always been prioritizing product quality for the pursuit of excellence and has also been reinforcing the product quality control of its production lines. The Group continued to upgrade the facilities and equipment at various production bases and made capital expenditure of approximately RMB90.2 million during the Year.

CORPORATE SOCIAL RESPONSIBILITY

Besides developing its business, the Group always contributes towards the society with sincerity, and has been participating in various charitable activities. During the Year, the Group sponsored and supported a move by a community-based non-profit making cultural organization in Wuxi, and held the Real Nutri Care For The Empty Nests' Elderly activity. The Group also participated in the Mooncakes for Charity and the Love Teeth Day organized by The Community Chest of Hong Kong as well as the Don't Qua Charity Action 2017, Home Visit to the Elders and Caring Calls Services to Elderly organized by the Suicide Prevention Services.

PROSPECTS

The growth in China's economy, rise in the people's income level and living standards, plus the enhancement and restructure of consumption pattern along with increasing health consciousness of the Chinese people, altogether have given rise to the consistent growth in the demand for quality health products and services. According to the National Bureau of Statistics, healthcare expenditure per capita in China increased by 11% in 2017. The rising personal income and stronger demand for high-quality health products presents good opportunities for the business enterprises and giant driving forces for the health supplements market development. Therefore, the Group is confident about the prospects of China's health and nutritional supplements industry.

Real Nutri Beauty Life Halls activity

The Group has been operating in the healthcare industry for over 20 years and keeps abreast of the times for the reforms and innovation of its brand competitiveness. The Group plans to establish a new integrated service platform of Real Nutri Beauty Life Platform that comprises membership services, online mall, offline physical stores, and brand promotion and product sales, spokespersons. The Group will upgrade the brand and services of existing Real Nutri Health Stores for transformation to Real Nutri Beauty Life Halls which will thrive to become local community centers. Apart from the products sales, the halls can also provide customers with more in-depth health services and life experiences, through one-stop health consultations, membership services, social entertainments, product trials and results sharing. The Group will use the Real Nutri Beauty Life Platform to invite people from all walks of life as members and to provide professional advices on personalized total health solutions comprising health supplement products combination and services according to their health conditions. The Group targets to let such members share their experience of Real Nutri's products with others to promote the Real Nutri's corporate brand and image. At the same time, the platform will help to establish a more robust members' communication model and database system for collection of more precise and valid information. These measures can formulate more pin-pointed marketing strategies and allow the implementation of innovative sales modes in the future to enhance the Group's competitiveness.

The Group will adopt precise marketing strategies and improve its promotional efforts in online marketing. The Group will strengthen its cooperation with website operators to post online advertorials of in-depth analyses and guidance on the Group's corporate culture, flagship products and health information, for more prominent online exposure of the Group. These online advertorials will be posted on the health and financial websites with an aim of covering at least 50 media channels for each post. At the same time, the Group will launch more focused publicity campaigns for its products, corporate activities and the scientific frontiers and latest technology of amino acids to promote its brand awareness through its official website and internet social networking platforms. Besides, the Group will continue to participate in academic marketing campaigns of healthcare industry and scientific research associations so as to increase its publicity in the healthcare sector. For instance, the promotional video for the Group's U-Energy health drinks will be a key promotional focus in coming distributor conferences.

In addition to focusing on nutritional health supplements and health drinks businesses, the Group also proactively seeks and develops healthcare business with good growth potential. China's ageing population poses a new challenge to the country's socio-economic development and transformation. The government policies for the elderly have become an important country's agenda. The Chinese government has introduced a number of measures in recent years to support the development of the elderly care industry covering the financial, real estate and services industry sectors. The incentives include preferential tax treatments and subsidies to encourage investments in the elderly care industry. The modernization of society has also led to an increasing demand for quality elderly healthcare services. As the traditional nursing institutions are unable to totally fulfill the diverse needs of the aged population, the huge elderly population in need of more personalized nursing care presents a gigantic opportunity for elderly healthcare facilities and services. Therefore, the Group has entered into a memorandum of understanding with a government unit under Minle County of Zhangye City of Gansu Province of the People's Republic of China (the "Minle Government Unit") and Zhangye City Yongzhen Pharmaceutical Co., Ltd. ("Zhangye Yongzhen") in March 2018 for the development of a retirement village in the Minle County, Zhangye City, Gangsu Province, China. The project intends to develop a large scale retirement housing village combining elderly healthcare services, unpolluted Chinese herb plantation, and production facilities, and an eco-friendly hotel and travel services. The whole project with gross construction floor area of approximately 160,000 square meters has an estimated a total investment of up to RMB1 billion. The Group will be responsible for introducing investment and financing, providing technological support and operating the project. While Zhangye Yongzhen will provide support for the relevant businesses and technological support and the Minle Government Unit will adopt the necessary supportive policies for the launch of the project. The project would further promote the Group's core amino acids health supplements business as the retirement housing village would provide a new recurring customer base for the Group's health supplement products. The retirement village and medical check centre can provide more comprehensive services to the Group's health club members by offering them vacation with stay at the retirement village hotel for thorough medical check-ups and ecological tours. Furthermore, as the Group has developed a sizable elderly membership base through the sales and promotion of its health supplements for more than 10 years, the project could release the earning potential of such elderly membership base.

To meet the changing needs of the consumer market, the Group will accelerate the development of novel products and source high-quality health supplements. It will continue to work close to professional development institutions. In addition to launching new amino acid-based health supplements, the Group will also enrich its product portfolio by introducing more popular and diverse health foods to cater for the consumer preferences. In 2018, the Group plans to launch a number of new health products including Small Peptidomimetics Complex, Plant-based Probiotic Powder, Iron Folic Acid Tablets and Multi-vitamins products.

Even though China economic environment remains challenging, the Group is confident that it can overcome the difficulties and identify the opportunities in the challenges. The Group will not only continue to consolidate its leading position in amino acid health supplements industry, but will also fully apply its inherent competitive advantages to capitalize the growth in China's healthcare industry and to develop a more diversified healthcare business which will bring higher returns for the shareholders.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2017 (2016: nil).

ACKNOWLEDGEMENTS

I acknowledge with deep gratitude the work and support of the Board of Directors and the staff of the Group, which have been crucial to our success. I am confident that their endeavours will continue to help the Group achieve greater accomplishments in the years ahead. I would also like to take this opportunity to express my sincere appreciation to all our shareholders, customers and suppliers for their continuous support.

Wang Fucai
Chairman

Hong Kong, March 29, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The revenue of the Group in 2017 was RMB357.7 million, representing a decrease of approximately 59.7% from RMB886.4 million in 2016. Loss attributable to owners of the Company was RMB86.7 million in 2017 as compared to a loss of RMB65.4 million in 2016. The Company's basic loss per share ("Share") from continuing operations was RMB15.1 cents (2016: basic loss per share: RMB3.2 cents) based on the weighted average number of 1,592.0 million (2016: 1,592.5 million) Shares in issue during the Year. The loss in financial results in 2017 was mainly attributable to the decrease in revenue, gross profit margin and impairment loss on trade receivables.

Revenue

The revenue of the Group decreased by approximately 59.7% from RMB886.4 million in 2016 to RMB357.7 million in 2017. Sales of health and nutritional supplements decreased by approximately 59.4% from RMB718.5 million in 2016 to RMB291.6 million in 2017, which was primarily due to the decrease in sales of amino acids tablets and liquid products. The sales of health drinks decreased by approximately 60.7% from RMB167.9 million in 2016 to RMB66.0 million in 2017.

Gross profit

The Group's gross profit decreased from RMB550.8 million in 2016 to RMB211.7 million in 2017. The Group's average gross profit margin decreased from 62.1% in 2016 to 59.2% in 2017. Such decrease in gross profit margin was mainly due to the change in sales mix and increase of depreciation charges and packaging materials.

Other income and Other gains and losses

The Group's other income decreased from RMB47.6 million in 2016 to RMB45.4 million in 2017, which was mainly due to the decrease in franchise income. The Group's other gains and losses included net losses of RMB165.0 million in 2017 compared to net gains of RMB4.6 million in aggregate in 2016, which was mainly due to the impairment loss on trade receivables of RMB160.3 million for the Year.

Selling and distribution costs

The Group's selling and distribution costs decreased by approximately 59.4% from RMB446.0 million in 2016 to RMB181.2 million in 2017, represented approximately 50.3% of the Group's revenue in 2016 and approximately 50.7% of the Group's revenue in 2017 respectively. Such decrease was primarily due to the decrease in advertising and promotional expenses.

Administrative expenses

The Group's administrative expenses decreased by approximately 14.7% from RMB127.5 million in 2016 to RMB108.7 million in 2017, represented approximately 14.4% of the Group's revenue in 2016 and approximately 30.4% of the Group's revenue in 2017 respectively. Such decrease was primarily due to the decrease in depreciation expenses from RMB68.0 million in 2016 to RMB42.3 million in 2017.

Finance costs

The Group's finance costs increased by approximately 29.6% from RMB27.9 million in 2016 to RMB36.1 million in 2017, which was primarily due to the increase in interest on bank borrowings.

Taxation

Tax charge decreased by approximately 69.9% from RMB48.7 million in 2016 to RMB14.7 million in 2017 primarily due to the decrease in profit before taxation. The Hong Kong Profits Tax is calculated at 16.5%. The PRC income tax rate is 25%.

Loss for the year attributable to owners of the Company

As a result of the foregoing, the Group recorded a loss for the year of RMB86.7 million in 2017. The Group's loss margin for the year increased from approximately 7.4% in 2016 to approximately 24.2% in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

In 2017, net cash decreased by RMB154.5 million. RMB10.6 million were generated from operating activities, while RMB154.2 million and RMB14.0 million were spent on investing activities and financing activities respectively.

Inventories

The Group's inventories increased to RMB80.3 million (2016: RMB100.0 million) as at December 31, 2017 primarily due to the increase in stock for the Chinese New Year 2017. The Group's inventories comprise raw materials, packaging materials, work in progress, finished goods and merchandise for resale. During the Year, inventory turnover increased to approximately 112 days (2016: 64 days).

Trade receivables

The Group's trade and bills receivables after allowance for doubtful debts amounted to RMB303.7 million (2016: RMB621.7 million) as at December 31, 2017. During the Year, the distributors were generally granted a credit term of 90 days. Turnover days for trade and bills receivables increased to 234 days (2016: 210 days), primarily due to some distributors' delay in payment.

Trade Payables

The Group's trade payables amounted to RMB13.1 million (2016: RMB42.1 million) as at December 31, 2017. During the Year, the credit term provided by the suppliers generally was 90 days. Turnover days for trade payables increased to 76 days (2016: 64 days).

Borrowings

As at December 31, 2017, the Group had no short-term bank loans (2016: RMB772.0 million with a gearing ratio of 11.5%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge of assets

As at December 31, 2017, the Group has not pledged the Group's land use rights, buildings and plant and machinery under property, plant and equipment for the bank borrowings (2016: RMB350.8 million).

Capital expenditure

During the Year, the Group invested approximately RMB7.6 million (2016: RMB325.4 million) for purchase of property, plant and equipment, land use rights and intangible assets.

Capital commitments and contingent liabilities

As at December 31, 2017, the Group's capital commitments were approximately RMB90.2 million (2016: RMB115.5 million), all of which were related to acquisition of property, plant and equipment and technical knowhow. The Group has no material contingent liabilities as at December 31, 2017 (2016: nil).

Foreign exchange risk

RMB is the functional currency of the Company and its subsidiaries. Most of the revenues of the Group are derived from operations in the People's Republic of China (the "PRC"). The financial instruments of the Group are denominated in RMB. The Group is not subject to material currency risk as the Group has no major cash and cash equivalents denominated in foreign currency. For the year ended December 31, 2017, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

HUMAN RESOURCES MANAGEMENT

Quality and dedicated staff are indispensable assets to the Group's success in the competitive market. The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees in Hong Kong and the PRC. The Group reviews its human resources and remuneration policies periodically to ensure they are in line with market practice and regulatory requirements. As at December 31, 2017, the Group employed a work force of 315. The total salaries and related costs for the year ended December 31, 2017 amounted to approximately RMB31.1 million (2016: RMB41.0 million).

CORPORATE
GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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.

Saved as disclosed below, the Company complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended December 31, 2017. The Company periodically reviews its corporate governance practices to ensure its continuous compliance.

Set out below is a detailed discussion of the corporate governance practices adopted and observed by the Company for the year ended December 31, 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in Company's securities. Having made specific enquiries of all the Directors of the Company, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code for the year ended December 31, 2017.

BOARD OF DIRECTORS

(i) Board Composition

As at the date of the Directors' Report contained herein, the board of Directors ("Board") comprised a combination of six executive Directors, and three independent non-executive Directors. Dr. Wong Lung Tak Patrick, BBS, J.P., previously an independent non-executive Director, resigned on October 12, 2017 as he wished to focus his time on his own business pursuits and personal commitments, and Ms. Au-Yeung Kam Ling Celeste, an executive Director, resigned on April 1, 2018 as she wished to focus her time on founding and operation of philanthropic projects.

As at December 31, 2017, the Board consisted of the following Directors:

Executive Directors

Mr. Wang Fucai *(Chairman and Chief Executive Officer)*
Mr. Yu Yan
Mr. Li Lin
Mr. Yi Lin
Mr. Zhang Yan
Ms. Au-yeung Kam Ling Celeste (resigned on April 1, 2018)

Independent Non-executive Directors
Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

The executive Directors, with the assistance from the senior management, form the core management team of the Company. The executive Directors have the overall responsibility for formulating the business strategies and development plan while the senior management are responsible for supervising and executing the plans of the Company and its subsidiaries (together, the "Group").

(ii) Board Functions and Duties

The principal functions and duties conferred on the Board include:

- convening general meetings and reporting the Board's work at general meetings;
- implementing the resolutions passed by Shareholders in general meetings;
- deciding business plans and investment plans;
- preparing annual financial budgets and final reports;
- formulating the proposals for profit distributions, recovery of losses and for the increase or reduction of registered capital;
- exercising other powers, functions and duties conferred by Shareholders in general meetings; and
- performing the corporate governance functions under Provision D.3.1 of the CG Code, namely, performing corporate governance and has reviewed the Company's policies and practices on corporate governance and compliance with the CG Code, reviewed and monitored the training and continuous professional development of the Directors and senior management and reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements during the year as well as the disclosures in this Corporate Governance Report.

(iii) Board Meetings

During the year, the Board convened a total of nine meetings in person or by means of electronic communication, and eight of which had been held during the tenure of Dr. Wong Lung Tak Patrick, BBS, J.P. from the commencement of the financial year ended December 31, 2017 up to his resignation on October 12, 2017. Prior notices convening the board meetings were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The company secretary of the Company are responsible for keeping minutes for the board meetings.

(iv) Attendance Record

The following is the attendance record of the board meetings and general meetings held during the year ended December 31, 2017:

	Attendance at board meeting	Attendance at general meeting
Executive Directors		
Mr. Wang Fucai *(Chairman and Chief Executive Officer)*	9/9	0/1
Mr. Yu Yan	9/9	0/1
Mr. Li Lin	9/9	0/1
Mr. Yi Lin	9/9	0/1
Mr. Zhang Yan	8/9	0/1
Ms. Au-yeung Kam Ling Celeste (resigned on April 1, 2018)	9/9	1/1
Independent Non-executive Directors		
Dr. Wong Lung Tak Patrick, BBS, J.P. (resigned on October 12, 2017)	8/9	1/1
Dr. Fong Chi Wah	9/9	1/1
Mr. Chan Kee Ming	9/9	0/1
Mr. Xu Hua Feng	8/9	0/1

Each of the Directors has attended the relevant board meetings and general meetings in person and not by his alternate.

(v) Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders. One of the independent non-executive Directors, Dr. Fong Chi Wah has over 28 years in the accounting and finance profession. Dr. Fong is a Chartered Financial Analyst, a member of Hong Kong Institute of Certified Public Accountants and the Institute of Certified Management Accountants, Australia.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

(vi) Chairman and Chief Executive Officer

Provision A.2.1 of the CG Code provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Wang Fucai has been performing both the roles of Chairman and Chief Executive Officer. Mr. Wang is the founder of the Group and has over 30 years of experience in the health care and pharmaceutical industry. Given the current stage of development of the Group, the Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

(vii) Appointment and Re-election of Directors

According to the articles of association of the Company, at each annual general meeting one-third of the Directors are subject to retirement by rotation or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years.

All of the Directors of the Company including the independent non-executive Directors are appointed for a specific term. Each of the executive Directors has entered into a service contract with the Company for a term of two years. Each of the independent non-executive Directors has entered into a service contract with the Company for a term of one year.

