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 2016

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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
Ms. Au-yeung Kam Ling Celeste

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

AUDIT COMMITTEE

Dr. Wong Lung Tak Patrick, BBS, J.P. *(Chairman)*
Dr. Fong Chi Wah
Mr. Xu Hua Feng

REMUNERATION COMMITTEE

Dr. Fong Chi Wah *(Chairman)*
Mr. Wang Fucai
Dr. Wong Lung Tak Patrick, BBS, J.P.
Mr. Xu Hua Feng

NOMINATION COMMITTEE

Mr. Wang Fucai *(Chairman)*
Dr. Wong Lung Tak Patrick, BBS, J.P.
Dr. Fong Chi Wah
Mr. Xu Hua Feng
Mr. Chan Kee Ming

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Poon Yick Pang, Philip

AUTHORISED REPRESENTATIVES

Ms. Au-yeung Kam Ling Celeste
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

28th Floor
The Hennessy
256 Hennessy Road
Wan Chai, Hong Kong

FINANCIAL HIGHLIGHTS

	2016 RMB'000	2015 RMB'000	Change %
Revenue	1,140,904	2,051,263	(44.4)
Gross profit	640,526	1,340,750	(52.2)
(Loss)/Profit for the year attributable to owners of the Company	(65,376)	401,085	(116.3)
Basic (loss)/earnings per share (cents)	(4.1)	28.2	(114.5)
Declared final dividend (HK cents)	–	4.2	(100.0)

FINANCIAL HIGHLIGHTS

Revenue
(RMB'000)

2016 **1,140,904**

2015 2,051,263

— 44.4%

Gross Profit
(RMB'000)

2016 **640,526**

2015 1,340,750

— 52.2%

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

2016 **(65,376)**

2015 401,085

— 116.3%

Basic earnings per share
(Cents)

2016 **(4.1)**

2015 28.2

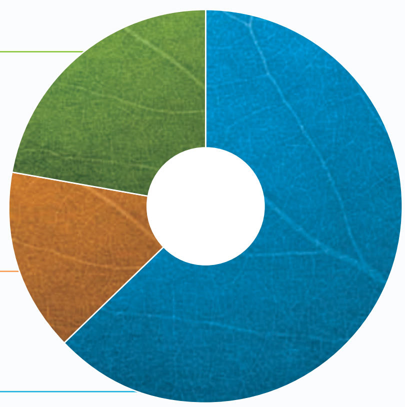
— 114.5%

Sales analysis by categories
(RMB'000)

22% **254,473**
Pharmaceutical products

15% **167,915**
Health drinks

63% **718,516**
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, 2016 (the "Year").

Chairman
Mr. Wang Fucai

BUSINESS REVIEW

The Group's major business recorded a significant decrease in sales compared with that in 2015 due to the slowdown in China's economy and consumer market. Sales of the Group's core health and nutritional supplement products decreased by 47.6% to RMB718.5 million as the sales of the amino acid tablets and liquid products decreased considerably for the year ended December 31, 2016. Meanwhile, sales of health drinks decreased by 61.0% to RMB167.9 million. Sales of pharmaceutical products increased by 1.6% to RMB254.5 million. As a result, the Group's revenue decreased by 44.4% to RMB1,140.9 million.

The Group's overall gross profit margin decreased to 56.1% from 65.4% in 2015, due to higher production costs in 2016 and the change in sales mix. The Group reported an attributable loss of RMB65.4 million for 2016 as compared to a profit of RMB401.1 million in 2015. This was mainly because revenue decreased by RMB910.4 million, selling and distribution costs as a percentage of revenue in 2016 increased to 42.3% from 26.4% in 2015.

During the Year, the Group adopted a prudent approach for the development of its sales network. In addition to continuously consolidating its footholds in its major markets in eastern and southern China, the Group also enhanced its cooperation with distributors in tapping the potential of the new sales network. During the Year, newly developed retail outlets included Changshu Changkelong Convenience Store Chain, Zhangjiagang Baixin Convenience Store Chain, Yixing Tianjian Pharmaceutical Chain Group. Meanwhile, the Group also developed a number of new retail outlets for health drinks, including those of uSmile convenience stores in regions of Nanjing, Nantong and Changshu, Aeon Shopping Center and Maxvalu Fresh Supermarket in Qingdao city, Jinan Unimart Convenience Store Chain. New sales channels for pharmaceutical products included Tianjin First Center Hospital, Luquan People's Hospital and Xuchang People's Hospital.

To penetrate the local markets further, the Group continued to develop the sales network of Real Nutri Health Stores. As at December 31, 2016, the number of Real Nutri Health Stores was over 200 and these stores together contributed revenue of about RMB68.2 million, which accounted for 6.0% of the Group’s total revenue in the Year. Besides, the Group established a number of regional sales management centers in China to strengthen the communication with regional distributors. They consolidated and managed the resources advantage of the Group’s core businesses of health supplements, health drinks and pharmaceutical products. In addition, the Group also planned and managed its regional sales comprehensively. The Group has been devoting itself to developing healthcare business and health services for people. As such, besides providing club members with diverse and professional health services through “Real Nutri Health Stores”, the Group also held various club member activities including a national spokesperson recruitment campaign “I am a star and a spokesperson for Real Nutri” to select outstanding members who would share their experience of Real Nutri products with other members from all parts of the country. During the Year, the recruitment began in southern, eastern, northern and northwestern China and induced overwhelming responses. Gathering for the members to share their experience of Real Nutri’s products were held in the cities of Zhongshan, Guilin, and Tianjin. The move allowed the Group to enhance its interaction with the members and further penetrate community markets, where it promoted the public education on amino acids and increased its brand awareness. In addition, the Group established “Real Nutri Elderly Business Operation Center” to conduct the works related to regimen, health products, supporting services and charitable activities for elderly people.

Health and nutritional supplement products were sold at retail outlets.

New developments continued in China’s health supplements market and online sales of health supplements were growing rapidly. The Group actively developed its online sales business to cope with the changing consumption patterns. The Group enhanced the management of its sales operations and the promotion of its products in major e-commerce platforms. The Group’s online direct sales business generated revenue of RMB16.6 million, which accounted for 1.5% of the total revenue during the Year. The Group also developed the sales channel in WeChat Mall and selected popular nutritional health products and health drinks to be launched in WeChat Mall, so as to tap the huge demand brought by online sales channel’s rapid growth. During the Year, the Group launched the mobile phone applications (“App”) of “Health Butler” and “Quick Consultation & Drug” and built the mega data system to enhance the development of customer relations management, online marketing and online-to-offline (“O2O”) services.

The Group participated in a number of large exhibitions

To sustain the brand's competitiveness in a relatively weak operating environment, the Group adopted a flexible yet highly effective marketing strategy to strengthen its marketing efforts in traditional media, new media, and the online-to-offline promotion of products. It also promoted corporate image by utilizing its official website, WeChat and Weibo. During the Year, the Group set up its Real Nutri Headline account in a number of new media platforms, including TouTiao.com, to attract the internet users through education about public health in order to build its brand awareness. In addition, the Group regularly held promotional activities and participated in large exhibitions, including Guizhou Green Expo & Big Health Pharmaceutical Industry Fair in Guizhou province, The 16th Elderly Regimen & Healthcare Industry Expo in Sichuan province, International Symposium on Nutrition and Healthy Aging in Beijing city, The 2016 China Conference Marketing Festival and Summer Health Supplement Grand Exhibition in Zhengzhou city, and also sponsored events of The 7th Wuxi Taihu International Tourism Fishing Festival & The 2016 Wuxi Taihu Angling Open Tournament in Wuxi city.