(viii) Directors' Remuneration

The remuneration committee makes recommendations to the Board on the remuneration package of the Directors and senior management personnel. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by reference to, inter alia, their duties, responsibilities, experience and qualifications and no director shall take part in determining his/her own remuneration package. The principal elements of the remuneration package of the Directors and senior management include basic salary, discretionary bonus (in respect of executive Directors and senior management), retirement benefit scheme contributions and share options which may be granted under the 2010 Share Option Scheme.

(ix) Training and Support for Directors

Before the listing of the Company, the Directors had been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules.

Directors must keep abreast of their collective responsibilities. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills. The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management where appropriate, to ensure awareness of best corporate governance practices.

For the year ended December 31, 2017, the Directors participated in the following trainings:

	Type of Trainings
Executive Directors	
Mr. Wang Fucai *(Chairman and Chief Executive Officer)*	A, B
Mr. Yu Yan	A, B
Mr. Li Lin	A, B
Mr. Yi Lin	A, B
Mr. Zhang Yan	A, B
Ms. Au-yeung Kam Ling Celeste (resigned on April 1, 2018)	A, B
Independent Non-executive Directors	
Dr. Wong Lung Tak Patrick, BBS, J.P. (resigned on October 12, 2017)	A, B
Dr. Fong Chi Wah	A, B
Mr. Chan Kee Ming	A, B
Mr. Xu Hua Feng	A, B

A: attending seminars and/or conferences and/or forums relating to directors' duties
B: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.

(x) Directors' and Officers' Insurance

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

(xi) Company Secretary

Mr. Poon Yick Pang, Philip, the Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During financial year, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules by having taken not less than 15 hours of appropriate professional training during the financial year. The biographical details of the Company Secretary is set out on in the section entitles "Biography of Directors and Senior Management" in the annual report.

(xii) Board Diversity Policy

The Board has adopted its board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited gender, age, cultural and educational background, skill, knowledge and experience. The appointment of Directors will be based on the Group's own business model and specific needs, having due regard for the benefits of diversity on the Board.

BOARD COMMITTEES

The Board has established Remuneration Committee, Nomination Committee and Audit Committee (collectively "Board Committees") with defined terms of reference. The terms of reference of the Board Committees are posted on the websites of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(i) Remuneration Committee

The terms of reference of the remuneration committee are in compliance with the provisions of the CG Code (where applicable). The remuneration committee comprises one executive Director, Mr. Wang Fucai, and two independent non-executive Directors, Dr. Fong Chi Wah and Mr. Xu Hua Feng. Dr. Fong Chi Wah is the chairman of the remuneration committee.

The primary responsibilities of the remuneration committee are to make recommendations to the Board on the remuneration package of the Directors and senior management personnel and to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

During the year, the remuneration committee has held two meetings, at which members of the remuneration committee has assessed the performance of the executive Directors, considered and reviewed the existing terms of remunerations of all the Directors and senior management, and the Group's remuneration policy in relation to that of comparable companies, time commitment and responsibilities of the Directors and senior management and desirability of performance-based remuneration. The remuneration committee considered that the existing terms of remunerations of the Directors and senior management were fair and reasonable.

The following is the attendance record of the committee meeting held by the remuneration committee.

	Attendance at meeting
Dr. Fong Chi Wah (independent non-executive Director)	2/2
Mr. Wang Fucai (executive Director)	2/2
Dr. Wong Lung Tak Patrick, BBS, J.P. (independent non-executive Director) (resigned on October 12, 2017)	2/2
Mr. Xu Hua Feng (independent non-executive Director)	2/2

(ii) Nomination Committee

The terms of reference of the nomination committee are in compliance with the provisions of the CG Code (where applicable). The nomination committee comprises two executive Directors, Mr. Wang Fucai, and Mr. Zhang Yan and three independent non-executive Directors, Dr. Fong Chi Wah, Mr. Xu Hua Feng and Mr. Chan Kee Ming. Mr. Wang Fucai is the chairman of the nomination committee.

The primary responsibilities of the nomination committee are to review the structure, size and composition of the Board and make recommendations to the Board on the selection of, individuals nominated for directorships having regard to the qualifications, experience and skills of individual nominated to be appointed and the board diversity policy the Company's corporate strategy; and assess the independence of non-executive Directors and make recommendations to the Board on the appointment or re-appointment of Directors. The process of nomination of Directors is led by the nomination committee.

According to the "Procedures for a member to propose a person for election as a director" of the Company which is published on the Company's website, any member who is duly qualified to attend and vote at the general meeting who wishes to propose a person (other than the proposer himself/herself) may, by following the procedures set out therein, propose a person for election as a director of the Company at the relevant general meeting of the Company.

According to the articles of association of the Company ("Articles") and the Companies Law of the Cayman Islands, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board. According to the Articles, the Board shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election and Directors are all subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years. The circular to the shareholders of the Company with notice of the forthcoming annual general meeting contains biographical details of all Directors proposed to be elected and re-elected at the annual general meeting to enable shareholders of the Company to make an informed decision on election and re-election of Directors.

During the year, the nomination committee has held one meeting, at which members of the nomination committee has considered and reviewed the existing structure, size and composition of the Board in light of the board diversity policy, in terms of factors including the skills, knowledge and experience possessed by the members of the Board, and assessed the independence of independent non-executive Directors. The remuneration committee considered that the existing structure, size and composition of the Board are reasonable.

A summary of the board diversity policy is set out in the paragraph headed "Board of Directors — (xii) Board Diversity Policy" in this report.

The following is the attendance record of the committee meeting held by the nomination committee.

	Attendance at meeting
Mr. Wang Fucai (executive Director)	1/1
Mr. Zhang Yan (executive Director) (Note)	0/1
Dr. Fong Chi Wah (independent non-executive Director)	1/1
Dr. Wong Lung Tak Patrick, BBS, J.P. (independent non-executive Director) (resigned on October 12, 2017)	1/1
Mr. Xu Hua Feng (independent non-executive Director)	1/1
Mr. Chan Kee Ming (independent non-executive Director)	1/1

Note:

Mr. Zhang Yan was appointed as a member of the nomination committee with effect from October 12, 2017 following the resignation and in replacement of Dr. Wong Lung Tak Patrick, BBS, J.P. who resigned on October 12, 2017.

(iii) Audit Committee

The terms of reference of the audit committee are in compliance with the provisions of the CG Code (where applicable). The primary duties of the audit committee are to review the financial statements of the Group, review and supervise financial reporting processes of the Group and, unless addressed by the Board itself, review the risk management and internal control systems of the Group. At present, the audit committee comprises, Dr. Fong Chi Wah, Mr. Xu Hua Feng and Mr. Chan Kee Ming, being the three independent non-executive Directors of the Company. Dr. Fong Chi Wah is the chairman of the audit committee.

The audit committee is satisfied with their review of the auditor's remuneration, the independence of the auditor, Elite Partners CPA Limited ("Elite"), and recommended the Board to re-appoint Elite as the Group's auditor in the year ending December 31, 2018, which is subject to the approval of shareholders at the forthcoming annual general meeting.

During the year, the audit committee has held three meetings, at which the members of audit committee have reviewed and discussed with the external auditor of the Group's interim results for the six months ended June 30, 2017, the audited annual results for the year ended December 31, 2016, who is of the opinion that such statements have complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made. The audit committee had also reviewed the Group's risk management and internal control systems, the effectiveness of the Group's internal audit function, and had also made recommendations to the Board and the management in respect of the Group's financial reporting, risk management and internal control procedures. The audit committee together with the Board has appointed an independent accounting firm to conduct an independent review on the allegations made in a report published by Glaucus Research Group California LLC ("Glaucus Report") which contains allegations against the Group's business operation and financial position, and the findings of such review report was published by the Company in its announcement dated January 26, 2017.

The following is the attendance record of the committee meeting held by the audit committee.

	Attendance at meeting
Dr. Wong Lung Tak Patrick, BBS, J.P. (independent non-executive Director) (resigned on October 12, 2017)	3/3
Dr. Fong Chi Wah (independent non-executive Director)	3/3
Mr. Xu Hua Feng (independent non-executive Director)	3/3
Mr. Chan Kee Ming (independent non-executive Director) (Note)	0/3

Note:

Mr. Chan Kee Ming was appointed as a member of the audit committee with effect from October 12, 2017 following the resignation and in replacement of Dr. Wong Lung Tak Patrick, BBS, J.P. who resigned on October 12, 2017.

AUDITOR'S REMUNERATION

For the year ended December 31, 2017, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditor is set out below:

	For the year ended December 31, 2017 HK$'000
Annual audit services	2,950
Other audit services	840
Non-audit services	1,050

The non-audit services provided by the Group's external auditor, Elite, during the year ended December 31, 2017 were related to the interim review services and the service fee amounted to approximately HK$1,050,000.

The audit committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditor, which is subject to the approval by the Board and at the general meetings of the Company by the Shareholders.

DIRECTOR'S RESPONSIBILITY ON THE FINANCIAL STATEMENTS

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

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the effectiveness of the risk management and internal control systems, and it monitors these risk management and internal control systems through the internal audit department of the Group. The internal audit department reviews the material controls of the Group annually, which aims to cover all major operations of the Group. Overall, an internal audit function is in place and provides the Board with reasonable assurance that the risk management and internal control systems of the Group are effective and adequate. The Board also reviews regularly the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget.

The Board (through the internal audit department of the Group) reviews the risk management and internal control systems annually and has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering the year ended December 31, 2017 in compliance with the requirements under Code Provision C.2 of the CG Code. As no major deficiency on the risk management and internal control systems was noted after implementation of the solutions to resolve the internal control defects found in the review, the Board considered the risk management and internal control systems of the Group effective and adequate.

Process used to identify, evaluate and manage significant risks

During the process of risk assessment, the internal audit department is responsible for identifying the risks of the Group and deciding on the acceptable risk levels, and the Board is responsible for assessing and determining the nature and extent of the risks that are acceptable to the Group when achieving its strategic objectives. After discussing and taking into consideration the risk response, the relevant departments within the Group shall be assigned to implement the risk management solutions in accordance with their respective roles and responsibilities. The identified risks together with the risk response will be reported to the Board.

Main features of risk management and internal control systems

The key elements of the risk management and internal control systems of the Group include the identification of risks, the assessment and evaluation of risks, the development and continuous updating of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness. Such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss.

An ongoing risk assessment approach is adopted by the Group for identifying and assessing the key inherent risks that hinder the Group from achieving its objectives. The assessment of the risks is mainly made in accordance with the likelihood of occurrence of events that are detrimental to the Group and the consequences of these events should they occur. The rating assigned to each risk reflects the level of management's attention and risk control or elimination efforts required with respect to that risk.

Process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects

The internal audit department of the Group conducts reviews on the effectiveness of the risk management and internal control systems of the Group and reports its findings to the Audit Committee. The Board is responsible for ensuring that adequate resources are allocated to the relevant departments within the Group so that material internal control defects found in the reviews of the risk management and internal control systems scan be resolved and the recommendations made by the internal audit department can be implemented on timely basis.

Procedures and internal controls for the handling and dissemination of inside information

The Board has established the inside information policy for the handling and dissemination of inside information. The inside information policy stipulates the obligations of the Group, in relation to the restriction on sharing non-public information, handling of allegation, unintentional selective disclosure, exemptions and waiver to the disclosure of inside information, external communication guidelines and compliance and reporting procedures. Under the policy, management of the Group must take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of the disclosure requirement in relation to the Group. They must promptly bring any possible leakage or divulgence of inside information to the attention of the chief financial officer of the Company, who will notify the Board as soon as reasonably practicable to allow appropriate actions to be taken promptly. In the event that there is evidence of any material violation of the inside information policy, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding the likelihood of its recurrence.

Brand and intelligent technology risk

The Group products and brand names may be subject to counterfeiting or imitation, which could impact upon our reputation, leading to loss of consumer confidence, reduced sales and/or higher administrative costs. Counterfeiting and imitation have occurred in the past in China for many consumer and branded products. The scale of counterfeiting of our products has been limited and the amounts involved were minimal. The counterfeiting of our products, therefore, has not had any material impact on our trading and financial position in the past. Our ability to maintain our brand image, including the cultivation of market perception, acceptance and maintaining the quality of our products, is a significant factor in the success of our business.

Industry risk

The Group incurred losses in a couple of years, mainly due to the slowdown in China economy and consumer market. The Group expects the operating expenses will be increased in the coming year by the expansion of the operation to ensure that to maintain the competitiveness of our products in the PRC health product market, launch the new products, and keep high standard of services as a whole in order to meet the demand of our target consumer groups.

SHAREHOLDER'S RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

Pursuant to the Articles and Association of the Company, any one or more Members 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 send to the Company's head office at 28th Floor, The Hennessy, 256 Hennessy Road, Wan Chai, Hong Kong for the attention of 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.

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The chairman of the Board as well as chairmen of the remuneration committee, the audit committee and nomination committee and, in their absence, other members of the respective committees are available to answer questions at Shareholders' meetings.

The forthcoming annual general meeting ("AGM") will be held on June 1, 2018. The notice of AGM will be sent to Shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.ruinian.com.hk, where extensive information and updates on the Company's financial information, corporate governance practices and other information are posted and available for public access.

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

Constitutional Documents

There was no significant changes in the constitutional documents of the Company during the year ended December 31, 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report summaries the Group's strategic direction and commitments for achieving sustainable developments in five aspects, including working environment quality, environmental protection, measures of energy conservation and emission reduction, operating practice and community involvement.

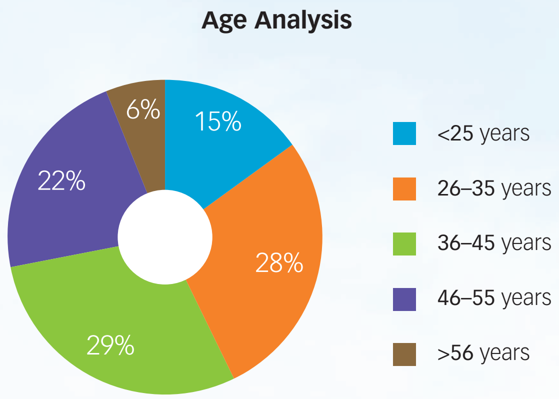
WORKING ENVIRONMENT QUALITY

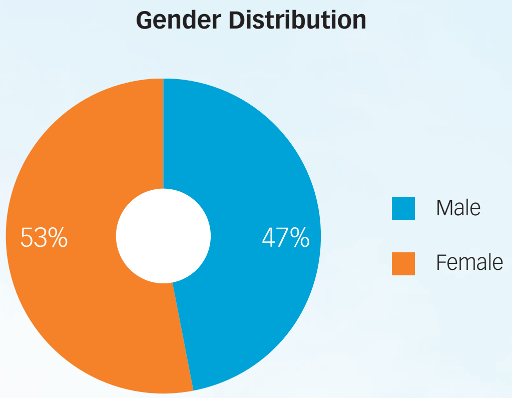
Staff

The Group has always upheld the belief that talents are the most valuable asset of the corporation. Therefore, the Group regards the strategy for human resources management as a crucial part of our overall strategy. The Group provides equal job opportunities and career trainings to the staff. The Group also emphasizes on pursuing career goals and highly values work-life balance of all employees.

The Group complies with the Labour Law of the People's Republic of China (中華人民共和國勞動法) and relevant local labour regulations, as well as major employment and labour laws and regulations in Hong Kong, including Employment Ordinance, Employees' Compensation Ordinance and Mandatory Provident Fund Schemes Ordinance. The Group has in place its own Human Resources Manual, which provides measures and basis of implementation for the Group's human resources management.

As of December 31, 2017, the Group has 315 employees and most of them are based in Wuxi. The below charts show the statistics regarding the Group's employees as at December 31, 2017:





The Group's success relies on the contribution from the staff of both genders and different age groups who provide diversified ideas and are equipped with a variety of skills.

In 2017, the average staff turnover of the Group per month is approximately 2.7%. The Group has implemented the following effective measures in establishing the staff's welfare facilities and enhancing the sense of belonging of the staff:

1. The Group has office premises and production facilities in cities of Wuxi, Suzhou and Suqian, coupled with provision of staff dormitories equipped with functions such as air conditioning, laundry and cooking as well as basic recreational facilities which comprised of snooker, table tennis and basketball. In addition to that the Group also have staff cafeteria to provide a variety of delicacies for employees.

2. The Group cultivates a harmonious corporate culture which engenders high levels of staff commitment and motivation. In 2017, the Group organized various regular staff development programs, recreational activities and competitions to encourage staff integration and boost team spirit, such as team building activity and Real Nutri 20th anniversary activity.


Team building activity


Real Nutri 20th anniversary activity

Health and Safety

The Group complies with the PRC Production Safety Law and Labour Law and internally formulated management and fire safety systems, and strives to provide the staff with a safe, effective and comfortable working environment. Various trainings, safety guidelines and occupational health education information are provided regularly to ensure the health of the staff with a safe and comfortable working environment. The Group was not aware of any work-related death or injury during the year. Since commencement of operation, the Group has been in compliance with all applicable laws and regulations related to labour and safety.

Development and Training

The Group puts great emphasis on attracting and nurturing talents and career development and promotion of employees. In this regard, the Group provide various development and training projects every year to enhance employees' level in order to build up a high-caliber management and professional team suited for the Group's business development. In 2017, the Group spent 1,500 hours in employee training. The Group also provided different training schemes towards all levels of employees:

(a) Training scheme for directors and senior management — providing trainings to directors and senior management on corporate governance and updates about the Listing Rules and latest development required by other applicable rules and regulations.

(b) Training scheme for middle management — providing trainings to middle management on improving management and leadership skills, emotional intelligence and problem solution skills.

(c) Training scheme for production workers and quality control staffs — providing trainings to production workers on manufacturing skills and technologies, knowledge, safety guidance and work flow of production, as well as product quality control and assurance.

(d) Training scheme for new employees — providing trainings to new employees, including introduction on the Group's corporate culture and policies, safety and security of working environment, product knowledge, industry development trends as well as other industry-related information.

(e) Development scheme for all employees — the staff development scheme aims to enable employees to enhance their soft skills, such as self-motivation, adaptability and interpersonal skills.

The Group prepares staff manuals and circulates to all of staffs specifying the history, structure, outlook and prospects, corporate culture and values of the Group as well as code of conduct, rights, welfare standards and other important information.

Policy on Remuneration and Benefits

The Group has established a comprehensive management system of remuneration, motivation and performance appraisal. Salary is commensurate with employees' position value, competence and performance and with reference to the prevailing market conditions. Staff performance is assessed in an appropriate manner and the outcome of which will be reflected in remuneration and promotion. To accommodate the Group's long-term development, the Group has also established a long-term incentive mechanism.

Labour Standards

The Group adopts a series of comprehensive policies and procedures in relation to recruitment and labour force to prevent child or forced labour. Since 2010, in compliance with the Jiangsu Labour Contract Regulations (江蘇省勞動合同條例), the Group signed labor contracts with new employees and vetted vigorously their age and identity, which plays an important part in the protection for staff.

Environmental Protection

The Group aims to make efforts to mitigate the environmental impact of operation, especially regarding the greenhouse gas emissions, water resources and wastes. As an enterprise that commits to social responsibility, the Group is making continuous improvement of efficiency, innovation and new investments to achieve its goal.

Energy Utilization

The Group is engaged in the manufacturing industry of healthcare products. Natural gas, electric power and water consumption are the necessary resources for the production process, the Group closely monitor and control the energy utilization. Details of the energy utilization are as follows:

Energy utilization	For the year ended December 31, 2017	For the year ended December 31, 2016
Electricity	**973,760 Kilowatt**	1,162,920 Kilowatt
Natural gas	**35,423 Cubic meters**	68,704 Cubic meters
Water	**34,745 Cubic meters**	20,443 Cubic meters
Packaging materials	**6,160 Tonnes**	6,720 Tonnes

Measures of Energy Conservation and Emission Reduction

The Group strictly observes the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), and implements certain measures in respect of protection of natural resources, optimization of energy consumption and reduction of environmental pollution. The Group uses a 2-ton gas-fired boiler for production with natural gas consumption of 150m^3/h. The waste emission of the boiler also complies with the standard (GB13271-2014) under the Law of the People's Republic of China on Air Pollution Prevention and Control and the control of waste gas emission is relatively strict. Up to now, the Group has not received any penalty or notice regarding excessive waste gas emission.

Production Efficiency

A number of automatic production equipment were purchased as follow:

1. smart tablet packing machine that all manual blister packaging work is done by automatic machines.

2. automatic side sealing machine that doubles the production capacity of shrink film of products and reduces labor works.

3. powder packing machine (八聯包機器) that largely enhances the production capacity of the inner packaging of granules.

Quality Control:

The Group continues to step up investment on quality control equipment by acquiring new precision inspection instruments such as biosafety cabinet, bio-incubator, high-speed refrigerated centrifuge, fluorescent detector and special column. This will not only satisfy the latest requirement of product quality by the regulatory authority in China, but also cover the inspection of all products in categories of pathogen, vitamins and minerals as required by the latest standard.

Reduction of Waste Gas Emission

During the production process, the Group uses natural gas to substitute heavy fuel oil and diesel oil in the process of boiler heating. Using natural gas for heating is cleaner and better for the environment. Switching to natural gas can drastically reduce emissions of nitrogen oxides and carbon dioxide when burned in a boiler and eliminate the discharge of sulphur dioxide which was significantly produced when using heavy fuel oil combustion. Major pollutants of the air and greenhouse gas emissions from boilers and pre-treating machines such as are emitted and controlled in accordance to the "Emission standard of air pollutants for boiler" issued by the Ministry of Environmental Protection of the PRC. Regarding mobile vehicles, the Group uses electric cars run on new energy to reduce emission and protect the environment. Details of the carbon dioxide emission as follows:

Air and greenhouse gas emissions	**For the year ended December 31, 2017**	For the year ended 31 December 31, 2016
Carbon dioxide (CO_2)	**2,820 Tonnes**	3,042 Tonnes

Electricity management

The Group implements green lighting in the workplace to reduce usage of electricity. This involves installing energy-saving lights and using energy-saving light bulbs in the office and manufacturing facilities. The Group also encourages employees to switch off the lights in the areas of the workplace that are not being used and to use natural light whenever possible as well as switching off their office equipment such as computers and printers at the end of the workday. The Group has also established solar-energy power supply equipment with annual power supply for production of approximately 1 MW.

Sewage emissions and waste separation recycling program

The sewage emissions are obtained and examined quarterly by the relevant government authority. Throughout the year, the Group had strictly complied with the regulatory standards. The Group aims to conserve and recycle solid waste whenever possible. The Group has established internal recycling policy and conduct a separation and treatment process for solid waste. Re-useable waste fabric, waste paper boxes, waste plastics and scrap irons generated during the production process are delivered to waste treatment companies for recycling. The Group is engaged in the production of health products and does not produce hazardous waste during the production process. Details of emissions as follows:

Emissions	**For the year ended December 31, 2017**	For the year ended December 31, 2016
Sewage	**12,525 Cubic meters**	7,422 Cubic meters
Non-hazardous	**1,425 Tonnes**	1,688 Tonnes

OPERATING PRACTICE

Supply Chain Management

To achieve mutual benefit through collaboration with upstream and downstream players in the industry chain, the Group insists to open, fair and transparent criteria in selecting suppliers, evaluates suppliers every year in terms of price, quality, cost, delivery and after-sales service, and adopts the dual-sourcing management to establish a competitiveness and vitality supply chain platform. The Group continues to assist suppliers in upgrading management and technologies, seeking to consolidate and optimise the sustainable supply chain system for mutual growth with the suppliers.

The Group has formulated a set of stringent standards which define supplier standards and assessment system, in order to ensure that the materials purchased meet the Group's standard and comply with certain certifications for a smooth production process. The Group takes the following standards into consideration when selecting suppliers:

- Raw material quality — The raw materials meet the national standard of GMP for drugs and healthcare products and other industrial standards.

- Punctual delivery and logistics — Delivery on time to the Group's warehouse or designated locations.

- Others — Other factors including qualification, business scale, product capacity and the industrial reputation of the supplier.

Furthermore, annual evaluation is required for all of the Group's suppliers which covering aspects such as product quality, production cost and product delivery schedule.

Product Liability

The Group has adopted the national standard of GMP for pharmaceutical products and health supplement products to enhance health and safety, environmental protection and product quality management.

The Group puts strong emphasis on product quality and establishes a quality control system, which is one of the principal factors contributing to its success. The Group adopts internal product quality control procedures to ensure that its products meet national, industry and its internal standards. The Group's quality control measures covers various stages of operations, including raw materials procurement and self-production and outsourced production.

Based on the national standard of GMP and obtained the food manufacturing permits issued by Jiangsu Province Food and Drug Administration, it has proved the level of competence in its quality control system, and at the same time, demonstrates the commitment to consumer safety and stakeholder. The Group has also set up a laboratory under its quality control department to conduct internal quality inspection in accordance with the National standard of GMP. The Group considers that its internal quality standards are more stringent than the national standards and all of its products are required to pass the relevant national and internal quality tests before reaching to customers.

As of 31 December 2017, the quality control department of the Group is responsible for monitoring the quality of raw materials and production process. The quality control system includes the following processes:

- Raw materials — Raw materials suppliers must pass our internal quality checks, external third party quality inspections, as well as certain national health, safety and environmental standards. Raw materials that fail to meet these standards may be returned to the suppliers for rectification or replacement.

- Production — The Group carries out inspections at all important stages of the production process to ensure that its standards are met, including spot checks of semi-finished products and final inspections on finished products to ensure that the products comply with the specifications and are free of major defects.

The Group is devoted to product quality in order to address the end customers' needs and preferences. At the same time, the good performance for past years evidenced by our patented products. For instance, the Group received the "Top Brand of Jiangsu Certificate" (江蘇名牌產品證書) from Jiangsu Top Brand Strategy Committee in 2013. The above recognitions are testament to its quality commitment.

In respect of promotion, based on the Notice on Further Strengthening the Review and Supervision over Advertisements for Health Food (關於進一步保健食品廣告審查監管工作的通知) issued by China Food and Drug Administration, the Group has set-out a guidelines on the use of spokesperson and renowned trademark comply with new laws on advertisements and trademarks, such clear-cut guidelines may prevent unnecessary losses for the Group.

Anti-Corruption

The Group strictly complies with the national laws and regulations, international practices and business ethics to strengthen the practice of establishing the implementation of responsibility and promote the culture of corruption-free and prevention and punishment system comprehensively. The Group will promote the compliance system and strengthen the construction of legal culture and research, promote the compliance works and integration of operation management, so as to enable the operation of the Group to be in compliance with the applicable law requirements and contemporary corporate governance requirements and interests from relevant parties.

The Group plans to develop a forward-looking and systematized comprehensive systematic risk management system according to the operation characteristics of the Group, and to construct a risk management platform for the respective departments. The Group will incorporate the comprehensive risk management into the operation and business of the Group so as to achieve the strategic target of the Group.

With regard to employee management, the Group's employee manual lists out in details of the Standards of professional behavior and ethics for employees, prohibits power abuse for personal gains and receiving rebates, as well as establishes an interest reporting mechanism to protect employees under a legal work environment.

COMMUNITY INVOLVEMENT

Charity Activity

The Group is committed to fulfilling its social responsibility through charity activities. During the year, the Group took part in the following charity activities:

➢ Supported universal education and participated in the Week of science in Mashan, Wuxi to penetrate into the community.

➢ Sponsored "Lantern Festival Celebration" activity organized by an elderly home in Fengying community.

➢ Employees participated in a large-scale community walk activity.

➢ Supported non-governmental and non-profit cultural art organizations.

➢ Organized empty nester care activity.

➢ Participated in the Mooncakes for charity and the Love Teeth Day Organised by The Community Chest of Hong Kong.

➢ Participated in 2017 Don't Qua Charity Action and home visit to the Elders by Suicide Prevention Services.

Greenery

In the past few years, the Group strived to greening and beautifying the urban living environment through various urban greenery activities. These included planting trees around the community, enhancing existing greened areas, fertilization, soil remediation and regular maintenance and preservation of trees and shrubs. The Group endeavors to develop and promote a green culture and encourage staff members to extend greening activities to its office, with a view of urging different parties to create a healthy and comfortable environment.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Fucai (王福才), aged 62, is the founder, the chairman of the Board of Directors and the chief executive officer of the Company and is responsible for the overall management, strategic development and major decision making of the Group. Mr. Wang was appointed as an executive Director of the Company on August 30, 2006. Mr. Wang received a graduation certificate (畢業證) from the Medical Department of Harbin Medical University (哈爾濱醫科大學) in July 1983. Mr. Wang established Wuxi Ruinian Industry and Commerce Co. Ltd. ("Ruinian Industry") in 1997 to develop his own business and is now the chairman and general manager of Ruinian Industry. He is an associate director of China Food and Drug Administration Magazine (國家食品藥品監督管理局監督雜誌) and a permanent member of the Association of Hong Kong & Kowloon Practitioners of Chinese Medicine Limited. Mr. Wang possesses over 30 years of experience in the health care and pharmaceutical industry, including over 10 years in the nutritional supplement industry. Mr. Wang served in BeiMan TeGang and its affiliated hospital (北滿特鋼及其附屬醫院), a state-owned entity, from 1983 to 1992 and was appointed as the Medical Superintendent from 1990 to 1992, during which he gained experiences in management and administration. From 1992 to 1997, Mr. Wang worked in Shenzhen Hygienic Development Company (深圳市衛生發展公司) as the general manager and was responsible for the sale of pharmaceutical products. Mr. Wang Fucai is the sole director and sole shareholder of Furui Investments Limited (福瑞投資有限公司), a substantial shareholder of the Company directly holding 290,968,394 Shares, representing approximately 18.28% of the issued share capital of the Company as at December 31, 2017.

Mr. Yu Yan (于岩), aged 53, is an executive Director and is responsible for the Group's production and administration. Mr. Yu was appointed as an executive Director of the Company on August 30, 2006. Mr. Yu has over 30 years of experience in management. He was the supervisor and factory manager of Northern Steel Development Factory (北鋼北發工業公司) and its subsidiary from 1986 to 1996. Mr. Yu joined the Group in December 1997 and is currently the deputy general manager of Ruinian Industry.

Mr. Li Lin (李林), aged 50, is an executive Director and is responsible for the sales and marketing of the Group. Mr. Li was appointed as an executive Director of the Company on August 30, 2006. Mr. Li is a senior economist recognized by the Department of Personnel of Jiangsu Province based on the assessment by Jiangsu Qualification Evaluation Committee of Senior Professional Positions Specialised in Economic Field (江蘇省經濟專業高級專業技術資格評審委員會). He graduated from Hubei University (湖北大學) in July 1989 and obtained an executive MBA degree from Peking University (北京大學) in January 2007. He was employed by Wuhan Standard Vehicle Parts Factory (武漢汽車標準件廠) as a teacher, administrator of student affairs department and plant manager during the period between 1989 and 1995. He worked for Sanzhu Group Limited (三株集團有限公司) as a manager, regional manager and sales director until 2000 and has over 19 years of experience in sales and marketing. Mr. Li joined the Group in October 2000 and is currently the deputy general manager of Ruinian Industry.

Mr. Yi Lin (伊林), aged 54, is an executive Director and is responsible for the product development and administration of the Group. Mr. Yi was appointed as an executive Director of the Company on August 30, 2006. Mr. Yi obtained a Bachelor's Degree in Pharmaceutical Preparation (製劑) from Shenyang Medical University (瀋陽藥科大學) in 1987. During the period between 1987 and 1993, he was employed by Harbin Pharmaceutical Group (哈藥集團股份有限公司) and later promoted to be a sales manager. Mr. Yi was the head of sales of Shenzhen Bright Way Pharmaceutical Co., Ltd. (深圳凱程醫藥化工有限公司) during the period between 1993 and 1998 and the provincial, regional and Northern China regional manager of Shenzhen Xinpeng Biological Engineering Ltd. (深圳新鵬生物工程有限公司) during the period between 1998 and 2004. He has approximately 28 years of experience in sales and marketing. Mr. Yi joined the Group in February 2004 and is currently the deputy general manager of Ruinian Industry.

Mr. Zhang Yan (張宴), aged 41, is an executive Director and is responsible for the finance and treasury of the Group. Mr. Zhang was appointed as an executive Director of the Company on August 30, 2006. Mr. Zhang completed a diploma study (大學專科) in Finance and Accounting from Shanghai University of Finance & Economics (上海財經大學) in July 1996. He joined Wuxi Desheng Silk Plant (無錫市德生綢廠) in September 1996 and was later promoted as an administrator of the human resources and accounts department. He has accumulated over 18 years of experience in accounting. Mr. Zhang joined the Group in January 2001 and is currently the deputy general manager of Ruinian Industry.