As a leading amino acids health supplements enterprise, the Group has been committed to developing and promoting amino acids health supplements business over the years and has gained recognition from the official authorities. The Group and I participated in drafting of "Guideline for amino acid products classification", the China national standards amino acids products. The guideline, came into effect in January 2017, was issued by the General Administration of Quality Supervision Inspection and Quarantine of the People's Republic of China and Standardization Administration of the People's of Republic of China. In addition, the Group actively built a unique health industrial tourism base to promote the public education about amino acids through its "Amino Acids Science Exhibition Hall" and health supplements production base in the Wuxi headquarters, featuring health science, health tests, knowledge about products and corporate culture, and tours of production facilities. The Group held several hundreds activities to popularize public health education and the health benefits of amino acids among the young people in more than thirty schools and training institutions in Jiangsu, Zhejiang and Shanghai, and gained high recognition in various communities. The exhibition hall has been accredited as "Jiangsu Province Model Industrial Tourism Base" by Jiangsu Tourism Administration and as "Jiangsu Province Universal Science Education Base for 2015 to 2019" by Jiangsu Association for Science and Technology.

For the health drink business, the Group continued to promote its brand through diverse marketing campaigns, including the sponsorship for major sports events like golf tournaments, football matches and marathon. The move enabled the Group to build up awareness of its products and brand among a huge group of consumers. During the Year, the Group's functional amino acids drink "U-Energy" was designated an official beverage of the China Golf Team as the Group sponsored China Golf Team's Deployment Ceremony for Rio Olympic in Beijing. This initiative allowed the Group to build a premium image and penetrate the market of high-end consumer group. The Group used "U-energy" drinks to sponsor for a number of large-scale activities, including 2016 Huaihai Economic Zone (Xuzhou) Agricultural Trade Fair in Xuzhou city, the Shanghai West Golf Club Annual Celebration and The 3th SHGE Cup Golf Tournament in Kunshan city, 2016 Luneng Weifang Cup — International Youth Football Tournament in Shandong province, and the "Love Football" Cup — 2016 Evergrande Taobao FC Soccer Sevens.

The Group's medicine business unit held various promotional seminars regularly and took part in a number of major medical conferences, including 2016 Chongqing Ophthalmology Academic Conference in Chongqing city, The Fifth Global Chinese Ophthalmic Conference & The 21st Congress of Chinese Ophthalmological Society in Suzhou city, so as to conduct academic exchanges and discussions on ophthalmology with doctors and medical experts from all over the country. In addition, the Group also participated in several large-scale pharmaceutical trade fairs, including The 51th China New Drugs Trade Fair for 2016 in Guizhou province, The 76th PharmChina Trade Fair for 2016 in Kunming city.

For the new product development, apart from launching traditional nutritional supplement products, the Group also actively developed beauty health products. The Group selected Damask rose as raw material from its plantation base in Suzhou and blended the advanced rose essence extraction technique with the Group's new-generation polypeptide technology to innovate a new series of "Real Nutri Beauty 18" novel beauty health products, including Rose Peptide Drink, Rose Essence Bird's Nest Drink, Amino Acids Rose Essence Tonic.

To build a solid foundation for long-term development, the Group continued to upgrade the facilities and equipment at various production bases. During the Year, the Group's capital expenditures totalled approximately RMB325.4 million. Investments were made in its health supplement production base and health drinks production base in Wuxi, pharmaceutical production base in Nanjing, the next-generation polypeptide production and research base in Suqian as well as a raw material plantation base in Suzhou. During the Year, the Group introduced the world's advanced aluminum can production line designed by Mitsubishi Heavy Industries Group of Japan into the health drinks production base. The production line has started trial production and expects to launch full production in the first half of 2017. As such, the Group will be able to produce functional amino acids drink "U-Energy" by in-house production in China and improve the product's gross profit margin. The Group completed the first phase of its Suzhou raw material plantation base which commenced trial production in the second half of 2016. The production line there will mainly produce Chinese medicine drink tablets, hawthorn extract pills and rose essential oil. In addition, the Group's pharmaceutical manufacturing plant in Nanjing passed certification under the new standards of Good Manufacturing Practice of Drugs ("GMP") for production of tablets, sachets and eye drops.

The new production line for the health drinks.

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to fulfilling its social responsibility in various ways and caring community by actively joining various charitable and voluntary activities. During the Year, the Group donated its products to the event of "Elderly Care, Nursing Home Visit" in Wuxi city and Zhangtun Primary School in Tongren city, Guizhou province, and also participated in the charitable events like Don't Qua Charity Action 2016, telephone consoling service for elderly, held by the Suicide Prevention Services, as well as Mooncakes for Charity and Dress Casual Day organized by The Community Chest of Hong Kong. In addition, the Group held several popular science family education activities each with over one thousand participants at its "Amino Acids Science Exhibition Hall". The Group also conducted a number of healthy activities with "Real Nutri Health Bus" in the cities of Shaoqing and Ningbo to provide free tests on health conditions of arteries and brain, and to promote health education to local residents.

PROSPECTS

The State Council announced the "Healthy China 2030" blueprint in October 2016, which stipulated that good health of the nationals is a prerequisite for their all-round development and the country's economic and social development. The blueprint is aimed at promoting the country's health infrastructure and the nationals' health in the medium and long term. The blueprint also anticipates that the size of the country's healthcare market will grow to RMB16 trillion in 2030. The Chinese government has put strong emphasis on the development of China's healthcare industry which is a sunrise sector with a very bright prospect. Along this direction set by the blueprint, the Group will capture the business opportunities by actively developing its diversified healthcare businesses with amino acids as the foundation.

The Group will enhance its precise management in regional markets, increase its penetration of existing markets and make breakthroughs in the development of new markets. The Group will further formulate plans for sales channel management and marketing for target specific local markets at various administrative levels according to their respective situations. Such plans are aimed at improving the sales channels, sales performance and operational efficiency of markets at different levels. Meanwhile, the Group will continue to explore promising, innovative modes of sales, including membership marketing by applying one-on-one services for members. It will also use its mobile phone applications such as “Health Butler” and “Quick Consultation & Drug” to provide members with standardized professional health services and quality health products. All these measures will enable the Group to develop new distribution channels, thus adding new impetus to its future development.

In respect of brand promotion, the Group will formulate diverse, precise and efficient marketing strategies according to the market landscapes of different products, and will fully leverage the online sales resources such as e-commerce and WeChat mall. It will also adopt a multimedia marketing and promotional strategy that targets specific market segments in order to expand the markets for its product series and popularize knowledge about health regimen. The Group will further develop its online-to-offline business to develop the sales network in integrating and coordinating its various sales channels. To boost its online sales, the Group will also intensify online promotion not only just through regular publicity campaigns, but also by offering promotional discounts and launching grand gift box packages during major festivals, like the Mid-Autumn Festival, National Day, Double 11 (Singles’ Day), and the Chinese New Year. In addition, the Group will speed up the establishment and fulfillment of the mega data system to facilitate customer relationship management protocol for both online and offline operations, so as to provide customers with unprecedented premium consumer experience.

The drug for treatment of small cell lung cancer.

The Group will continue to make good use of its superb products advantage to develop the healthcare business. The Group will accelerate the development and launches of new products to meet the demand for quality nutritional health products in the future. The Group will also launch new amino acids-based health supplements to satisfy the health needs of target groups, to enrich its product portfolio and to further consolidate its leading position in the amino acids-based health supplements market. At the same time, the Group will also devote to the development and sales for pharmaceutical products. The Group’s Topotecan Hydrochloride Capsules are included in the latest catalogue of pharmaceuticals eligible for claims made on the national basic medical insurance policies, industrial casualty insurance policies and maternity insurance policies issued in 2017, as Topotecan Hydrochloride Capsule is a Class II new drug used for the treatment for small cell lung cancer. And the only kind of oral formation of anti-cancer medicine amongst similar products in China, the Group predicts that its popularity and market share will gradually grow after its inclusion in the catalogue. This will help to largely improve the sales performance of the Group’s pharmaceutical business in the future.

As China's healthcare industry is poised to capitalize on the huge demand of the market, the Group is actively seeking opportunities for investing in or acquiring quality assets to expand the scale of its businesses. The Group has commenced thorough legal and accounting due diligence, and drafting of the relevant legal documents for the proposed acquisition of Shenzhen City Ailire Investment Consulting Company Limited ("Ailire"). The Group expects the proposed acquisition will bring in a number of synergies. It will expand its distribution network, boost sales of high-margin health supplements for extra income, and bring a wider membership base and logistic services foundation for the development of the Group's online and offline services for its pharmaceuticals and health supplements. The proposed acquisition can also quickly elevate Real Nutri's brand awareness among consumers in southern China.

Looking forward, the Group will insist on using a proactive and pragmatic approach to formulate appropriate strategies coping with the fast changing economic situations and market environments. It will also grasp opportunities for development by combining its inherent advantages of brand, production capability, marketing and services. These initiatives will enable the Group to develop itself into a leading healthcare company with its unique, innovative online-to-offline business model in the era of mobile internet network in China. The Group will endeavor to realize the enterprise intrinsic value and returns for the shareholders.

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended December 31, 2016 (2015: 4.2 Hong Kong cents).

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 30, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The revenue of the Group in 2016 was RMB1,140.9 million, representing a decrease of approximately 44.4% from RMB2,051.3 million in 2015. Loss attributable to owners of the Company was RMB65.4 million in 2016 as compared to a profit of RMB401.1 million in 2015. The Company's basic loss per share ("Share") was RMB4.1 cents (2015: basic earnings per share: RMB28.2 cents) based on the weighted average number of 1,592.5 million (2015: 1,421.6 million) Shares in issue during the Year. The loss in financial results in 2016 was mainly attributable to the decrease in revenue, gross profit margin and increase in selling and distribution costs as percentage of revenue.

Revenue

The revenue of the Group decreased by approximately 44.4% from RMB2,051.3 million in 2015 to RMB1,140.9 million in 2016. Sales of health and nutritional supplements decreased by approximately 47.6% from RMB1,370.0 million in 2015 to RMB718.5 million in 2016, which was primarily due to the decrease in sales of amino acids tablets and liquid products. Sales of health drinks decreased by approximately 61.0% from RMB430.8 million in 2015 to RMB167.9 million in 2016. Sales of pharmaceutical products increased by approximately 1.6% from RMB250.5 million in 2015 to RMB254.5 million in 2016.

Gross profit

The Group's gross profit decreased from RMB1,340.8 million in 2015 to RMB640.5 million in 2016. The Group's average gross profit margin decreased from 65.4% in 2015 to 56.1% in 2016. 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 RMB74.7 million in 2015 to RMB52.9 million in 2016, which was mainly due to the decrease in interest income from bank deposits and franchise income. The Group's other gains and losses included gains of RMB4.6 million in 2016 compared to losses of RMB48.2 million in aggregate in 2015, which was mainly due to the additional exchange loss of about RMB50.5 million associated with placement of new shares in 2015.

Selling and distribution costs

The Group's selling and distribution costs decreased by approximately 10.9% from RMB541.6 million in 2015 to RMB482.5 million in 2016, represented approximately 26.4% of the Group's revenue in 2015 and approximately 42.3% of the Group's revenue in 2016 respectively. Such increase was primarily due to the decrease in revenue in 2016.

Administrative expenses

The Group's administrative expenses increased by approximately 3.4% from RMB158.6 million in 2015 to RMB164.1 million in 2016, represented approximately 7.7% of the Group's revenue in 2015 and approximately 14.4% of the Group's revenue in 2016 respectively. Such increase was primarily due to the increase in depreciation expenses from RMB61.1 million in 2015 to RMB83.0 million in 2016.

Finance costs

The Group's finance costs decreased by approximately 33.4% from RMB54.0 million in 2015 to RMB36.0 million in 2016, which was primarily due to no interest incurred for the convertible loan notes (2015: RMB6.2 million) and the decrease in interest on bank borrowings.

Taxation

Tax charge decreased by approximately 71.7% from RMB205.6 million in 2015 to RMB58.3 million in 2016 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 RMB65.4 million in 2016. The Group's profit margin for the year decreased from approximately 19.6% in 2015 to approximately -5.7% in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

In 2016, net cash increased by RMB80.6 million. RMB182.5 million and RMB183.2 million were generated from operating activities and financing activities respectively, while RMB285.1 million were spent on investing activities.

Inventories

The Group's inventories increased to RMB100.0 million (2015: RMB76.0 million) as at December 31, 2016 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 64 days (2015: 38 days).

Trade receivables

The Group's trade and bills receivables amounted to RMB621.7 million (2015: RMB690.1 million) as at December 31, 2016. During the Year, the distributors were generally granted a credit term of 90 days. Turnover days for trade and bills receivables increased to 210 days (2015: 127 days), primarily due to some distributors' delay in payment.

Trade Payables

The Group's trade payables amounted to RMB42.1 million (2015: RMB85.1 million) as at December 31, 2016. During the Year, the credit term provided by the suppliers generally was 90 days. Turnover days for trade payables increased to 64 days (2015: 57 days).

Borrowings

As at December 31, 2016, the Group had short-term bank loans in the amount of RMB772.0 million (2015: RMB492.0 million) and a gearing ratio of 11.5% (2015: 7.4%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge of assets

As at December 31, 2016, the Group has pledged the Group's land use rights, buildings and plant and machinery under property, plant and equipment in amount of RMB350.8 million for the bank borrowings (2015: RMB320.1 million).

Capital expenditure

During the Year, the Group invested approximately RMB325.4 million (2015: RMB438.9 million) for purchase of property, plant and equipment, land use rights and intangible assets.

Capital commitments and contingent liabilities

As at December 31, 2016, the Group's capital commitments were approximately RMB115.5 million (2015: RMB241.2 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, 2016 (2015: 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 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, 2016, 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, 2016, the Group employed a work force of 756. The total salaries and related costs for the year ended December 31, 2016 amounted to approximately RMB46.1 million (2015: RMB44.0 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, 2016. 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, 2016.

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, 2016.