Ms. Au-yeung Kam Ling Celeste (歐陽錦玲), aged 55, is an executive Director and is responsible for the operations of the Group outside the PRC. Ms. Au-yeung joined the Group in October 2004. Ms. Au-yeung was appointed as an executive Director of the Company on March 28, 2008. Ms. Au-yeung has over 20 years of experience in the health food industry. Ms. Au-yeung worked in Sunrider International (Hong Kong) Limited, an international health food company from 1991 to 2001, where she was promoted to district operation manager and gained extensive knowledge and experience in the health food markets in Hong Kong and Southeast Asia. Prior to joining the Group, she worked as operation manager in both Ta Shing Indomold from 2001 to 2003 and Majestic Group from 2003 to 2004. Ms. Au-yeung completed a study in Journalism from Chu Hai College (珠海書院) in Hong Kong in 1986. Ms. Au-yeung resigned as an executive Director and was appointed as senior adviser of the Group on April 1, 2018.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P. (黃龍德), aged 70, is an independent non-executive Director and joined the Group in March 2008. Dr. Wong was appointed as an independent non-executive Director of the Company on March 28, 2008. Dr. Wong is a Certified Public Accountant (Practicing) and a Certified Tax Adviser in Hong Kong and also a Chartered Secretary in the United Kingdom and in Hong Kong. He is currently the Managing Practising Director of Patrick Wong CPA Limited. He has over 40 years experience in the accountancy profession. Dr. Wong holds a Doctor of Philosophy in Business degree, was awarded a Badge of Honour by the Queen of England in 1993 and was appointed a Justice of the Peace in 1998. He was also awarded a Bronze Bauhinia Star by the Government of the HKSAR in 2010. Dr. Wong is an independent non-executive director of Galaxy Entertainment Group Limited, Water Oasis Group Limited, Sino Oil and Gas Holdings Limited, National Arts Entertainment and Culture Group Limited, Winox Holdings Limited, 北京汽車股份有限公司 (BAIC Motor Corporation Limited) and Li Bao Ge Group Limited, the shares of all these companies are listed on the Stock Exchange. Dr. Wong resigned as the independent non-executive Director and was appointed as senior advisor of the Group on October 12, 2017.

Dr. Fong Chi Wah (方志華), aged 55, is an independent non-executive Director and joined the Group in March 2008. Dr. Fong was appointed as an independent non-executive Director of the Company on March 28, 2008. Dr. Fong is a Chartered Financial Analyst, a member of Hong Kong Institute of Certified Public Accountants and the Institute of Certified Management Accountants, Australia, and the Hong Kong Institute of Directors. Dr. Fong has over 28 years of experience in various sectors of the financial industry, including direct investment, project and structured finance and capital markets, with a focus on the PRC and Hong Kong. Dr. Fong was a director of Baring Capital (China) Management Limited and held various management positions in ING Bank. He was appointed as an independent non-executive director of China Innovationpay Group Limited (formerly known as Syscan Technology Holdings Limited) on December 19, 2003 and as an executive director of National Investments Fund Limited on November 1, 2005, and both companies are listed on the Stock Exchange. Dr. Fong obtained a bachelor's degree in management science (economics) from Lancaster University, United Kingdom, in 1984, a master's degree in business administration from Warwick University, United Kingdom, in 1986, a master's degree in investment management from the Hong Kong University of Science and Technology in 1999, a master's degree in practising accounting from Monash University, Australia, in 2001, a doctorate in business administration from the Hong Kong Polytechnic University in 2007 and a Juris doctor from the Chinese University of Hong Kong in 2013.

Mr. Xu Hua Feng (徐華鋒), aged 49, is an independent non-executive Director and joined the Group in September 2012. Mr. Xu was appointed as an independent non-executive Director of the Company on September 1, 2012. Mr. Xu obtained a Bachelor of Laws from the China Youth University for Political Sciences (中國青年政治學院) in 1992 and has been reappointed the Secretary of China Health Care Association (中國保健協會) since 2006. Mr. Xu has over 20 years of experience in the nutrition and health care food products industry. Mr. Xu has extensive experience in policy reaearch, market analyses and investment management.

Mr. Chan Kee Ming, William (陳基明), aged 53, is an independent non-executive Director and joined the Group in May 2010. Mr. Chan was appointed as an independent non-executive Director of the Company on May 26, 2010. Mr. Chan is the honorable secretary of The Hong Kong Software Industry Association since 2008. Mr. Chan was the account executive of Federal Express Limited in 1990 and the general manager of Vanda Computer and Equipment Co Ltd from 1992 to 2000. Mr. Chan has over 17 years' experience in logistic business. From 2002 to 2009, Mr. Chan was a fellow member of the E-logistics Group and S-logistics Group of the Logistics Development Council of Hong Kong. Mr. Chan has been the chief executive officer of DigiLogistics Technology Limited since January 2000. Mr. Chan obtained a bachelor of arts degree from The University of Hong Kong in 1987.

SENIOR MANAGEMENT

Mr. Poon Yick Pang, Philip (潘翼鵬), aged 48, is the chief financial officer and the Company Secretary. He joined the Company since June 2008. Mr. Poon has over 20 years of corporate finance and accounting experience. Prior to joining the Company, he served senior financial positions in a number of companies listed in Hong Kong and USA. Mr. Poon also served financial and investment positions in Advent International Corporation, a global private equity firm, Lenovo Group Limited and Sun Hung Kai Properties Limited, both of which are listed in the Stock Exchange. Mr. Poon obtained a Bachelor of Commerce degree from the University of New South Wales in 1993 and is a holder of a Chartered Financial Analyst charter of the CFA Institute, a Certified Practising Accountant (Australia) and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Poon is an independent non-executive director of Trigiant Group Limited, Jiangnan Group Limited and China Fordoo Holdings Limited, all of which are listed on the Stock Exchange.

Mr. Quan Guangde (全廣德), aged 68, is the manager of the production department and an assistant to the chief executive officer. Mr. Quan is responsible for supervising the production of our nutritional health products. He joined the Group in October 2004 and was a mechanical engineer and head of the engineering team of the production department before being promoted to his current positions. Mr. Quan has over 30 years of experience in mechanical engineering, and was qualified as an engineer in 1987 and a senior engineer in 1996 in the PRC. Prior to joining the Group, Mr. Quan worked for various companies in the PRC as a mechanical engineer.

Mr. Yuan Jianjun (袁建軍), aged 47, is the manager of the sales auditing department and an assistant to the chief executive officer. Mr. Yuan is responsible for the auditing and analysis of the sales business and marketing and the daily management of the Group. He graduated from the Jiangxi School of Finance & Economics in July 1994, majoring in financial accounting. He joined the Group in August 2006 and has over 20 years of experience in financial accounting and auditing. He was qualified as an accountant in 2004 in the PRC. Prior to joining the Group, Mr. Yuan served in various companies in the PRC specialising in accounting and auditing.

DIRECTORS' REPORT

The Board hereby presents its report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Particulars of the principal activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2017 are set out in the consolidated statement of profit and loss and other comprehensive income on page 54–55 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2017 (2016: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the Group's property, plant and equipment are set out in note 17 to the consolidated financial statements of this annual report.

SHARE CAPITAL

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

RESERVES

Details of the movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 58–59 of this annual report.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

DISTRIBUTABLE RESERVES

The Directors consider that the Company's reserves available for distribution to shareholders comprise the share premium and the retained profits which amounted to RMB2,626.7 million as at December 31, 2017 (2016: RMB2,632.0 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years are set out on page 120 of this annual report.

BORROWINGS

Details of bank loans of the Group as at December 31, 2017 are set out in note 28 to the consolidated financial statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the years ended December 31, 2017 and 2016, sales to the Group's five largest customers, in aggregate represented approximately 22.8% and 27.1% of the Group's total sales, respectively. For the years ended December 31, 2017 and 2016, sales to the single largest customers amounted to approximately 6.2% and 11.0% of the Group's total sales, respectively.

For the years ended December 31, 2017 and 2016, purchases of raw materials, packaging materials and merchandise for resale from the Group's five largest suppliers accounted for approximately 28.8% and 35.8% of the Group's total purchases, respectively. For the years ended December 31, 2017 and 2016, purchases from the single largest supplier amounted to approximately 10.3% and 10.7% of the Group's total purchases, respectively.

For the year ended December 31, 2017, none of the Directors or any of their close associates or any shareholders who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital, had any interest in the five largest suppliers or customers.

DONATIONS

The Group made charitable donations totaling RMB25,000 (2016: RMB23,000) during the year.

DIRECTORS

The Directors during the year and up to the date of this annual report are as follows:

Executive Directors

Mr. Wang Fucai (reappointed as an executive director on June 2, 2015)
Mr. Yu Yan (reappointed as an executive director on June 1, 2017)
Mr. Li Lin (reappointed as an executive director on June 1, 2017)
Mr. Yi Lin (reappointed as an executive director on June 1, 2017)
Mr. Zhang Yan (reappointed as an executive director on June 2, 2016)
Ms. Au-yeung Kam Ling Celeste (reappointed on June 1, 2017 and resigned on April 1, 2018)

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P. (resigned on October 12, 2017)
Dr. Fong Chi Wah (reappointed as an independent non-executive director on June 2, 2015)
Mr. Chan Kee Ming (reappointed as an independent non-executive director on June 2, 2016)
Mr. Xu Hua Feng (reappointed as an independent non-executive director on June 2, 2015)

In accordance with article 84 of the articles of association of the Company, Mr. Wang Fucai, Dr. Fong Chi Wah and Mr. Xu Hua Feng, who have been longest in office, shall retire by rotation at the forthcoming annual general meeting ("AGM"). Mr. Wang Fucai, Dr. Fong Chi Wah and Mr. Xu Hua Feng being eligible, will offer themselves for re-election at the AGM.

Details of biography of Directors and senior management are set out on pages 34–37 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of one year subject to termination by not less than one month's notice in writing served by either party on the other. The appointments are subject to the provisions of retirement by rotation of Directors under the articles of association of the Company.

The Company has not entered into any service contract with any Director which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is approved at general meetings. Other emoluments will be determined by the members of the remuneration committee with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in note 13 to the consolidated financial statements of this annual report.

EMOLUMENTS POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. In the past, the Group had adopted a Pre-IPO Share Option Scheme and a 2010 Share Option Scheme for its employees.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 33 to the consolidated financial statements of this annual report.

INDEPENDENCE OF INDEPENDENT NON EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive Directors are independent in accordance with Rule 3.13.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended December 31, 2017 had any rights to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any of its subsidiaries been granted to any Director, their respective spouses or children under 18 years old, or had any such rights been exercised by them; or was the Company, the holding of the Company, any of the subsidiaries of the Company or of the Company's holding company a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

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

As at December 31, 2017, the interests and short positions of the Directors and chief executives of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code are set out below:

Name of Director	Capacity	Number and class of securities	Approximate shareholding percentage (%) (Note 1)
Mr. Wang Fucai[2]	interest of a controlled corporation	290,968,394 Shares (L)	18.28%

Notes:

1. The shareholder percentages were calculated based on the total number of Shares in issue as at the close of business on December 31, 2017, i.e., 1,591,978,666 Shares.

2. Furui Investments Limited is the beneficial owner of such 290,968,394 Shares. Furui is wholly owned by Mr. Wang Fucai. Therefore, by virtue of the SFO, Mr. Wang Fucai is deemed to be interested in all such Shares registered in Furui.

Save as disclosed herein, as at December 31, 2017, none of the Directors and chief executives of the Company, has any interests or short positions in the shares, underlying shares and debentures of the Company, recorded in the register required to be kept under section 352 of SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The Company has conditionally adopted a Share Option Scheme ("2010 Share Option Scheme") on February 1, 2010 ("Adoption Date").

2010 Share Option Scheme

The following is a summary of the principal terms of the 2010 Share Option Scheme approved by the written resolutions of the sole Shareholder passed on February 1, 2010:

(1) The purpose of the 2010 Share Option Scheme

The 2010 Share Option Scheme seeks to provide an incentive for the Qualified Participants (as defined below) to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

(2) Who may join

The Board may at its discretion grant options to: (i) any executive Director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any person or entity that provides research, development or technological support to the Company, any member of the Group or any Invested Entity (collectively, "Qualified Participants").

(3) Subscription Price

The subscription price ("Subscription Price") shall, subject to any adjustment, be a price determined by the Board but in any event shall be at least the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered to a Qualified Participant ("Offer Date");

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of the Shares.

(4) Total number of securities available for issue under the scheme and percentage

Pursuant to the 2010 Share Option Scheme with the scheme limit refreshed on June 2, 2016 and in compliance with Chapter 17 of the Listing Rules, the maximum number of Shares that may be issued upon exercise of all the Share Options which may be granted under the Share Option Scheme (as refreshed on June 2, 2016) shall not exceed 159,197,866 Shares, which was equivalent to 10% of the Shares in issue as at June 2, 2016, being the date of passing of the original resolution approving the refreshment of the scheme limit of the 2010 Share Option Scheme. On May 2, 2017, a total of 111,300,000 share options were granted under the Share Option Scheme with the scheme mandate as refreshed on June 2, 2016. As at December 31, 2017, under the existing scheme mandate limit, the total number of Shares underlying the share options available for grant is 47,897,866 Shares, representing approximately 3.0% of the total number of issued Shares as at the date of this annual report.

(5) Maximum entitlement of each participant

Unless approved by the Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any Qualified Participant if the acceptance of those options would result in the total number of Shares issued and to be issued to that Qualified Participant on exercise of his options (including both exercised and outstanding options) during any 12-month period exceeding 1% of the total Shares then in issue.

(6) Period within which the securities must be taken up under an option

The period during which an option may be exercised in accordance with the terms of the 2010 Share Option Scheme shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the offer date of such option.

(7) Minimum period (if any) for which an option must be held before it can be exercised

Subject to the terms of the offer letter, there shall be no minimum holding period for the vesting or exercise of options.

(8) Amount payable on application or acceptance of the options and the period within which payments must be made

HK$1.00 is payable by the Qualified Participant to the Company on acceptance of the option offer as consideration for the grant on or before the last day for acceptance as set out in the offer letter which shall be not more than twenty business days from the date on which the offer is made.

(9) Remaining life of the scheme

The scheme has a life of 10 years commencing from the Adoption Date and will expire on the 10th anniversary of the Adoption Date, namely, February 1, 2020.

Detailed terms of the 2010 Share Option Scheme are set out in the paragraph headed "Other Information" on page 25 to 32 of Appendix VIII (Statutory and General Information) to the prospectus of the Company dated February 8, 2010 ("Prospectus").

On June 2, 2016, an ordinary resolution was passed at the annual general meeting of the Company held on that day approving the refreshment of the scheme limit to 159,197,866 Shares, equivalent to 10% of the total number of Shares in issue on the date of passing such ordinary resolution.

On May 2, 2017, a total of 111,300,000 share options were granted to 7 qualified participants, (the "Grantees"), at an exercise price of HK$0.55 per share option under the terms of the 2010 Share Option Scheme. These options are exercisable starting from the date of acceptance of the offer by each Grantee to May 1, 2019 (both days inclusive). All share options vested immediately at the date of grant.

As at December 31, 2017 and the date of this annual report, taking into account the 111,300,000 Share Options granted under the current scheme mandate, the total number of Share Options available for grant under the Share Option Scheme under the current scheme mandate is 47,897,866 Shares Options, approximately 3.0% of the total number of Shares in issue as at December 31, 2017 and the date of this annual report.

MOVEMENT IN THE SHARE OPTIONS

Details of the movements in the share options during the year are set out in Note 30 to the consolidated financial statements.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed under the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", and "Share Options", at no time for the year ended December 31, 2017 was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their respective spouses or children under the age of 18, had any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at December 31, 2017, the interest or short positions in the shares and underlying shares of the Company of persons other than Directors or the chief executives of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, and persons who are the substantial shareholders (within the meaning of the Listing Rules) of the Company were are follows:

Shareholders	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Furui	beneficial owner	290,968,394	18.28%
Qin Shifeng (秦士豐)(1)	interest of spouse	290,968,394	18.28%

Note:

(1) Furui Investments Limited is the beneficial owner of such 290,968,394 Shares. Furui is wholly owned by Mr. Wang Fucai. Therefore, by virtue of the SFO, Mr. Wang Fucai is deemed to be interested in all such Shares registered in Furui. Qin Shifeng (秦士豐) is the spouse of Mr. Wang Fucai. Therefore, Qin Shifeng (秦士豐) is deemed to be interested in all such Shares in which Mr. Wang Fucai is deemed to be interested in.

Save as disclosed above, as at December 31, 2017, the Company had not been notified by any other person (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the "Connected Transactions" section in this report, there were no transaction, arrangement or contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year nor was there any contract of significance between the Company or any of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries subsisted during or at December 31, 2017.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the Prospectus of the Company dated February 8, 2010 ("Prospectus"), none of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

Each of Mr. Wang Fucai who is a Director of the Company and Furui, has provided an annual confirmation in respect of the compliance with the non-competition undertaking given by him/it (as described in the Prospectus) (the "Non-competition Undertaking") and information regarding Mr. Wang Fucai's investment and engagement in the Excluded Business (as defined in the Prospectus) and the nature of such investment and engagement.