BOARD OF DIRECTORS

(i) Board Composition

The board of Directors ("Board") currently comprises a combination of six executive Directors, and four independent non-executive Directors. Six board meetings had been held during the tenure of Mr. Ip Tak Chuen, Edmond and Mr. Tsang Sze Wai, Claudius from the commencement of the financial year ended December 31, 2016 up to their retirement on June 2, 2016.

As at December 31, 2016, 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

Independent Non-executive Directors
Dr. Wong Lung Tak Patrick, BBS, J.P.
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 four meetings in person or by means of electronic communication. 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, 2016:

	Attendance at board meeting (Note 2)	Attendance at general meeting
Executive Directors		
Mr. Wang Fucai *(Chairman and Chief Executive Officer)*	9/9	1/1
Mr. Yu Yan	9/9	0/1
Mr. Li Lin	9/9	0/1
Mr. Yi Lin	9/9	0/1
Mr. Zhang Yan	9/9	0/1
Ms. Au-yeung Kam Ling Celeste	9/9	1/1
Non-executive Directors		
Mr. Ip Tak Chuen, Edmond (retired on June 2, 2016) (Note 1)	5/9	0/1
Mr. Tsang Sze Wai, Claudius (retired on June 2, 2016) (Note 1)	5/9	1/1
Independent Non-executive Directors		
Dr. Wong Lung Tak Patrick, BBS J.P.	9/9	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.

Notes:

1. Mr. Ip Tak Chuen, Edmond and Mr. Tsang Sze Wai, Claudius, previously the non-executive Directors, retired on June 2, 2016.

2. 4 out of such 9 board meetings held during the year were regular board meetings, which had been attended by all the Directors including all the independent non-executive Directors.

(v) Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed four 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. Wong Lung Tak Patrick, BBS J.P., has over 40 years in the accounting profession. Dr. Wong is a Certified Public Accountant (Practising) in Hong Kong.

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, 2016, 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	A, B
Non-executive Directors	
Mr. Ip Tak Chuen, Edmond (retired on June 2, 2016)	A, B
Mr. Tsang Sze Wai, Claudius (retired on June 2, 2016)	A, B
Independent Non-executive Directors	
Dr. Wong Lung Tak Patrick, BBS J.P.	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 three independent non-executive Directors, Dr. Wong Lung Tak Patrick, BBS, J.P., 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 one meeting, 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)	1/1
Mr. Wang Fucai (executive Director)	1/1
Dr. Wong Lung Tak Patrick, BBS, J.P. (independent non-executive Director)	1/1
Mr. Xu Hua Feng (independent non-executive Director)	1/1

(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 one executive Director, Mr. Wang Fucai, and four independent non-executive Directors, Dr. Wong Lung Tak Patrick, BBS, J.P., 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
Dr. Fong Chi Wah (independent non-executive Director)	1/1
Dr. Wong Lung Tak Patrick, BBS, J.P. (independent non-executive Director)	1/1
Mr. Xu Hua Feng (independent non-executive Director)	1/1
Mr. Chan Kee Ming (independent non-executive Director)	1/1

(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. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah and Mr. Xu Hua Feng, being the three independent non-executive Directors of the Company. Dr. Wong Lung Tak Patrick, BBS, J.P. 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 2017, which is subject to the approval of shareholders at the forthcoming annual general meeting.

During the year, the audit committee has held five meetings, at which the members of audit committee have reviewed and discussed with the external auditor of the Group's interim results for the period ended June 30, 2016, the audited annual results for the year ended December 31, 2015, 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 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)	5/5
Dr. Fong Chi Wah (independent non-executive Director)	5/5
Mr. Xu Hua Feng (independent non-executive Director)	5/5

AUDITOR'S REMUNERATION

For the year ended December 31, 2016, 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, 2016 HK$'000
Annual audit services	2,600
Other audit services	1,200
Non-audit services	950

The non-audit services provided by the Group's external auditor, Elite, during the year ended December 31, 2016 were related to the interim review services and the service fee amounted to approximately HK$950,000.

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, 2016 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.

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, 2017. 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

An ordinary resolution was passed on June 2, 2016 in respect of the increase of the authorised share capital of the Company from HK$20,000,000 divided into 2,000,000,000 shares of HK$0.01 each ("Shares") to HK$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional 8,000,000,000 new Shares. Save for the above, there was no significant changes in the constitutional documents of the Company during the year ended December 31, 2016.

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.

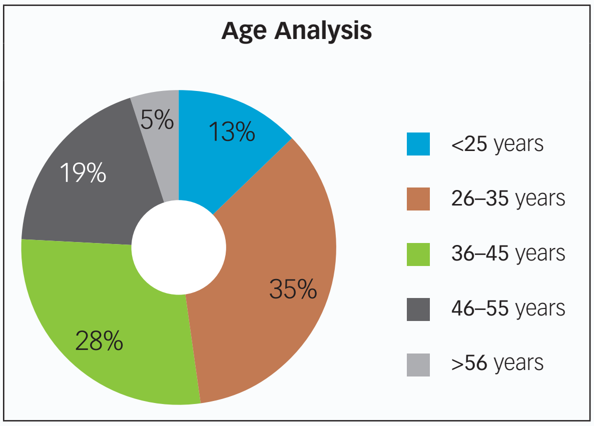
WORKING ENVIRONMENT QUALITY

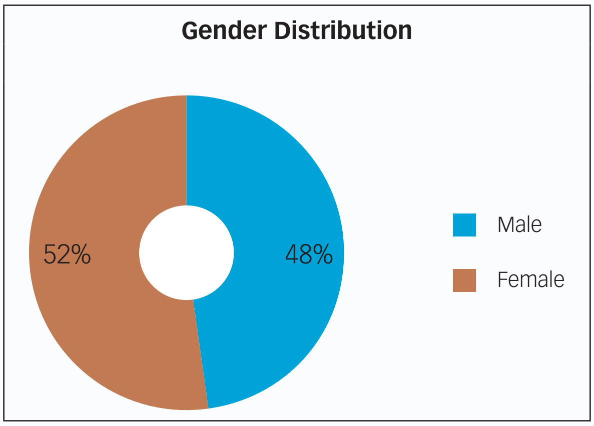
Staff

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, 2016, the Group has 756 employees and most of them are based in Wuxi. The below charts show the statistics regarding the Group's employees as at December 31, 2016:





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 2016, 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, Nanjing, Hefei, 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 2016, the Group organized various regular staff development programs, recreational activities and competitions to encourage staff integration and boost team spirit, such as group travel, "The Voice of Real Nutri" singing competition.

Employees social activity

The Voice of Real Nutri.

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 2016, 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 and Emissions

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. In 2016, the resource consumption of natural gas, electric power and water in major regional production line amounted to 68,704 m^3, 1,162,920 kilowatt and 20,443 m^3 (2015: 34,053 m^3, 838,620 kilowatt and 21,732 m^3), respectively.

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

The Group strives to achieve high level of automation in production, so as to improve production efficiency and to ensure production accuracy and consistency as well as enhance product quality. For low-efficiency production facilities or those with inconsistent performance, the Group makes upgrades and reforms in order to improve production efficiency. For the packaging process, the Group uses automatic facilities, where a single packaging line can provide packaging for multiple products, thereby saving labour as well as enhancing efficiency. For production, the Group uses environmentally-friendly pressure steam boilers with high capacity driven by natural gas. In addition, such facilities are equipped with real-time surveillance system for continuously inspecting the operating condition. Dry granulator machine is an advanced granulator equipment in the PRC. It can save a substantial amount of ethanol and time in the drying process. The Group also adopts the C-41 sub high-speed tablet press machine (41沖亞高速智能壓片機), which provides high rotary speed, high production volume and steady performance, and thereby significantly increasing production efficiency.

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. Regarding mobile vehicles, the Group uses electric cars run on new energy to reduce emission and protect the environment.

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.

Solid waste separation and recycling program

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.

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 GMP standard 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 GMP Standard 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 GMP standard. 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 2016, 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:

- "Elderly care, nursing home visit"
- "Gratitude to mother, social welfare activity"
- Donate supplies to victims of typhoon in Funing, Yancheng
- Organized a volunteer team which visited and made donations to underprivileged students at Zhangtun Primary School in Tongren City
- Charitable events like Mooncakes for Charity and Dress Casual Day of The Community Chest of Hong Kong
- Don't Qua Charity Action of Suicide Prevention Services
- Awarded the 6 Years Plus Caring Company Logo by The Hong Kong Council of Social Service.

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 61, 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. Yu Yan (于岩), aged 52, 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 29 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 49, 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 18 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 53, 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 27 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 40, 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 54, 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.

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P. (黃龍德), aged 69, 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 (Practising) in Hong Kong and the managing practising director of Patrick Wong CPA Limited, Wong Lam Leung & Kwok CPA Limited and Hong Kong Pengcheng 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. He has been appointed Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University since 2002. Dr. Wong participates in many types of community services and is holding posts in various organisations and committees in government and voluntary agencies. Dr. Wong is an independent non-executive director of C C Land Holdings Limited, Water Oasis Group Limited, Sino Oil and Gas Holdings Limited, Galaxy Entertainment Group Limited, Guangzhou Baiyunshan Pharmaceutical Holdings Co, Ltd., Winox Holdings Limited, National Arts Entertainment and Culture Group Limited and BAIC Motor Corporation Limited, Dr. Wong was an independent non-executive director of China Precious Metal Resources Holdings Co., Ltd. from June 19, 2004 to October 3, 2016, all of which are listed on the Stock Exchange.

Dr. Fong Chi Wah (方志華), aged 54, 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 27 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 47, 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 the Secretary of China Health Care Association (中國保健協會) since 2004. Mr. Xu has over 19 years of experience in the nutrition and health care food products industry. Mr. Xu was the Director of International Department of China Health Care Association, the Director of Office of China Health Care Association, the person-in-charge of the Research Group for "Regulatory System of Health Care Food Products in China" (「中國保健食品監管體系研究」課題組), the Executive Editor of the "Blue Book of the Development of Health Care Food Products in China" (《中國保健食品發展藍皮書》) and the member of the Expert Committee of World (China) Direct Selling Research Centre (世界直銷(中國)研究中心).

Mr. Chan Kee Ming, William (陳基明), aged 52, 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 16 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 47, 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 67, 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 46, 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, 2016.

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, 2016 are set out in the consolidated statement of profit and loss and other comprehensive income on page 55 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2016.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended December 31, 2016 amounted to approximately RMB166.5 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 16 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 28 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 page 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 RMB2,632.0 million as at December 31, 2016 (2015: RMB2,659.6 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 116 of this annual report.

BORROWINGS

Details of bank loans of the Group as at December 31, 2016 are set out in note 27 to the consolidated financial statements of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the years ended December 31, 2016 and 2015, sales to the Group's five largest customers, in aggregate represented approximately 27.1% and 18.6% of the Group's total sales, respectively. For the years ended December 31, 2016 and 2015, sales to the single largest customers amounted to approximately 11.0% and 4.8% of the Group's total sales, respectively.

For the years ended December 31, 2016 and 2015, purchases of raw materials, packaging materials and merchandise for resale from the Group's five largest suppliers accounted for approximately 35.8% and 65.8% of the Group's total purchases, respectively. For the years ended December 31, 2016 and 2015, purchases from the single largest supplier amounted to approximately 10.7% and 25.3% of the Group's total purchases, respectively.

For the year ended December 31, 2016, none of the Directors or any of their 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 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 May 27, 2014)
Mr. Li Lin (reappointed as an executive director on May 27, 2014)
Mr. Yi Lin (reappointed as an executive director on May 27, 2014)
Mr. Zhang Yan (reappointed as an executive director on June 2, 2016)
Ms. Au-yeung Kam Ling Celeste (reappointed as an executive director on May 27, 2014)

Non-executive Directors

Mr. Ip Tak Chuen, Edmond (retired as a non-executive director on June 2, 2016)
Mr. Tsang Sze Wai, Claudius (retired as a non-executive director on June 2, 2016)

Independent Non-executive Directors

Dr. Wong Lung Tak Patrick, BBS, J.P. (reappointed as an independent non-executive director on June 2, 2015)
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. Yu Yan, Mr. Li Lin, Mr. Yi Lin and Ms. Au Yueng Kam Ling, Celeste, who have been longest in office, shall retire by rotation at the forthcoming annual general meeting ("AGM"). Mr. Yu Yan, Mr. Li Lin, Mr. Yi Lin and Ms. Au Yueng Kam Ling, Celeste being eligible, will offer themselves for re-election at the AGM.

Details of biography of Directors and senior management are set out on page 33–36 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 12 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, 2016 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, 2016, 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 for Securities Transactions by Directors of Listed Companies ("Model Code") of the Listing Rules, 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%
Dr. Wong Lung Tak Patrick, BBS, J.P.	beneficial owner	1,070,000 Shares (L)	0.07%

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, 2016, 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, 2016, 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. As at December 31, 2016, under the existing scheme mandate limit, the total number of Shares underlying the share options available for grant is 159,197,866 Shares, representing approximately 10% 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 July 4, 2014, 99,600,000 share options have been granted under the 2010 Share Option Scheme.

On July 3, 2016, a total of 18,274,000 share options had lapsed in accordance with the term of the 2010 Share Option Scheme, as a result of which there were no share options which had been granted and had not been exercised remained outstanding as at December 31, 2016 and as at the date of this report.

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.

MOVEMENT IN THE SHARE OPTIONS

Details of the movements in the share options during the year are set out in Note 29 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, 2016 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, 2016, 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, 2016, 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, 2016.

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, 2016:

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, 2016, the total purchases made by the Group under the Master Purchase Agreement was approximately RMB16,526,000.

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, 2016, 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.

Connected transaction — Technology Transfer Agreement

On June 28, 2016, Nanjing Ruinian Best Pharmaceutical Co., Ltd ("Nanjing Ruinian"), a wholly-owned subsidiary of the Company, entered into a technology transfer agreement ("Technology Transfer Agreement") with Jiangsu Ruinian pursuant to which Nanjing Ruinian acquired all the manufacturing technologies, technologies, knowhow, formulae, techniques, quality standards and all the ownership, propriety rights and intellectual property rights and interests in the aforesaid for the manufacturing of the pharmaceutical products namely, Telmisartan Tablets (40 mg) (替米沙坦片(40mg片劑))、Licorzine Granules (1.5g) (甘草鋅顆粒(1.5g顆粒劑))、Licorzine Granules (5g) (甘草鋅顆粒(5g顆粒劑)) and Spironolactone Tablets (20 mg) (螺內酯片(20mg片劑)) (collectively, the "Pharmaceutical Products") and all the documentation in relation thereto, from Jiangsu Ruinian at an aggregate consideration of RMB20,000,000. The sale and purchase under the Technology Transfer Agreement had been completed.