The independent non-executive Directors have also reviewed the compliance by Mr. Wang Fucai and Furui with the Non-competition Undertaking and the information that they have provided regarding the investment and engagement by Mr. Wang Fucai in the Excluded Business (as defined in the Prospectus), and the nature of such investment and engagement. The independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach of Mr. Wang Fucai or Furui of the Non-competition Undertaking given by him.

CONNECTED TRANSACTIONS

Pursuant to the requirements of the Listing Rules, the transactions between the Company and the connected person (as defined under the Listing Rules) of the Company constitute connected transactions or (where applicable) continuing connected transactions of the Company. The Company regulates and manages such transactions in compliance with the Listing Rules. The following are the non-exempt connected transactions and continuing connected transactions conducted by the Group for the year ended December 31, 2017:

Continuing Connected transaction — Master Purchase Agreement

On April 28, 2016, the Company as purchaser and Jiangsu Ruinian Qianjin Pharmaceutical Company Limited ("Jiangsu Ruinian") as seller entered into a master purchase agreement ("Master Purchase Agreement") pursuant to which Jiangsu Ruinian shall supply to the Group certain pharmaceutical products which include certain antibiotic tablets, antibiotic injection liquids and vitamin injection liquids and such other types of pharmaceutical products manufactured by Jiangsu Ruinian and agreed between the parties from time to time. The Master Purchase Agreement has a fixed term of three years from January 1, 2016 to December 31, 2018 (both days inclusive). The selling prices of the products under the Master Purchase Agreement shall be at least the same as the selling prices of the same products sold by Jiangsu Ruinian to its other customers or more favourable to the Group and all the terms offered by Jiangsu Ruinian to the Group (including credit terms for payment, delivery schedule, discounts, price) shall be no less favourable to the Group compared to the terms available to Jiangsu Ruinian's other customers. The annual cap amount of the purchase made by the Group for each of the three years ending December 31, 2018 were set at RMB20 million. For the year ended December 31, 2017, the total purchases made by the Group under the Master Purchase Agreement was approximately RMB12,237,000.

Jiangsu Ruinian is owned as to approximately 6.45% by Mr. Wang Fucai, an executive Director and a substantial shareholder of the Company, and the remaining approximately 93.55% is held by Mr. Wang Futing, elder brother of Mr. Wang Fucai. As Mr. Wang Futing is an associate of Mr. Wang Fucai, Jiangsu Ruinian which is controlled by Mr. Wang Futing is also an associate of Mr. Wang Fucai and accordingly the transactions under the Master Purchase Agreement constitute continuing connected transactions of the Company and based on the highest applicable percentage ratio by reference to the annual cap amounts of the continuing connected transactions under the Master Purchase Agreement, such continuing connected transactions are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For details of the Master Purchase Agreement and the continuing connected transactions thereunder, please refer to the announcement of the Company dated April 29, 2016.

The above continuing connected transactions have been reviewed by the directors (including the independent non-executive Directors). The independent non-executive Directors confirmed that during the year ended December 31, 2017, the above continuing connected transactions had been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better to the Groups or, where there is no available comparison, on terms no less favourable to the Group than terms available to Jiangsu Ruinian's other customers who are independent third parties; and

(iii) in accordance with the terms of the Master Purchase Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with the requirement of Rule 14A.56 of the Listing Rules, the Company has engaged its auditor to conduct certain procedures in respect of the continuing connected transactions of the Group. Based on the results of procedures performed by the Company's auditor and in accordance with the aforesaid Listing Rules, the auditor has provided a letter to the Board confirming that:

(i) nothing has come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Board;

(ii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iii) with respect to the aggregate amount of the abovementioned continuing connected transactions, nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the maximum aggregate annual cap disclosed in the announcement of the Company dated April 29, 2016 in respect of the continuing connected transactions.

AUDIT COMMITTEE

The Company established its audit committee on February 1, 2010. The audit committee currently comprises three independent non-executive Directors, namely Dr. Fong Chi Wah, Mr. Xu Hua Feng and Mr. Chan Kee Ming.

The audit committee has adopted a written terms of references which is in compliance with the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The audit committee is primarily responsible for the review of financial statements of the Group and the review and supervision of the financial reporting process and unless addressed by the Board as a whole review the risk management and internal control systems. It has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the risk management and internal controls, as well as reviewed the Group's interim results for the six months ended June 30, 2017 and the audited annual results for the year ended December 31, 2017. For details of the function and tasks performed by the audit committee during the year, please refer to the "Corporate Governance Report" section of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands where the Company is incorporated.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiries to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code for the year ended December 31, 2017.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules. For the year ended December 31, 2017, the Company has complied with all the applicable code provisions as set out in the CG Code, except for deviation of the provision A.2.1 of the CG Code. For details of the Corporate Governance Report, please refer to pages 14–25 of this annual report.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities for the year ended December 31, 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief, at least 25% of the Company's total issued shares was held by the public as at the latest practicable date prior to the issue of this annual report.

AUDITOR

The Company had engaged Deloitte Touche Tohmatsu ("Deloitte") as its auditor since 2009 until on February 22, 2016 when Deloitte resigned as auditor of the Company with effective from February 19, 2016. The Company has appointed Elite Partners CPA Limited as the auditor of the Company with effective from February 19, 2016. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to reappoint Elite as the auditor of the Company.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed by the Company from Monday, May 28, 2018 to Friday, June 1, 2018, 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 completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, May 25, 2018.

During the periods mentioned in the above, no transfer of shares of the Company will be registered.

On behalf of the Board
Wang Fucai
Chairman

Hong Kong, March 29, 2018

INDEPENDENT AUDITOR'S REPORT

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS OF REAL NUTRICEUTICAL GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Real Nutriceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 119, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. 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.

Key Audit Matter	How the matter was addressed in our audit
Estimated impairment of trade and bills receivables	
We identified the estimated impairment of trade and bills receivables arising from the health and nutritional supplements and health drinks businesses as a key audit matter due to significance of the carrying amount and significant estimation required by the management on determining the amount of impairment of trade and bills receivables. In determining the impairment of trade and bills receivables from health and nutritional supplements and health drinks businesses, the management assessed the recoverability of trade and bills receivables by reviewing customers' aging profile, credit history and status of subsequent settlement, and determine whether an impairment provision is required. As disclosed in notes 4 and note 25 to the consolidated financial statement the carrying amount of the Group's trade and bills receivables was RMB303,738,000.	Our main audit procedures in relation to the management's impairment assessment of trade and bills receivable included the following: We understood and tested the Group's credit control procedures and key controls over granting of credits to customers. We verified the balances of trade and bills receivables by requesting and receiving confirmations on a sample basis. We reviewed the basis and point of recognition of revenue in accordance with the terms and conditions signed in the sales agreements with major customers. We tested the aging of trade and bills receivables balance at year end on a sample basis. We assessed the recoverability of the balances by comparing the outstanding amounts as at year end against subsequent settlements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report but does not include 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 DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yip Kai Yin with Practising Certificate number P05131.

Elite Partners CPA Limited
Certified Public Accountants

10/F, 8 Observatory Road,
Tsim Sha Tsui, Kowloon
Hong Kong

Hong Kong, March 29, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
			(Restated)
Continuing operations			
Revenue	7	**357,661**	886,431
Cost of goods sold		**(145,957)**	(335,666)
Gross profit		**211,704**	550,765
Other income	8	**45,401**	47,638
Other gains and losses	9	**(165,039)**	4,555
Selling and distribution costs		**(181,160)**	(445,991)
Administrative expenses		**(108,738)**	(127,524)
Research and development costs		**(1,249)**	(10,864)
Finance costs	10	**(36,146)**	(27,900)
Loss before taxation	11	**(235,227)**	(9,321)
Taxation	14	**(14,676)**	(48,700)
Loss for the year from continuing operations		**(249,903)**	(58,021)
Discontinued operations			
Loss for the year from discontinued operations	12	**(11,176)**	(1,755)
Loss for the year		**(261,079)**	(59,776)
Other comprehensive income/(expense) for the year			
Item that may be reclassified subsequently to profit or loss			
— exchange differences arising on translation of foreign operations		**3,314**	(3,064)
Total comprehensive expense for the year		**(257,765)**	(62,840)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
			(Restated)
(Loss)/Profit for the year attributable to owners of the Company			
from continuing operations		**(240,977)**	(50,784)
from discontinued operations		**154,310**	(14,592)
Loss for the year attributable to owners of the Company		**(86,667)**	(65,376)
(Loss)/Profit for the year attributable to non-controlling interests			
from continuing operations		**(8,926)**	(7,237)
from discontinued operations		**(165,486)**	12,837
(Loss)/Profit for the year attributable to non-controlling interests		**(174,412)**	5,600
		(261,079)	(59,776)
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(83,353)**	(68,440)
Non-controlling interests		**(174,412)**	5,600
		(257,765)	(62,840)
From continuing and discontinued operations			
Loss per share	16		
— Basic		**(5.4) cents**	(4.1) cents
— Diluted		**(5.4) cents**	(4.1) cents
From continuing operations			
Loss per share	16		
— Basic		**(15.1) cents**	(3.2) cents
— Diluted		**(15.1) cents**	(3.2) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	17	**1,613,461**	2,191,501
Land use rights	18	**306,681**	356,007
Goodwill	19	**–**	113,650
Intangible assets	21	**99,119**	371,362
Deposits made on acquisition of property, plant and equipment		**164,161**	177,173
Advance payments for acquisition of technical knowhow	22	**30,200**	92,216
		2,213,622	3,301,909
Current assets			
Inventories	24	**80,268**	99,975
Trade and other receivables	25	**764,775**	742,367
Bank balances and cash	26	**2,400,474**	2,554,938
		3,245,517	3,397,280
Current liabilities			
Trade and other payables	27	**66,441**	199,456
Taxation		**1,734**	15,152
Short-term bank loans	28	**–**	772,041
		68,175	986,649
Net current assets		**3,177,342**	2,410,631
Total assets less current liabilities		**5,390,964**	5,712,540
Non-current liabilities			
Deferred tax liabilities	23	**10,099**	75,040
Net assets		**5,380,865**	5,637,500

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
Capital and reserves			
Share capital	29	**13,772**	13,772
Reserves		**5,350,440**	5,432,663
Equity attributable to owners of the Company		**5,364,212**	5,446,435
Non-controlling interests	36	**16,653**	191,065
Total equity		**5,380,865**	5,637,500

The consolidated financial statements on pages 54 to 119 were approved and authorised for issue by the Board of Directors on March 29, 2018 and are signed on its behalf by:

WANG FUCAI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

YU YAN
EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Capital redemption reserve RMB'000 (Note b)	Share option reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000 (Note c)	Statutory surplus reserve fund RMB'000 (Note d)	Retained profits RMB'000	Subtotal RMB'000	Attributable to non-controlling interests RMB'000	Total RMB'000
At January 1, 2016	13,841	2,195,301	459,745	71	19,228	629	(19,180)	369,419	2,536,727	5,575,781	185,465	5,761,246
Loss for the year	–	–	–	–	–	–	–	–	(65,376)	(65,376)	5,600	(59,776)
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	–	–	–	–	–	(3,064)	–	–	–	(3,064)	–	(3,064)
Total comprehensive income for the year	–	–	–	–	–	(3,064)	–	–	(65,376)	(68,440)	5,600	(62,840)
Shares repurchased	(69)	(4,559)	–	69	–	–	–	–	(69)	(4,628)	–	(4,628)
Lapsed of share options	–	–	–	–	(19,228)	–	–	–	19,228	–	–	–
Dividends	–	–	–	–	–	–	–	–	(56,278)	(56,278)	–	(56,278)
Transfers	–	–	–	–	–	–	–	2,838	(2,838)	–	–	–
	(69)	(4,559)	–	69	(19,228)	–	–	2,838	(39,957)	(60,906)	–	(60,906)
At December 31, 2016	13,772	2,190,742	459,745	140	–	(2,435)	(19,180)	372,257	2,431,394	5,446,435	191,065	5,637,500
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(86,667)**	**(86,667)**	**(174,412)**	**(261,079)**
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	**–**	**–**	**–**	**–**	**–**	**3,314**	**–**	**–**	**–**	**3,314**	**–**	**3,314**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**3,314**	**–**	**–**	**(86,667)**	**(83,353)**	**(174,412)**	**(257,765)**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**1,130**	**–**	**–**	**–**	**–**	**1,130**	**–**	**1,130**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**30,664**	**(14,719)**	**(15,945)**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**1,130**	**–**	**30,664**	**(14,719)**	**(15,945)**	**1,130**	**–**	**1,130**
At December 31, 2017	**13,772**	**2,190,742**	**459,745**	**140**	**1,130**	**879**	**11,484**	**357,538**	**2,328,782**	**5,364,212**	**16,653**	**5,380,865**

Notes:

(a) The Special reserve represents the aggregate of the difference between:

(i) the consideration paid by Jet Bright International Holdings Limited, a wholly-owned subsidiary of the Company, for the acquisition of the entire interest in 無錫瑞年實業有限公司 (Wuxi Ruinian Industry & Commerce Co., Limited) ("Ruinian Industry") and the nominal value of paid-in capital of Ruinian Industry in August 2006;

(ii) the nominal value of paid-in capital of 無錫瑞年營銷有限公司 (Wuxi Ruinian Sales Co., Ltd.) ("Ruinian Sales") and the distribution of Ruinian Sales' net assets upon its dissolution in October 2007; and

(iii) the nominal amount of the shares issued by the Company and the aggregate amount of share capital and share premium of the Group's former holding company, Tongrui Holdings Limited, acquired pursuant to a group reorganisation in preparation for the listing of the Company's shares in 2010.

(b) The Capital redemption reserve arose from the repurchase of shares. The amount represents the nominal amount of the shares repurchased.

(c) The Non-distributable reserve represents the aggregate of:

(i) capital contributions from and distributions to the substantial shareholder of the Company, Mr. Wang Fucai, in respect of the interest on trade finance arrangement with related companies prior to 2009;

(ii) deemed distributions to the controlling shareholder in 2009 in respect of the acquisition of a subsidiary which disposed of in 2017;

(iii) deemed distributions to the shareholders in respect of the listing expenses borne by the Company in 2010; and

(iv) capital contributions from Strong Ally Limited ("Strong Ally"), a wholly-owned subsidiary of the former ultimate holding company, in relation to share options granted by Strong Ally to qualifying participants of the Group in 2010 of which the exercisable period is further extended to and expired during the year ended December 31, 2013.

(d) As stipulated by the relevant laws and regulations for foreign investment enterprises in Mainland China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriations to this reserve are made out of net profit after taxation as reflected in the statutory financial information of the PRC subsidiaries while the amounts and allocation basis are based on the requirements of relevant laws and regulations in the PRC. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalisation issue.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

	2017 RMB'000	2016 RMB'000
Cash flows from operating activities		
Loss before taxation	**(258,125)**	(1,526)
Adjustments for:		
Interest income	**(43,074)**	(40,053)
Interest expenses	**46,185**	35,962
Gain on disposal of property, plant and equipment	**(9)**	(296)
Depreciation of property, plant and equipment	**181,460**	184,179
Amortisation of intangible assets	**47,108**	52,979
Operating lease rentals in respect of land use rights	**4,987**	4,988
Impairment loss on trade receivables	**160,335**	–
Equity settled share-based payment	**1,130**	–
Advance payments for acquisition of technical knowhow written off	**–**	6,610
Operating cash flows before movements in working capital	**139,997**	242,843
Increase in inventories	**(15,034)**	(24,002)
(Increase)/decrease in trade and other receivables	**(27,614)**	145,270
Decrease in trade and other payables	**(52,787)**	(86,280)
Cash generated from operations	**44,562**	277,831
Taxation paid	**(33,977)**	(95,279)
Net cash generated from operating activities	**10,585**	182,552
Cash flows from investing activities		
Interest received	**43,074**	40,053
Purchase of property, plant and equipment	**(7,649)**	(149,047)
Proceeds from disposal of property, plant and equipment	**21**	296
Purchase of intangible assets	**–**	(87,244)
Deposits paid on acquisition of property, plant and equipment	**–**	(84,275)
Advance payments paid for acquisition of technical knowhow	**–**	(4,854)
Deposit paid acquisition of a subsidiary	**(200,000)**	–
Disposal of subsidiaries, net of cash disposed of	**10,321**	–
Net cash used in investing activities	**(154,233)**	(285,071)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

	2017 RMB'000	2016 RMB'000
Cash flows from financing activities		
Interest paid	**(36,686)**	(28,191)
Dividends paid	**–**	(56,278)
Bank loans raised	**740,840**	814,190
Repayment of bank loans	**(718,202)**	(541,920)
Payment on repurchase of shares	**–**	(4,628)
Net cash (used in)/generated from financing activities	**(14,048)**	183,173
Net (decrease)/increase in cash and cash equivalents	**(157,696)**	80,654
Cash and cash equivalents at January 1	**2,554,938**	2,477,308
Effect of foreign exchange rate changes	**3,232**	(3,024)
Cash and cash equivalents at December 31	**2,400,474**	2,554,938
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**2,400,474**	2,554,938

1. GENERAL

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company while the Group is principally engaged in the manufacture and sale of health and nutritional supplements and health drink. The Group was also engaged in the manufacture and sale of pharmaceutical products which was discontinued in current year (see note 12). The address of the registered office of the Company and the address of the principal place of business are disclosed in the section headed "Corporate Information" in the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

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

In the current year, the Company and its subsidiaries (collectively referred to as the "Group") have applied, for the first time, the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning on January 1, 2017:

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Company and its subsidiaries (collectively referred to as the "Group") have applied, for the first time, the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning on January 1, 2017:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised losses
Amendments to HKFRS 12	As part of the Annual improvements to HKFRSs 2014–2016 Cycle

Amendments to HKAS 7 Disclosure Initiative

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

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

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor its Associate or Joint Venture[3]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle[1]

1 Effective for annual periods beginning on or after January 1, 2018
2 Effective for annual periods beginning on or after January 1, 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after January 1, 2021

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

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

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

HKFRS 9 Financial Instruments-continued

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at January 1, 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at January 1, 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

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

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

HKFRS 15 Revenue from Contracts with Customers-continued

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligation, principal versus agent considerations, as well as licensing application guidance.

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

HKFRS 16 Leases

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of RMB7,916,000 as disclosed in note 31. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties that are currently classified as operating leases as based on preliminary assessment, the Group will be required to recognise the right-to-use asset and corresponding lease liability. However, the directors of the Company are undergoing a detailed assessment on the implementation of HKFRS 16.

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

HKFRS 16 Leases-continued

In addition, the Group currently considers refundable rental deposits paid of RMB396,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Basis of consolidation

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

Control is achieved when the Company:

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

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

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating transaction between member of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transaction. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Revenue recognition-continued

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

Property, plant and equipment

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

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

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	5% or the remaining period of the leases, if shorter
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	10%

The estimated useful lives, residual value and depreciation method are reviewed at the end of each reporting period, with the effect of any change in estimate accounted for on a prospective basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Land use rights

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land that are accounted for as operating leases are presented as "land use rights" in the consolidated statement of financial position.

When buildings are in the course of development for production or for administrative purposes, the amortisation of land use rights provided during the construction period is included as part of costs of construction in progress.

The up-front payments to acquire leasehold interests in land are accounted for as operating leases and are stated at cost and released over the lease term on a straight line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Intangible assets-continued

Research and development expenditure-continued

- the ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for an internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated an intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the assets is derecognised.

Impairment losses on tangible and intangible assets other than goodwill

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

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Impairment losses on tangible and intangible assets other than goodwill-continued

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

Inventories

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

Advertising expenses and prepayment for media airtime

Advertising expenses are recognised as and included in selling expenses in the profit or loss in the period in which the Group receives the advertising services.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Financial assets

The Group's financial assets are mainly classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Interest income is recognised on an effective interest basis of debt instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment.

Impairment of loans and receivables

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

Objective evidence of impairment could include:

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

For certain categories of loans and receivables, such as trade receivables, assets that are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Impairment of loans and receivables-continued

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Taxation-continued

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

The financial statements of each group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency).

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the lease term. Benefits received or receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight line basis.

Retirement benefits costs

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF") are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 30.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Share-based payment transactions-continued

Equity-settled share-based payment transactions-continued

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Related parties

For the purposes of these financial statements, related parties include a person and entity as defined below:

(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;
- (iii) is a member of the key management personnel of the Company or of a parent of the Company;

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

- (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member);
- (iii) both entities are joint ventures of a 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 Company or an entity related to the Company. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan;
- (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 a parent of the Group.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Intangible assets

In accounting for intangible assets, management of the Group considers the potential impairment based on the recoverable amount. Intangible assets with finite useful lives are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable. Factors that would indicate potential impairment may include, but are not limited to, a significant change in technology and operating or cash flow losses associated with the intangible assets.

Determining whether intangible assets are impaired requires an estimation of the recoverable amount of the cash-generating units to which intangible assets have been allocated. The recoverable amount of cash-generating units at the end of each reporting period is based on the value in use calculation which requires the management of the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment on intangible assets being recognised during the year (2016: Nil).

The carrying amount of intangible assets is RMB99,119,000 (2016: RMB371,362,000).

Estimated impairment of trade and bills receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss/further impairment loss may arise. As at December 31, 2017, the carrying amount of trade and bills receivable is RMB303,738,000 (net of allowance for doubtful debts of RMB160,335,000) (2016: carrying amount of RMB621,746,000, no allowance for doubtful debts).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchange from the prior year.

The capital structure of the Group consists of net debt, which includes bank loans, disclosed in note 28, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, reserves and retained profits as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new shares issue and share buy-backs as well as the raising of bank loans.

6. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

Categories of financial instruments

	2017 **RMB'000**	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,079,331**	3,176,684
Financial liabilities		
Amortised cost	**40,116**	896,629

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables and short-term bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

The Company's exposure to credit risk, foreign currency risk, liquidity risk and interest rate risk is insignificant as the Company does not have any significant financial instruments.

6. FINANCIAL INSTRUMENTS-CONTINUED

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

The Group has no significant concentration of credit risk. Trade receivables consist of a large number of customers which spread across diverse industries.

Foreign currency risk

At the end of the reporting period, the carrying amounts of the Group's foreign currency denominated monetary assets which consists of bank balances and cash that are denominated in Hong Kong dollars ("HK$") and United States dollars ("US$") amounted to RMB3,149,000 (2016: RMB7,079,000) and Nil (2016: RMB2,260,000) (see note 26) respectively.

If exchange rates of the RMB against the HK$ or US$ had been 5% weaker and all other variables were held constant, the effect on loss after taxation is as follows:

	2017 **RMB'000**	2016 RMB'000
Increase in loss after taxation	**118**	350

There would be an equal and opposite impact on the loss after taxation where the RMB strengthens against the HK$ or US$.

In the directors' opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS-CONTINUED

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and the maturity profiles of its financial liabilities.

As at December 31, 2017, the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date that the Group can be required to pay are within one year or on demand.

The following table details the Group's remaining contractual maturity for its financial liabilities as at December 31, 2016, the amount of RMB896,629,000. The table has been drawn up to reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The interest payments are computed using contractual rates or, if variable, based on the prevailing interest rate at the end of each reporting period.

	Weighted average interest rate	On demand and 3 months or less	3 – 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities								
At December 31, 2016								
Trade and other payables	–	124,588	–	–	–	–	124,588	124,588
Short-term bank loans								
— variable rate	4.5%	1,060	50,673	44,453	–	–	96,186	94,000
— fixed rate	6.2%	184,021	184,371	321,149	6,254	–	695,795	678,041
		309,669	235,044	365,602	6,254	–	916,569	896,629

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing bank balances and short-term bank loans at variable interest rates. Short-term bank loans at fixed interest rates expose the Group to fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and variable rate bank loans at the end of the reporting period and assumed that the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year.

6. FINANCIAL INSTRUMENTS-CONTINUED

Interest rate risk management-continued

If interest rates on bank balances and bank loans had been 50 basis points lower and all other variables were held constant, the potential effect on loss after taxation is as follows:

	2017 RMB'000	2016 RMB'000
Increase in loss after taxation	**(9,002)**	(9,229)

There would be an equal and opposite impact on the loss after taxation if interest rates had been 50 basis points higher.

Fair value of measurements financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair value at the end of the reporting period.

7. REVENUE AND SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports which are reviewed by the Chief Executive Officer in order to allocate resources to the reportable segments and to assess their performance.

The Group's reportable segments under HKFRS 8 are as follows:

Health and nutritional supplements	—	manufacture and sales of health and nutritional supplements
Health drinks	—	manufacture and sales of health drinks

Each reportable segment derives its revenue from the sales of products. They are managed separately because each product requires different production and marketing strategies.

Revenue represents the fair value of the consideration received or receivable for goods sold to outside customers during the year.

An operating segment regarding the manufacture and sales of pharmaceutical products was discontinued in the current year. The segment information reported on the following does not include any amounts for these discontinued operations, which are described in more detail in note 12.

Segment results represent the gross profits earned by each segment.

7. REVENUE AND SEGMENT INFORMATION-CONTINUED

The following is an analysis of the Group's revenue and results from continuing operations by operating and reportable segment:

	Revenue		Results	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
		(Restated)		(Restated)
Health and nutritional supplements	**291,649**	718,516	**190,302**	509,533
Health drinks	**66,012**	167,915	**21,402**	41,232
	357,661	886,431	**211,704**	550,765
Advertising and promotional expenses			**(98,133)**	(313,425)
Other operating expenses			**(197,727)**	(266,695)
Impairment loss on trade receivables			**(160,335)**	–
Other income			**2,342**	7,602
Gain on disposal of property, plant and equipment			**9**	296
Interest income			**43,059**	40,036
Interest expenses			**(36,146)**	(27,900)
Loss before taxation			**(235,227)**	(9,321)

7. REVENUE AND SEGMENT INFORMATION-CONTINUED

Information of segment assets and segment liabilities are as follows:

Segment assets represent property, plant and equipment, land use rights, goodwill, intangible assets, deposits made on acquisition of property, plant and equipment, advance payments for acquisition of technical knowhow, inventories and trade and other receivables which are directly attributable to the relevant reportable segment. Segment liabilities represent trade and other payables which are directly attributable to the relevant reportable segment. These are the measures reported to the Chief Executive Officer for the purpose of resource allocation and assessment of segment performance. No operating segments identified by the Chief Executive Officer have been aggregated in arriving at the reportable segments of the Group.

	2017	2016
	RMB'000	RMB'000
		(Restated)
Assets		
Segment assets		
— health and nutritional supplements	**2,618,719**	2,471,336
— health drinks	**439,946**	569,028
	3,058,665	3,040,364
Asset relating to discontinued operations	**–**	1,103,887
Unallocated corporate assets	**2,400,474**	2,554,938
Consolidated total assets	**5,459,139**	6,699,189
Liabilities		
Segment liabilities		
— health and nutritional supplements	**57,487**	128,789
— health drinks	**8,954**	9,973
	66,441	138,762
Liabilities relating to discontinued operations	**–**	60,694
Taxation	**1,734**	15,152
Deferred tax liabilities	**10,099**	75,040
Unallocated corporate liabilities	**–**	772,041
Consolidated total liabilities	**78,274**	1,061,689

7. REVENUE AND SEGMENT INFORMATION-CONTINUED

Other information

	2017 RMB'000	2016 RMB'000
		(Restated)
Continuing operations		
Amounts included in the measure of segment result or segment assets:		
Additions to non-current assets other than deferred tax assets		
— health and nutritional supplements	**2,800**	120,557
— health drinks	**2,139**	94,677
	4,939	215,234
Depreciation of property, plant and equipment		
— health and nutritional supplements	**100,649**	106,711
— health drinks	**37,576**	39,266
	138,225	145,977
Amortisation of intangible assets		
— health and nutritional supplements	**13,018**	10,078
— health drinks	**1,150**	1,150
	14,168	11,228
Operating lease rentals in respect of land use rights		
— health and nutritional supplements	**2,965**	2,966
— health drinks	**888**	888
	3,853	3,854

7. REVENUE AND SEGMENT INFORMATION-CONTINUED

Other information-continued

Revenue from continuing operations from external customers attributed to the Group by location of operations, other than the Company's country of domicile, is presented as follows:

	2017 RMB'000	2016 RMB'000
		(Restated)
Revenue		
— Mainland China (the "PRC")	**356,649**	885,867
— Hong Kong	**1,012**	564
	357,661	886,431

Total non-current assets excluded those relating to discontinued operations by location of assets, other than the Company's country of domicile is presented as follows:

	2017 RMB'000	2016 RMB'000
Total non-current assets		
— PRC	**2,213,389**	3,301,734
— Hong Kong	**233**	175
	2,213,622	3,301,909

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2017 RMB'000	2016 RMB'000
		(Restated)
Customer A[1]	**N/A[2]**	125,019

1 Revenue from sales of health and nutritional supplements

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

For the year ended December 31 2017, there was no customer which accounted for more than 10% of total revenue.

8. OTHER INCOME

	2017 RMB'000	2016 RMB'000
		(Restated)
Continuing operations		
Interest income	**43,059**	40,036
Facilities rental income	**2,289**	2,547
Franchise income	**–**	4,331
Others	**53**	724
	45,401	47,638

9. OTHER GAINS AND LOSSES

	2017 RMB'000	2016 RMB'000
		(Restated)
Continuing operations		
Gain on disposal of property, plant and equipment	**9**	296
Impairment loss on trade receivables	**(160,335)**	–
Net foreign exchange (loss)/gain	**(4,713)**	4,259
	(165,039)	4,555

10. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
		(Restated)
Continuing operations		
Interest on bank borrowings wholly repayable within five years	**(36,146)**	(27,900)

11. LOSS BEFORE TAXATION

	2017 RMB'000	2016 RMB'000 (Restated)
Continuing operations		
Loss before taxation has been arrived at after charging:		
Directors' remuneration (note 13)	**6,623**	7,016
Other staff retirement benefits scheme contributions	**1,937**	2,877
Other staff costs	**22,535**	31,106
	31,095	40,999
Amortisation of intangible assets included in		
— cost of goods sold	**4,550**	5,029
— administrative expenses	**9,618**	6,199
	14,168	11,228
Operating lease rentals in respect of		
— land use rights	**7,075**	7,088
Less: capitalised under construction in progress	**(3,222)**	(3,234)
	3,853	3,854
— rented premises	**35,992**	63,851
Advertising and promotional expenses	**98,133**	313,425
Auditor's remuneration		
— audit services	**2,552**	2,252
— non-audit services	**908**	853
Depreciation of property, plant and equipment	**138,225**	145,977

The cost of goods sold represent the cost of inventories recognised as expenses during both years.

12. DISCONTINUED OPERATIONS

During the year ended December 31, 2017, the Group entered into sale agreements to dispose of subsidiaries, which carried out all of the Group's manufacture and sales of pharmaceutical products operations. The disposal was effected in order to consolidate the strengths of the Group on its principle and profitable businesses. The loss for the year from discontinued operations is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the pharmaceutical products segment as discontinued operations.

	2017 RMB'000	2016 RMB'000 (Restated)
Loss for the period/year	**(21,867)**	(1,755)
Gain on disposal (note 37)	**10,691**	–
	(11,176)	(1,755)

The results of the pharmaceutical products segment for the period from January 1, 2017 to the date of disposal, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Revenue	**196,943**	254,473
Cost of sales	**(129,605)**	(164,712)
Gross profit	**67,338**	89,761
Other income	**8,916**	5,231
Selling and distribution costs	**(48,234)**	(36,473)
Administrative expenses	**(40,239)**	(36,526)
Research and development costs	**(640)**	(6,136)
Finance costs	**(10,039)**	(8,062)
(Loss)/Profit before taxation	**(22,898)**	7,795
Taxation	**1,031**	(9,550)
Loss for the period/year	**(21,867)**	(1,755)

Loss for the period/year from discontinued operations includes the following:

Advertising and promotional expenses	**7,873**	18,767
Depreciation of property, plant and equipment	**43,235**	38,202
Amortisation of intangible assets	**32,940**	41,751
Operating lease rentals in respect of land use rights	**1,134**	1,134

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The emoluments of directors and the chief executive during the year are analysed as follows:

	2017					2016				
	Fees RMB'000	Discretionary bonuses RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000	Fees RMB'000	Discretionary bonuses RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors										
— Mr. Wang Fucai	3,945	–	96	–	4,041	3,950	–	96	–	4,046
— Mr. Yu Yan	208	–	24	4	236	208	–	95	28	331
— Mr. Li Lin	208	–	16	5	229	208	–	32	10	250
— Mr. Yi Lin	208	–	16	5	229	208	–	32	10	250
— Mr. Zhang Yan	208	–	55	16	279	208	–	94	28	330
— Ms. Au-Yeung Kam Ling Celeste	900	104	–	16	1,020	900	139	–	16	1,055
Non-executive directors										
— Mr. Ip Tak Chuen, Edmond (Note (a))	–	–	–	–	–	65	–	–	–	65
— Mr. Tsang Sze Wai Claudius (Note (a))	–	–	–	–	–	65	–	–	–	65
Independent non-executive directors										
— Dr. Wong Lung Tak, Patrick (Note (b))	121	–	–	–	121	156	–	–	–	156
— Dr. Fong Chi Wah, Felix	156	–	–	–	156	156	–	–	–	156
— Mr. Chan Kee Ming	156	–	–	–	156	156	–	–	–	156
— Mr. Xu Hua Feng	156	–	–	–	156	156	–	–	–	156
	6,266	104	207	46	6,623	6,436	139	349	92	7,016

Note (a): Mr. Ip Tak Chuen, Edmond and Mr. Tsang Sze Wai Claudius were retired on June 2, 2016.