Under the Technology Transfer Agreement, Jiangsu Qianjin had unconditionally and irrevocably guaranteed to Nanjing Ruinian that each of the audited net profit after tax (after deduction of extraordinary items) of Nanjing Ruinian attributable to the Pharmaceutical Products as shown in the Nanjing Ruinian's audited financial statements for the year ended December 31, 2016 ("2016 Audited Accounts"), and the audited net profit after tax (after deduction of extraordinary items) of Nanjing Ruinian attributable to the Pharmaceutical Products as shown in the Nanjing Ruinian's audited financial statements for the year ended December 31, 2017 ("2017 Audited Accounts") respectively shall not be less than RMB2 million ("Profit Guarantee"), failing which Jiangsu Qianjin shall compensate Nanjing Ruinian for the shortfall by cash within 7 days after the 2016 Audited Accounts and/or (as the case may be) the 2017 Audited Accounts is provided to Jiangsu Qianjin. Based on the 2016 Audited Accounts of Nanjing Ruinian, the Profit Guarantee in respect of the year ended December 31, 2016 attributable to the Pharmaceutical Products has been met.

As mentioned above, since Jiangsu Ruinian is owned as to approximately 6.45% by Mr. Wang Fucai and as to approximately 93.55% by Mr. Wang Futing, elder brother of Mr. Wang Fucai, the entering into of the Technology Transfer Agreement and the transaction thereunder constituted a connected transaction of the Company and based on the highest applicable percentage ratio by reference to the total consideration payable by the Group to Jiangsu Ruinian, the Technology Transfer Agreement and the transaction thereunder were subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For details of the Technology Transfer Agreement and the transactions thereunder, please refer to the announcement of the Company dated June 28, 2016.

Details of the related party transaction are disclosed in note 34 to the consolidated financial statements of this annual report.

AUDIT COMMITTEE

The Company established its audit committee on February 1, 2010. The audit committee currently comprises three independent non-executive Directors, namely Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah and Mr. Xu Hua Feng.

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 period ended June 30, 2016 and the audited annual results for the year ended December 31, 2016. 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, 2016.

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, 2016, 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 15–25 of this annual report.

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

For the year ended December 31, 2016, the Company repurchased 8,050,000 issued ordinary shares on The Stock Exchange of Hong Kong Limited. These repurchased shares were cancelled immediately upon repurchase.

Month of repurchase	Number of ordinary shares	Highest price per share HK$	Lowest price per share HK$	Aggregate price paid HK$'000	Equivalent aggregate price paid 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

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

On July 3, 2016, a total of 18,274,000 share options have lapsed in accordance with the terms of the 2010 Share Option Scheme.

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 Friday, May 26, 2017 to Thursday, June 1, 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, 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 Thursday, May 25, 2017.

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 30, 2017

INDEPENDENT AUDITOR'S REPORT

開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
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 55 to 115, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "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, 2016. 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
Impairment assessment of goodwill and intangible assets with indefinite useful life	
As at December 31, 2016, the Group had goodwill and intangible assets with indefinite useful life with carrying amount of approximately RMB113,650,000 and RMB105,425,000 respectively, which were arising from the acquisition of 60% equity interests in Anhui Province Shuangke Pharmaceutical Company Limited 安徽省雙科藥業有限公司 ("Anhui Shuangke"), a private company principally engaged in manufacture and sales of pharmaceutical products in the People's Republic of China. In accordance with Hong Kong Accounting Standard 36 *Impairment of Assets*, irrespective of whether there is any indication of impairment, the Group shall test goodwill acquired in a business combination and intangible assets with indefinite useful life for impairment annually. Since the annual impairment test is a complex process requiring significant management judgement to determine the key assumptions about future profitability and cash flows and to select appropriate discount rate and growth rate, we had identified the impairment assessment of goodwill and intangible assets as a key audit matter.	Our main audit procedures in relation to the management's impairment assessment of goodwill and intangible asset included the following: We discussed with the management of the Company to see whether there had been any indicator of impairment based on our knowledge of the industry and the performance of Anhui Shuangke. We obtained the cash flow forecast prepared by the management of the Company and assessed the reasonableness of the methodology and assumptions used for the preparation of the forecast (e.g. estimated sales, growth rate and discount rate etc.). We compared the cash flow forecast prepared by the management in prior year, to the actual results of the current year to assess the accuracy and quality of management's forecast process. We discussed with the independent external valuer engaged by the Group to assist the management in developing the recoverable amount of the cash-generating units to which goodwill and intangible assets have been allocated (the "CGU"). We evaluated the competence, capabilities and objectivity of the independent external valuer. We performed certain procedures to assess the appropriateness of the methodology and assumptions used in estimating the recoverable amount of the CGU. We checked the mathematical accuracy of calculation of the recoverable amount of the CGU. We performed sensitivity analysis on key assumptions used in determining the recoverable amount of the CGU.

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.

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

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 30, 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	7	**1,140,904**	2,051,263
Cost of goods sold		**(500,378)**	(710,513)
Gross profit		**640,526**	1,340,750
Other income	8	**52,869**	74,709
Other gains and losses	9	**4,555**	(48,172)
Selling and distribution costs		**(482,464)**	(541,550)
Administrative expenses		**(164,050)**	(158,632)
Research and development costs		**(17,000)**	–
Finance costs	10	**(35,962)**	(53,967)
(Loss)/Profit before taxation	11	**(1,526)**	613,138
Taxation	13	**(58,250)**	(205,566)
(Loss)/Profit for the year		**(59,776)**	407,572
Other comprehensive expense for the year			
— exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss		**(3,064)**	(1,967)
Total comprehensive (expense)/income for the year		**(62,840)**	405,605
(Loss)/Profit for the year attributable to:			
Owners of the Company		**(65,376)**	401,085
Non-controlling interests		**5,600**	6,487
		(59,776)	407,572
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(68,440)**	399,118
Non-controlling interests		**5,600**	6,487
		(62,840)	405,605
(Loss)/Earnings per share	15		
— Basic		**(4.1) cents**	28.2 cents
— Diluted		**(4.1) cents**	27.8 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	16	**2,191,501**	2,209,210
Land use rights	17	**356,007**	364,229
Goodwill	18	**113,650**	113,650
Intangible assets	20	**371,362**	327,104
Deposits made on acquisition of property, plant and equipment		**177,173**	107,087
Advance payments for acquisition of technical knowhow	21	**92,216**	103,965
		3,301,909	3,225,245
Current assets			
Inventories	23	**99,975**	75,973
Trade and other receivables	24	**742,367**	887,637
Bank balances and cash	25	**2,554,938**	2,477,308
		3,397,280	3,440,918
Current liabilities			
Trade and other payables	26	**199,456**	285,736
Taxation		**15,152**	39,014
Short-term bank loans	27	**772,041**	492,000
		986,649	816,750
Net current assets		**2,410,631**	2,624,168
Total assets less current liabilities		**5,712,540**	5,849,413
Non-current liabilities			
Deferred tax liabilities	22	**75,040**	88,167
Net assets		**5,637,500**	5,761,246