Note (b): Dr. Wong Lung Tak, Patrick resigned on October 12, 2017.

Mr. Wang Fucai is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

The emoluments paid to or for the executive directors are generally emoluments paid in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

Fees paid to or for the non-executive directors and independent non-executive directors are generally emoluments paid or receivable in respect of their services as directors of the Company.

No payment has been made to any of the non-executive Director who retired during the year for termination of the services as directors or loss of offices of directors.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS-CONTINUED

For the year ended December 31, 2017, the five highest paid individuals included two directors (one is also the Chief Executive Officer) (2016: two directors (one is also the Chief Executive Officer)), details of whose emoluments are set out above. The emoluments of the remaining three (2016: three) highest paid employees were as follows:

	2017 RMB'000	2016 RMB'000
Employees		
— basic salaries and allowances	**2,857**	2,815
— discretionary bonuses	**311**	371
— retirement benefits scheme contributions	**47**	38
	3,215	3,224

Their emoluments were within the following bands:

	Number of employees	
	2017	2016
Up to HK$1,000,000	**2**	2
HK$2,000,001 to HK$2,500,000	**1**	1

During the year, no emoluments were paid by the Group to the directors, the chief executive or the five highest paid individuals (including directors, the chief executive and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

14. TAXATION

	2017 RMB'000	2016 RMB'000
		(Restated)
The charge comprises:		
Continuing operations		
Current tax		
— PRC Enterprise Income Tax	**(17,626)**	(50,463)
— PRC withholding tax	**–**	(3,666)
— Hong Kong Profits Tax	**–**	(1,212)
Deferred taxation	**2,950**	6,641
	(14,676)	(48,700)

The Hong Kong Profits Tax is calculated at 16.5%. The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

According to a joint circular of Ministry of Finance and the State Administration of Taxation, Cai Shui 2009 No. 1, only the profits earned by foreign-investment enterprise prior to January 1, 2008, when distributed to foreign investors, can be grandfathered and exempted from PRC withholding tax. Dividends distributed out of the profit generated thereafter shall be subject to EIT at 10% and withheld by the PRC entity, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Detailed Implementation Rules. By the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong (China — HK TA), a Hong Kong resident company should be entitled to a preferential tax rate of 5% when receiving dividends from its PRC subsidiary. The immediate holding company of 無錫瑞年實業有限公司 (Wuxi Ruinian Industry & Commerce Co., Limited) ("Ruinian Industry"), which is incorporated in Hong Kong and has been holding Ruinian Industry for more than a year, should be able to enjoy the preferential tax rate aforementioned. The deferred tax liability on the undistributed profits earned during the year ended December 31, 2017 has been accrued at the tax rate of 5% (2016: 5%) on the expected dividend stream of 30% (2016: 30%) which is determined by the directors of the Company.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended December 31, 2017. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's operations in Hong Kong had no assessable profits for the year ended December 31, 2017.

14. TAXATION-CONTINUED

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended December 31, 2017. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's operations in Hong Kong had no assessable profits for the year ended December 31, 2017 (2016: Nil).

Tax charge for the year is reconciled to loss before taxation as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Loss before taxation	**(235,227)**	(9,321)
Tax at the applicable income tax rate	**58,806**	2,331
Tax effect of expenses not deductible for tax purposes	**(67,635)**	(45,244)
Under-provision in previous years	**–**	(1,212)
Tax effect of unused tax losses not recognised	**(5,847)**	(909)
PRC withholding tax on undistributed earnings	**–**	(3,666)
Tax charge for the year	**(14,676)**	(48,700)

15. DIVIDENDS

The Board does not recommend any payment of final dividend for the year ended December 31, 2017 (2016: Nil). Dividends recognised as a distribution during the year ended December 31, 2016 of RMB56,278,000 represented 2015 final dividend of HK4.2 cents.

16. LOSS PER SHARE

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to owners of the Company is based on the following data:

	2017 RMB'000	2016 RMB'000
		(Restated)
Loss:		
Loss for the purposes of basic and diluted loss per share (loss for the year attributable to owners of the Company)	**(240,977)**	(50,784)

	2017 '000	2016 '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,591,979**	1,592,511

The computation of diluted loss per share has considered and does not assume the exercise of the Company's share options for the years ended December 31, 2017 and December 31, 2016 because the exercise price of those share options was higher than the average market price of the shares and were considered to have anti-dilutive effects.

16. LOSS PER SHARE-CONTINUED

From continuing and discontinued operations

The calculation of the basic and diluted loss per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	2017 RMB'000	2016 RMB'000
Loss:		
Loss for the purposes of basic and diluted loss per share (loss for the year attributable to owners of the Company)	**(86,667)**	(65,376)

	2017 '000	2016 '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**1,591,979**	1,592,511

The computation of diluted loss per share has considered and does not assume the exercise of the Company's share options for the years ended December 31, 2017 and December 31, 2016 because the exercise price of those share options was higher than the average market price of the shares and were considered to have anti-dilutive effects.

From discontinued operations

Basic and diluted earnings per share for the discontinued operation is RMB9.7 cents (2016: loss per share of RMB0.9 cents), based on the profit for the year from the discontinued operation of approximately RMB154,310,000 (2016: loss of RMB14,592,000) and the denominators detailed above for both basic and diluted loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2016	663,196	282,201	18,552	684,820	1,127,160	2,775,929
Additions	–	4,213	1,132	58,900	102,225	166,470
Disposal	–	–	(14,704)	–	–	(14,704)
Transfers	359,954	76,061	–	116,663	(552,678)	–
At December 31, 2016	1,023,150	362,475	4,980	860,383	676,707	2,927,695
Additions	–	1,380	371	10,418	4,617	16,786
Disposal	–	–	(1,258)	–	–	(1,258)
Disposal of subsidiaries	(144,955)	(57,555)	(475)	(252,932)	(119,862)	(575,779)
At December 31, 2017	878,195	306,300	3,618	617,869	561,462	2,367,444
DEPRECIATION						
At January 1, 2016	143,655	171,610	16,955	234,499	–	566,719
Provided for the year	58,444	50,576	1,494	73,665	–	184,179
Written back on disposal	–	–	(14,704)	–	–	(14,704)
At December 31, 2016	202,099	222,186	3,745	308,164	–	736,194
Provided for the year	51,488	46,411	484	83,077	–	181,460
Written back on disposal	–	–	(1,246)	–	–	(1,246)
Disposal of subsidiaries	(40,341)	(28,680)	(450)	(92,954)	–	(162,425)
At December 31, 2017	213,246	239,917	2,533	298,287	–	753,983
CARRYING VALUES						
At December 31, 2017	664,949	66,383	1,085	319,582	561,462	1,613,461
At December 31, 2016	821,051	140,289	1,235	552,219	676,707	2,191,501

17. PROPERTY, PLANT AND EQUIPMENT-CONTINUED

The Group's buildings are erected on land held under medium-term land use rights in the PRC.

At the end of the reporting period, there were accumulated operating lease rentals in respect of land use rights amounting to RMB21,796,000 (2016: RMB18,574,000) capitalised under construction in progress.

Also, at the end of the reporting period, there were certain buildings of the Group erected on land in the PRC with carrying value of RMB450,945,000 (2016: RMB523,194,000) were not granted formal title of their ownership. In the opinion of the directors, the lack of formal title does not impair the value of the relevant buildings. The directors also believe that the formal title of these buildings will be granted to the Group in due course.

18. LAND USE RIGHTS

	2017 **RMB'000**	2016 RMB'000
CARRYING VALUE		
At January 1	**356,007**	364,229
Disposal of subsidiaries	**(41,117)**	–
Operating lease rentals capitalised under construction in progress	**(3,222)**	(3,234)
Released to profit or loss during the year	**(4,987)**	(4,988)
At December 31	**306,681**	356,007

The balance represents the prepayment of rentals for medium-term land use rights situated in the PRC for a period of 50 years.

At the end of the reporting period, there were land use rights with a carrying value of RMB144,478,000 (2016: RMB147,700,000) in connection with the rights to the use of land in the PRC where the relevant government authorities have not granted formal title. In the opinion of the directors, the lack of formal title for these land use rights does not impair the value of the relevant properties to the Group. The directors also believe that the formal title to these land use rights will be granted to the Group in due course.

19. GOODWILL

	RMB'000
COST	
At January 1, 2016, December 31, 2016	113,650
Disposal of subsidiaries	(113,650)
At December 31, 2017	–

Particulars regarding impairment testing on goodwill are disclosed in note 20.

20. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and intangible assets with indefinite useful lives set out in notes 19 and 21 have been allocated to a cash-generating unit related to pharmaceutical product. During the year ended December 31, 2017, the cash-generating unit related to pharmaceutical product was disposed of the carrying amounts of goodwill and intangible assets with indefinite useful lives of RMB113,650,000 and RMB105,425,000 respectively were allocated to this cash-generating unit for the year ended December 31, 2016.

The basis of the recoverable amounts of the above cash-generating unit and their major underlying assumptions for the year ended December 31, 2016 are summarised below:

Pharmaceutical products

During the year ended December 31, 2016, the recoverable amount of this group of cash-generating unit is determined based on a value in use calculation which uses cash flow projections approved by the directors covering a five-year period, and a discount rate of 16% per annum.

Cash flow projections during the budget period are based on the same expected gross margins and raw materials' price inflation throughout the budget period. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of this cash-generating units to exceed the aggregate of its recoverable amount.

21. INTANGIBLE ASSETS

	Product development costs	Technical knowhow and Patent	GMP* certifications	Mega data system and applications	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At January 1, 2016	20,050	467,281	7,000	–	494,331
Addition	–	18,868	–	68,376	87,244
Transferred from advance payments for acquisition of technical knowhow	–	9,993	–	–	9,993
At December 31, 2016	20,050	496,142	7,000	68,376	591,568
Disposal of subsidiaries	–	(388,642)	(7,000)	–	(395,642)
At December 31, 2017	20,050	107,500	–	68,376	195,926
AMORTISATION					
At January 1, 2016	17,524	142,703	7,000	–	167,227
Charged to profit or loss during the year	909	48,651	–	3,419	52,979
At December 31, 2016	18,433	191,354	7,000	3,419	220,206
Charged to profit or loss during the year	430	39,840	–	6,838	47,108
Eliminated on disposal of subsidiaries	–	(163,507)	(7,000)	–	(170,507)
At December 31, 2017	18,863	67,687	–	10,257	96,807
CARRYING VALUE					
At December 31, 2017	1,187	39,813	–	58,119	99,119
At December 31, 2016	1,617	304,788	–	64,957	371,362

* GMP represents Good Manufacturing Practices.

Product development costs represent the development costs in connection with certain products. Technical knowhow represents the acquired knowhow in connection with certain products. Both product development costs, technical knowhow and mega data system and applications are amortised on a straight line basis over their estimated useful life of 10 years. GMP certificates are amortised on a straight line basis over their estimated useful life of 50 months.

21. INTANGIBLE ASSETS-CONTINUED

Intangible assets with indefinite useful lives

The patent has a legal life of twenty years but is renewable at minimal cost. The directors of the Company are of the opinion that the Group would renew the patent continuously and have the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which supports the Group's position that the patent has no foreseeable limit to the period over which the patented products are expected to generate net cash flows for the Group.

As a result, the patent is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The patent will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in note 20.

22. ADVANCE PAYMENTS FOR ACQUISITION OF TECHNICAL KNOWHOW

	2017	2016
	RMB'000	RMB'000
At January 1	**92,216**	103,965
Additions	**–**	4,854
Disposal of subsidiaries	**(62,016)**	–
Written off	**–**	(6,610)
Transferred to intangible assets	**–**	(9,993)
At December 31	**30,200**	92,216

The balance represents the substantial payments made in connection with the acquisition of technical knowhow for certain products of which the completion is subject to the license expected to be granted by the relevant PRC government authorities by the end of 2018. During the year ended December 31, 2016, amount of approximately RMB6,610,000 has been written off in research and development costs.

23. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	PRC withholding tax on undistributed earnings RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At January 1, 2016	(21,804)	(66,363)	(88,167)
Charged to profit or loss during the year	6,641	6,486	13,127
At December 31, 2016	(15,163)	(59,877)	(75,040)
Charged to profit or loss during the year	2,950	6,496	9,446
Disposal of subsidiaries	2,114	53,381	55,495
At December 31, 2017	(10,099)	–	(10,099)

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**–**	–
Deferred tax liabilities	**(10,099)**	(75,040)
	(10,099)	(75,040)

At the end of the reporting period, the Group has an unrecognised deferred tax liability of RMB115,891,000 (2016: RMB121,190,000) in relation to PRC withholding tax on undistributed earnings of RMB2,317,830,000 (2016: RMB2,423,806,000) due to the retention of undistributed earnings by the subsidiaries in the PRC determined by the directors of the Company.

As at December 31, 2017, the Group had unused tax losses of RMB27,026,000 (2016: RMB35,360,000) available for offset against future profits. Deferred tax assets thereon have not been recognised because of the unpredictability of future profit streams.

24. INVENTORIES

	2017 RMB'000	2016 RMB'000
At cost:		
Raw materials	**5,948**	40,356
Work in progress	**21,484**	7,308
Finished goods	**46,481**	36,748
Merchandise for resale	**1,233**	3,762
Packaging materials	**5,122**	11,801
	80,268	99,975

25. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**464,043**	619,765
Bills receivables	**30**	1,981
	464,073	621,746
Allowance for doubtful debts	**(160,335)**	–
Trade and bills receivables net of allowance	**303,738**	621,746
Deposit paid for acquisition of a subsidiary	**200,000**	–
Deposits paid to suppliers (Note (a))	**59,764**	71,118
Property rental deposits and prepaid rental	**396**	23,357
Prepayments for media airtime	**–**	1,950
Other receivables, prepayments and deposits (Note (b))	**200,877**	24,196
	764,775	742,367

Note (a): As at December 31, 2016, included in deposit paid to suppliers, RMB13,665,000 are amount due from a related party as disclosed in note 34. The amounts are unsecured and interest free and recoverable on demand.

Note (b): As at December 31, 2017, other receivable, prepayments and deposits included the outstanding trade and bills receivables of the disposed subsidiaries at the date of disposal.

25. TRADE AND OTHER RECEIVABLES-CONTINUED

Payment terms with customers are mainly on credit. Invoices are normally payable 90 days from date of issuance. The following is an aged analysis of trade and bills receivables based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2017 **RMB'000**	2016 RMB'000
Age		
0 to 90 days	**17,729**	184,544
91 to 180 days	**22,170**	145,432
181 to 365 days	**186,386**	245,811
Over 1 year	**77,453**	45,959
	303,738	621,746

The Group does not hold any collateral over these balances. The average age of these receivables at the end of the reporting period is 234 days (2016: 210 days).

Included in the Group's trade receivables balance are trade debtors with an aggregate carrying amount of RMB286,009,000 (2016: RMB437,202,000) which are past due as at the reporting date for which the Group has not provided for impairment loss.

Aging of trade receivables which are past due but not impaired is as follows:

	2017 **RMB'000**	2016 RMB'000
Age		
91 to 180 days	**22,170**	145,432
181 to 365 days	**186,386**	245,811
Over 1 year	**77,453**	45,959
	286,009	437,202

In determining the recoverability of the trade receivables, the Group monitors the change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. The directors considered that the concentration of credit risk is limited due to the customer base being large and unrelated.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sale of goods by reference to past default experience and objective evidence of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

26. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. Bank balances carry interest at the prevailing market interest rate ranging from 0.1% to 3.0% per annum at the end of the reporting period (2016: from 0.1% to 3.0% per annum).

Included in bank balances and cash is an amount of RMB3,149,000 (2016: RMB7,079,000) and Nil (2016: RMB2,260,000) denominated in HK$ and US$ other than the functional currency of the relevant group companies respectively.

27. TRADE AND OTHER PAYABLES

	2017 **RMB'000**	2016 RMB'000
Trade and bills payables	**13,122**	42,091
Other tax payables	**18,517**	28,775
Customers' deposits	**5,798**	39,952
Advertising accruals	**108**	40,425
Other payables	**3,915**	13,343
Payroll and welfare payables	**11,614**	14,468
Construction payables	**9,334**	17,583
Other accruals	**4,033**	2,819
	66,441	199,456

The Group normally receives credit terms of 90 days from its suppliers. The following is an aged analysis of trade and bills payables based on the invoice date at the end of the reporting period:

	2017 **RMB'000**	2016 RMB'000
Age		
0 to 90 days	**4,407**	26,004
91 to 180 days	**1,275**	2,384
181 to 365 days	**1,683**	7,111
Over 1 year	**5,757**	6,592
	13,122	42,091

28. SHORT-TERM BANK LOANS

	2017 **RMB'000**	2016 RMB'000
Short-term bank loans		
— secured	–	294,121
— unsecured	–	477,920
	–	772,041
The Group's bank loans carry interest at		
— variable rate	–	94,000
— fixed rate	–	678,041
	–	772,041

As at December 31, 2017, the Group had no bank borrowings which were outstanding and repayable, and the Group had not entered into any new bank facilities and there was no unutilised available credit facilities to the Group (2016 unutilised available credit facilities: RMB10,000,000).