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2016

	NOTES	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital	28	**13,772**	13,841
Reserves		**5,432,663**	5,561,940
Equity attributable to owners of the Company		**5,446,435**	5,575,781
Non-controlling interests		**191,065**	185,465
Total equity		**5,637,500**	5,761,246

The consolidated financial statements on pages 55 to 115 were approved and authorised for issue by the Board of Directors on March 30, 2017 and are signed on its behalf by:

WANG FUCAI	**AU-YEUNG KAM LING CELESTE**
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	*EXECUTIVE DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

	Share capital	Share premium	Special reserve	Capital redemption reserve	Share option reserve	Translation reserve	Non-distributable reserve	Statutory surplus reserve fund	Retained profits	Subtotal	Attributable to non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000	RMB'000	RMB'000 (Note c)	RMB'000 (Note d)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015	10,076	1,264,726	459,745	71	36,122	2,596	(19,180)	321,499	2,253,499	4,329,154	140,285	4,469,439
Profit for the year	–	–	–	–	–	–	–	–	401,085	401,085	6,487	407,572
Exchange differences arising on translation of foreign operations which may be subsequently reclassified to profit or loss	–	–	–	–	–	(1,967)	–	–	–	(1,967)	–	(1,967)
Total comprehensive income for the year	–	–	–	–	–	(1,967)	–	–	401,085	399,118	6,487	405,605
Capital injection from non-controlling interests (note 30)	–	–	–	–	–	–	–	–	–	–	40,000	40,000
Deemed disposal of a subsidiary without loss of control (note 30)	–	–	–	–	–	–	–	–	1,307	1,307	(1,307)	–
Issue of ordinary shares under share option scheme	450	106,447	–	–	(16,894)	–	–	–	–	90,003	–	90,003
Issue of ordinary shares under placement of shares	2,756	663,948	–	–	–	–	–	–	–	666,704	–	666,704
Transaction costs on placing of shares	–	(6,817)	–	–	–	–	–	–	–	(6,817)	–	(6,817)
Issue of ordinary shares upon conversion of convertible loan notes	559	166,997	–	–	–	–	–	–	–	167,556	–	167,556
Dividends	–	–	–	–	–	–	–	–	(71,244)	(71,244)	–	(71,244)
Transfers	–	–	–	–	–	–	–	47,920	(47,920)	–	–	–
	3,765	930,575	–	–	(16,894)	–	–	47,920	(117,857)	847,509	38,693	886,202
At December 31, 2015	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 (expenses)/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**

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 respect of the acquisition of a subsidiary in 2009;

(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, 2016

	2016 RMB'000	2015 RMB'000
Cash flows from operating activities		
(Loss) profit before taxation	**(1,526)**	613,138
Adjustments for:		
Interest income	**(40,053)**	(58,765)
Change in fair value of derivative component of convertible loan notes	**–**	(2,372)
Interest expenses	**35,962**	53,967
Gain on disposal of property, plant and equipment	**(296)**	–
Depreciation of property, plant and equipment	**184,179**	158,782
Amortisation of intangible assets	**52,979**	54,838
Operating lease rentals in respect of land use rights	**4,988**	4,975
Advance payments for acquisition of technical knowhow written off	**6,610**	–
Operating cash flows before movements in working capital	**242,843**	824,563
Increase in inventories	**(24,002)**	(2,271)
Decrease in trade and other receivables	**145,270**	31,463
(Decrease)/increase in trade and other payables	**(86,280)**	48,180
Cash generated from operations	**277,831**	901,935
Taxation paid	**(95,279)**	(230,356)
Net cash generated from operating activities	**182,552**	671,579
Cash flows from investing activities		
Interest received	**40,053**	58,765
Purchase of property, plant and equipment	**(149,047)**	(346,151)
Proceeds from disposal of property, plant and equipment	**296**	–
Proceeds from disposal of land use rights	**–**	14,628
Purchase of intangible assets	**(87,244)**	–
Deposits paid on acquisition of property, plant and equipment	**(84,275)**	(107,087)
Advance payments paid for acquisition of technical knowhow	**(4,854)**	(260)
Net cash used in investing activities	**(285,071)**	(380,105)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

	2016 RMB'000	2015 RMB'000
Cash flows from financing activities		
Interest paid	**(28,191)**	(52,693)
Dividends paid	**(56,278)**	(71,244)
Proceeds from issue of equity shares under share option scheme	**–**	90,003
Bank loans raised	**814,190**	636,133
Repayment of bank loans	**(541,920)**	(1,028,133)
Proceeds from placing of shares	**–**	666,704
Expenses paid in connection with placing of shares	**–**	(6,817)
Proceeds from deemed disposal of a subsidiary	**–**	40,000
Payment on repurchase of shares	**(4,628)**	–
Net cash generated from financing activities	**183,173**	273,953
Net increase in cash and cash equivalents	**80,654**	565,427
Cash and cash equivalents at January 1	**2,477,308**	1,904,033
Effect of foreign exchange rate changes	**(3,024)**	7,848
Cash and cash equivalents at December 31	**2,554,938**	2,477,308
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**2,554,938**	2,477,308

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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 pharmaceutical products. 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")

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, 2016:

Amendments to HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from the disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

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

Amendments to HKFRSs that are mandatorily effective for the current year-continued

Amendments to HKAS 1 Disclosure Initiative-continued

As regard to the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes. The Group has applied these amendments retrospectively. The grouping and ordering of certain notes have been revised to give prominence to the areas of the Group's activities that the management considers to be most relevant to an understanding of the Group's financial performance and financial position.

Other than the above presentation and disclosure changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
2 Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined.

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.

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

New and amendments to HKFRSs in issue but not yet effective-continued

HKFRS 16 Leases-continued

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. Under the 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, 2016, the Group has non-cancellable operating lease commitments 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.

Except as described above, the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the financial performance and the financial position of the Group.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Financial instruments-continued

Financial assets-continued

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 29.

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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill as at December 31, 2016 was RMB113,650,000 (2015: RMB113,650,000). Details of the impairment assessment are set out in note 19.

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 (2015: Nil).

The carrying amount of intangible assets is RMB371,362,000 (2015: RMB327,104,000).

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 27, 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

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,176,684**	3,167,358
Financial liabilities		
Amortised cost	**896,629**	707,891

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.

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.

6. FINANCIAL INSTRUMENTS-CONTINUED

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 RMB7,079,000 (2015: RMB18,616,000) and RMB2,260,000 (2015: RMB1,787,000) (see note 25) 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)/profit after taxation is as follows:

	2016 **RMB'000**	2015 RMB'000
Increase in loss/Decrease in profit after taxation	**350**	765

There would be an equal and opposite impact on the (loss)/profit 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.

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.

6. FINANCIAL INSTRUMENTS-CONTINUED

Liquidity risk management-continued

The following table details the Group's remaining contractual maturity for its financial liabilities. 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 RMB'000	3 – 6 months RMB'000	6 – 12 months RMB'000	1 – 2 years RMB'000	2 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount 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

	Weighted average interest rate	On demand and 3 months or less RMB'000	3 – 6 months RMB'000	6 – 12 months RMB'000	1 – 2 years RMB'000	2 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Financial liabilities								
At December 31, 2015								
Trade and other payables	–	215,891	–	–	–	–	215,891	215,891
Short-term bank loans								
— variable rate	5.2%	2,170	91,856	31,654	2,797	48,069	176,546	166,000
— fixed rate	5.4%	4,350	100,371	230,483	–	–	335,204	326,000
		222,411	192,227	262,137	2,797	48,069	727,641	707,891

6. FINANCIAL INSTRUMENTS-CONTINUED

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.