As at December 31, 2016, all the variable rate bank loans carry interest at the prime rate offered by the People's Bank of China which were repriced monthly to every three months. At the end of the reporting period, the Group has variable rate bank loans carrying interest at 4.1% to 4.9% per annum and fixed rate bank loans carrying interest at 4.4% to 12.0% per annum.

As at December 31, 2016, the secured bank loans are secured by the Group's land use rights and property, plant and equipment with an aggregate carrying value of approximately RMB350,821,000.

All the Group's borrowings and bank loans are repayable on demand or within a period not exceeding one year. All the short-term bank loans are denominated in RMB.

29. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HK$'000	'000	HK$'000
Ordinary shares of HK$0.01 each				
— at January 1, 2016	2,000,000	20,000	1,600,029	16,000
Increase (note (a))	8,000,000	80,000	–	–
Shares repurchased (note (b))	–	–	(8,050)	(81)
— at December 31, 2016 and 2017	10,000,000	100,000	1,591,979	15,919

	2017	2016
	RMB'000	RMB'000
Shown in the consolidated statement of financial position	**13,772**	13,772

Notes:

(a) At the annual general meeting held on June 2, 2016, an ordinary resolution was passed for the increase of the authorised share capital of the Company from HK$20,000,000 divided into 2,000,000,000 ordinary shares of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 ordinary shares of HK$0.01 each by the creation of an additional 8,000,000,000 new ordinary shares of HK$0.01 each.

(b) During the year ended December 31, 2016, the Company repurchased its own ordinary shares through the Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares	Highest price per share	Lowest price per share	Aggregate price paid	Equivalent aggregate price paid
		HK$	HK$	HK$'000	RMB'000
January 2016	6,443,000	0.75	0.61	4,393	3,694
February 2016	1,607,000	0.70	0.69	1,110	934
	8,050,000			5,503	4,628

The above ordinary shares were cancelled during the year ended December 31, 2016.

Save for the disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities for the years ended December 31, 2016 and 2017.

30. SHARE OPTION SCHEMES

2010 Share Option Scheme

Pursuant to the written resolutions passed by the then sole shareholder on February 1, 2010, the Company adopted the share option scheme (the "2010 Share Option Scheme") to provide incentives for qualified participants as defined in the Share Option Scheme to subscribe the shares in the Company. A nominal consideration of HK$1 is payable on acceptance of the grant of options. The maximum number of shares in respect of which options may be granted under the 2010 Share Option Scheme may not exceed 10% of the issued number of share capital of the Company as at the date of adoption of the Share Option Scheme, and if the scheme mandate limit is subsequently refreshed, as at the date of passing of the ordinary resolution for refreshment of the same. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in a 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

On May 2, 2017, a total of 111,300,000 share options were granted to 7 qualified participants, (the "Grantee"), at an exercise price of HK$0.55 per share option under the terms of the 2010 Share Option Scheme. These options are exercisable starting from the date of acceptance of the offer by each Grantee to May 1, 2019 (both days inclusive). All share options vested immediately at the date of grant. Total consideration received from the participants for taking up the options granted by the Company was insignificant.

The closing price of the Company's shares immediately before May 2, 2017, the date of grant, was HK$0.43.

The fair values of the options determined at the grant date using the Binomial Option Pricing Model and recognised immediately in profit or loss was HK$1,302,000 (equivalent to RMB1,130,000).

The following assumptions were used to calculate the fair values of share options:

	May 2, 2017
Grant date share price	HK$0.43
Exercise price	HK$0.55
Expected life	2 years
Expected volatility	56%
Dividend yield	nil
Risk-free interest rate	0.778%

In accordance with the terms of the 2010 Share Option Scheme, options vested at the date of grant. The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

30. SHARE OPTION SCHEMES-CONTINUED

2010 Share Option Scheme-continued

A summary of the movements of the outstanding options during the year ended December 31, 2017 under the 2010 Share Option Scheme is as follows:

				Number of share options			
Type of participants	**Date of grant**	**Exercise period**	**Exercise price per share** HK$	**Outstanding as at January 1, 2017**	**Granted during the year**	**Exercised during the year**	**Outstanding as at December 31, 2017**
Consultants	May 2, 2017	May 2, 2017 – May 2, 2019	0.55	–	111,300,000	–	111,300,000

The Company's share options granted to other participants are measured by reference to the fair value of options granted to directors/ employees of the Group since the fair value of the services provided by such other participants to the Group cannot be estimated accurately.

No share option had lapsed or been cancelled during the year.

None of the grantees of share option granted during period is a Director, chief executive or substantial shareholder of the Company, or any of their respective associates (as defined in the Listing Rules). These grantees are consultants and they are not full-time employees of the Group. None of the Directors, chief executive or substantial shareholder(s) of the Company, or any of their respective associates (as defined in the Listing Rules) held any outstanding share options during the year.

	2017	2016
Number of share options exercisable at December 31	**111,300,000**	–

No share options was exercised during the year (2016: HK$Nil).

31. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year	**6,406**	25,636
In the second to fifth year inclusive	**1,510**	–
	7,916	25,636

Leases are negotiated and rentals are fixed for lease terms of one to three years.

32. CAPITAL COMMITMENTS

	2017 **RMB'000**	2016 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
— property, plant and equipment	**81,361**	84,529
— technical knowhow	**8,800**	31,000
	90,161	115,529

33. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate in the MPF in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustees. The Group and each of the employees make monthly mandatory contributions to the MPF Scheme.

The employees of the Group's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

34. RELATED PARTY TRANSACTIONS

Details of the balances with a related party are set out in note 25.

During the year, the Group entered into the following transactions with a related party:

Related party	Relationship	Nature of transactions	2017 RMB'000	2016 RMB'000
Jiangsu Ruinian Qianjin Pharmaceutical Company Limited ("Jiangsu Ruinian")	(Note)	Trade purchases	**12,237**	16,526
		Acquisition of technical knowhow	**–**	18,868

In the opinion of the directors, the above transactions were undertaken in the ordinary course of business on terms mutually agreed between the Group and the related party. The related party transactions mentioned above in relation to trade purchases constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules and the related party transaction mentioned above in relation to acquisition of technical knowhow constituted a connected transaction of the Company. The Company has complied with the relevant disclosure requirements applicable to such transaction under Chapter 14A of the Listing Rules and the required disclosures under Chapter 14A of the Listing Rules are provided in the "Connected Transactions" section in the Directors' Report in this annual report.

Note: Jiangsu Ruinian is owned as to approximately 6.45% by Mr. Wang Fucai, an executive Director and a substantial shareholder of the Company, and the remaining approximately 93.55% is held by Mr. Wang Futing, elder brother of Mr. Wang Fucai.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2017 RMB'000	2016 RMB'000
Fees, salaries and other benefits	**9,330**	9,600
Discretionary bonuses	**415**	510
Retirement benefits scheme contributions	**93**	130
	9,838	10,240

35. PRINCIPAL SUBSIDIARIES

Details of Company's principal subsidiaries, all of which are owned by the Company indirectly, at December 31, 2017 and 2016 are as follows:

Name of subsidiary	Country of establishment/ operations/kind of legal entity	Registered capital	Principal activity
Ruinian Industry	PRC as a wholly foreign owned enterprise for a term until June 9, 2036 commencing August 22, 2006	RMB720,000,000	Manufacture and sales of health and nutritional supplements
無錫正乾生物科技有限公司 (Wuxi Zhengqian Bio-technology Company Limited)*	PRC as a wholly foreign owned enterprise for a term of 50 years commencing June 22, 2010	US$45,000,000	Manufacture and sales of health drinks
無錫銀乾生物科技有限公司 (Wuxi Yinqian Bioscience Company Limited)*	PRC as a wholly foreign owned enterprise for a term of 50 years commencing October 27, 2010	US$38,000,000	Property holding for construction of production facilities
江蘇千聚實業有限公司 (Jiangsu Qiansu Industry and Commerce Company Limited)*	PRC as a wholly owned domestic limited liability for a term of 20 years commencing February 4, 2013	RMB50,000,000	Property holding for construction of production facilities
安徽省桑田綠色食品有限公司 (Anhui Sangtian Green Food Company Limited ("Anhui Sangtian"))*	PRC as a 55.56% non-wholly owned domestic limited liability for a term of 30 years commencing October 29, 2012	RMB90,000,000	Property holding for construction of production facilities

The above table lists the principal subsidiaries of Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the consolidated net assets. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* for identification purpose only

35. PRINCIPAL SUBSIDIARIES-CONTINUED

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in the PRC and Hong Kong. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		2017	2016
Trading of health and nutritional supplements	Hong Kong	**1**	1
Investment holding	British Virgin Islands	**1**	3
	Hong Kong	**1**	2
Property holding for construction of production facilities	PRC	**1**	1
Inactive	British Virgin Islands	**5**	3
	Hong Kong	**2**	1
	PRC	**2**	2

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

36. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests at the end of reporting period:

Name of subsidiaries	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests	Profit/(Loss) allocated to non-controlling interests RMB'000	Accumulated non-controlling interests RMB'000
December 31, 2017				
Anhui Shuangke*	**PRC**	**40.00%**	**(16,945)**	**–**
Anhui Sangtian	**PRC**	**44.44%**	**(8,926)**	**21,114**
Individually immaterial subsidiaries with non-controlling interests			**(148,541)**	**(4,461)**
			(174,412)	**16,653**
December 31, 2016				
Anhui Shuangke*	PRC	40.00%	11,587	161,896
Anhui Sangtian	PRC	44.44%	(7,237)	30,040
Individually immaterial subsidiaries with non-controlling interests			1,250	(871)
			5,600	191,065

Summarised financial information in respect of material non-controlling interests, are set out below. The summarised financial information below represents amounts before intragroup eliminations:

	Anhui Shuangke*		Anhui Sangtian	
	At December 31, 2017 RMB'000	At December 31, 2016 RMB'000	**At December 31, 2017 RMB'000**	At December 31, 2016 RMB'000
Current assets	**–**	97,078	**1,974**	1,620
Non-current assets	**–**	459,694	**522,343**	541,171
Current liabilities	**–**	(92,155)	**(476,806)**	(475,194)
Non-current liabilities	**–**	(59,877)	**–**	–
Equity attributable to owners	**–**	242,844	**26,397**	37,557
Non-controlling interests	**–**	161,896	**21,114**	30,040

* Anhui Shuangke represents Anhui Province Shuangke Pharmaceutical Company Limited.

36. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS-CONTINUED

	Anhui Shuangke		Anhui Sangtian	
	Year ended December 31, 2017 RMB'000	Year ended December 31, 2016 RMB'000	**Year ended December 31, 2017 RMB'000**	Year ended December 31, 2016 RMB'000
Revenue	**59,585**	121,905	**3,326**	553
Expenses	**(101,946)**	(92,937)	**(23,411)**	(16,838)
(Loss)/Profit and total comprehensive (expenses)/income attributable to owners of the Company	**(25,416)**	17,381	**(11,159)**	(9,048)
(Loss)/Profit and total comprehensive (expenses)/income attributable to non-controlling interests	**(16,945)**	11,587	**(8,926)**	(7,237)
(Loss)/Profit and total comprehensive (expenses)/income for the year	**(42,361)**	28,968	**(20,085)**	(16,285)
Net cash (outflow)/inflow from operating activities	**(1,759)**	51,725	**3,761**	42,337
Net cash outflow from investing activities	**(658)**	(51,379)	**(1,736)**	(82,700)
Net cash inflow/(outflow) from financing activities	**2,567**	(291)	**(2,000)**	24,267
Net cash inflow/(outflow)	**150**	55	**25**	(16,096)

37. DISPOSAL OF SUBSIDIARIES

As disclosed in the note 12, during the year ended December 31, 2017, the Group discontinued its pharmaceutical products segment at time of disposal of its subsidiaries, Wuxi Ruinian Pharmaceutical Company Limited, Nanjing Ruinian Best Pharmaceutical Co., Limited and Anhui Province Shuangke Pharmaceutical Company Limited (the "Disposed Subsidiaries"). The net assets of Disposed Subsidiaries at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash consideration	15,000

Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	413,354
Land use rights	41,117
Goodwill	113,650
Intangible assets	225,135
Deposits made on acquisition of property, plant and equipment	7,097
Advance payments for acquisition of technical knowhow	62,016
Inventories	34,741
Trade and other receivables	44,871
Bank balance and cash	4,679
Trade and other payables	(80,228)
Taxation	(2,450)
Short-term bank loans	(804,178)
Deferred tax liabilities	(55,495)
Net assets disposed of	4,309

37. DISPOSAL OF SUBSIDIARIES-CONTINUED

Gain on disposal of Disposed Subsidiaries:

	RMB'000
Consideration received	15,000
Net assets disposed of	(4,309)
Gain on disposal	10,691

Net cash inflow arising on disposal:

	RMB'000
Cash consideration	15,000
Less: bank balances and cash disposed of	(4,679)
	10,321

The impact of Disposed Subsidiaries on the Group's results in the current and prior period is disclosed in note 12.

INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2017	2016
	RMB'000	RMB'000
Assets		
Unlisted investment in a subsidiary	**433,977**	433,977
Amounts due from subsidiaries	**2,214,679**	2,215,966
Other receivables, prepayments and deposits	**328**	809
Bank balances and cash	**596**	5,328
Total assets	**2,649,580**	2,656,080
Liabilities		
Other payables and accruals	**9,135**	10,347
Total liabilities	**9,135**	10,347
Net assets	**2,640,445**	2,645,733
Capital and reserves		
Share capital	**13,772**	13,772
Reserves	**2,626,673**	2,631,961
Total equity	**2,640,445**	2,645,733

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on March 29, 2018 and are signed on its behalf by:

WANG FUCAI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

YU YAN
EXECUTIVE DIRECTOR

MOVEMENT IN RESERVES

	Share premium RMB'000	Contribution surplus RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Non-distributable reserve RMB'000	Retained profits RMB'000	Total RMB'000
At January 1, 2016	2,195,301	427,384	71	19,228	4,086	13,522	2,659,592
Profit for the year	–	–	–	–	–	33,206	33,206
Shares repurchased	(4,559)	–	69	–	–	(69)	(4,559)
Lapsed of share options	–	–	–	(19,228)	–	19,228	–
Dividends	–	–	–	–	–	(56,278)	(56,278)
At December 31, 2016	**2,190,742**	**427,384**	**140**	**–**	**4,086**	**9,609**	**2,631,961**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(6,418)**	**(6,418)**
Recognition of equity settled share base payment	**–**	**–**	**–**	**1,130**	**–**	**–**	**1,130**
At December 31, 2017	**2,190,742**	**427,384**	**140**	**1,130**	**4,086**	**3,191**	**2,626,673**

FINANCIAL SUMMARY

	2013 RMB'000 (Restated)	2014 RMB'000 (Restated)	2015 RMB'000 (Restated)	2016 RMB'000 (Restated)	**2017 RMB'000**
RESULTS					
Continuing Operations					
Revenue	1,777,369	1,888,508	1,800,777	886,431	**357,661**
(Loss)/Profit before taxation	635,056	743,721	583,351	(9,321)	**(235,227)**
Taxation	(192,170)	(212,795)	(177,947)	(48,700)	**(14,676)**
(Loss)/Profit for the year from continuing operations	442,886	530,926	405,404	(58,021)	**(249,903)**
Discontinued operations					
(Loss)/Profit for the year from discontinued operations	50,239	50,325	2,168	(1,755)	**(11,176)**
(Loss)/Profit for the year	493,125	581,251	407,572	(59,776)	**(261,079)**
ASSETS AND LIABILITIES					
Total assets	4,610,373	5,901,888	6,666,163	6,699,189	**5,459,139**
Total liabilities	(870,390)	(1,432,449)	(904,917)	(1,061,689)	**(78,274)**
Net assets	3,739,983	4,469,439	5,761,246	5,637,500	**5,380,865**
Attributable to:					
Owners of the Company	3,739,983	4,329,154	5,575,781	5,446,435	**5,364,212**
Non-controlling interests	–	140,285	185,465	191,065	**16,653**
	3,739,983	4,469,439	5,761,246	5,637,500	**5,380,865**