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)/profit after taxation is as follows:

	2016 **RMB'000**	2015 RMB'000
Increase in loss/Decrease in profit after taxation	**(9,229)**	(8,667)

There would be an equal and opposite impact on the (loss)/profit 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
Pharmaceutical products	—	manufacture and sales of pharmaceutical products

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

7. REVENUE AND SEGMENT INFORMATION-CONTINUED

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

Segment results represent the gross profits earned by each segment.

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

	Revenue		Results	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Health and nutritional supplements	**718,516**	1,369,985	**509,533**	1,067,418
Health drinks	**167,915**	430,792	**41,232**	191,432
Pharmaceutical products	**254,473**	250,486	**89,761**	81,900
	1,140,904	2,051,263	**640,526**	1,340,750
Advertising and promotional expenses			**(332,192)**	(347,731)
Other operating expenses			**(327,063)**	(402,995)
Other income			**12,816**	15,944
Gain on disposal of property, plant and equipment			**296**	–
Change in fair value of derivative component of convertible loan notes			**–**	2,372
Interest income			**40,053**	58,765
Interest expenses			**(35,962)**	(53,967)
(Loss)/Profit before taxation			**(1,526)**	613,138

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.

	2016 **RMB'000**	2015 RMB'000
Assets		
Segment assets		
— health and nutritional supplements	**2,471,336**	2,566,890
— health drinks	**569,028**	547,746
— pharmaceutical products	**1,103,887**	1,074,219
	4,144,251	4,188,855
Unallocated corporate assets	**2,554,938**	2,477,308
Consolidated total assets	**6,699,189**	6,666,163
Liabilities		
Segment liabilities		
— health and nutritional supplements	**128,789**	182,432
— health drinks	**9,973**	62,932
— pharmaceutical products	**60,694**	40,372
	199,456	285,736
Taxation	**15,152**	39,014
Deferred tax liabilities	**75,040**	88,167
Unallocated corporate liabilities	**772,041**	492,000
Consolidated total liabilities	**1,061,689**	904,917

Notes:

(a) Unallocated corporate assets represent bank balances and cash.

(b) Unallocated corporate liabilities represent short-term bank loans.

7. REVENUE AND SEGMENT INFORMATION-CONTINUED

Other information

	2016 RMB'000	2015 RMB'000
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	**120,557**	430,169
— health drinks	**94,677**	12,161
— pharmaceutical products	**110,186**	12,533
	325,420	454,863
Depreciation of property, plant and equipment		
— health and nutritional supplements	**106,711**	90,696
— health drinks	**39,266**	39,356
— pharmaceutical products	**38,202**	28,730
	184,179	158,782
Amortisation of intangible assets		
— health and nutritional supplements	**10,078**	6,134
— health drinks	**1,150**	1,150
— pharmaceutical products	**41,751**	47,554
	52,979	54,838
Operating lease rentals in respect of land use rights		
— health and nutritional supplements	**2,966**	2,965
— health drinks	**888**	876
— pharmaceutical products	**1,134**	1,134
	4,988	4,975

7. REVENUE AND SEGMENT INFORMATION-CONTINUED

Other information-continued

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

	2016 RMB'000	2015 RMB'000
Revenue		
— Mainland China (the "PRC")	**1,140,340**	2,050,971
— Hong Kong	**564**	292
	1,140,904	2,051,263

Total non-current assets other than deferred tax assets by location of assets, other than the Company's country of domicile is presented as follows:

	2016 RMB'000	2015 RMB'000
Total non-current assets other than deferred tax assets		
— PRC	**3,301,734**	3,224,981
— Hong Kong	**175**	264
	3,301,909	3,225,245

Information about major customers

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

	2016 RMB'000	2015 RMB'000
Customer A[1]	**125,019**	N/A[2]

1 Revenue from sales of health and nutritional supplements

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

For the year ended December 31, 2015, there was no customer which accounted for more than 10% of total revenue.

8. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Interest income	**40,053**	58,765
Facilities rental income	**7,760**	7,219
Franchise income	**4,331**	8,133
Others	**725**	592
	52,869	74,709

9. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Gain on disposal of property, plant and equipment	**296**	–
Gain from change in fair value of derivative component of convertible loan notes	**–**	2,372
Net foreign exchange gain/(loss)	**4,259**	(50,544)
	4,555	(48,172)

10. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on borrowings wholly repayable within five years		
— bank borrowings	**(35,962)**	(47,813)
— convertible loan notes	**–**	(6,154)
	(35,962)	(53,967)

11. (LOSS)/PROFIT BEFORE TAXATION

	2016 RMB'000	2015 RMB'000
(Loss)/Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 12)	**7,016**	6,714
Other staff retirement benefits scheme contributions	**3,502**	4,251
Other staff costs	**37,767**	35,192
	48,285	46,157
Amortisation of intangible assets included in		
— cost of goods sold	**37,819**	44,734
— administrative expenses	**15,160**	10,104
	52,979	54,838
Operating lease rentals in respect of		
— land use rights	**8,222**	6,600
Less: capitalised under construction in progress	**(3,234)**	(1,625)
	4,988	4,975
— rented premises	**63,851**	69,290
Advertising and promotional expenses	**332,192**	347,731
Auditor's remuneration		
— audit services	**2,252**	1,911
— non-audit services	**853**	1,041
Depreciation of property, plant and equipment	**184,179**	158,782

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

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

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

	2016					2015				
	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	3,950	–	96	–	4,046	3,709	–	104	25	3,838
— Mr. Yu Yan	208	–	95	28	331	195	–	94	29	318
— Mr. Li Lin	208	–	32	10	250	195	–	31	10	236
— Mr. Yi Lin	208	–	32	10	250	195	–	31	10	236
— Mr. Zhang Yan	208	–	94	28	330	195	–	93	29	317
— Ms. Au-Yeung Kam Ling Celeste	900	139	–	16	1,055	845	33	–	15	893
Non-executive directors										
— Mr. Ip Tak Chuen, Edmond (Note)	65	–	–	–	65	146	–	–	–	146
— Mr. Tsang Sze Wai Claudius (Note)	65	–	–	–	65	146	–	–	–	146
Independent non-executive directors										
— Mr. Wong Lung Tak, Patrick	156	–	–	–	156	146	–	–	–	146
— Dr. Fong Chi Wah, Felix	156	–	–	–	156	146	–	–	–	146
— Mr. Chan Kee Ming	156	–	–	–	156	146	–	–	–	146
— Mr. Xu Hua Feng	156	–	–	–	156	146	–	–	–	146
	6,436	139	349	92	7,016	6,210	33	353	118	6,714

Note: Mr. Ip Tak Chuen, Edmond and Mr. Tsang Sze Wai Claudius were retired as non-executive directors of the Company on June 2, 2016.

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.

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

For the year ended December 31, 2016, the five highest paid individuals included two directors (one is also the Chief Executive Officer) (2015: two directors (one is also the Chief Executive Officer)), details of whose emoluments are set out above. The emoluments of the remaining three (2015: three) highest paid employees were as follows:

	2016 RMB'000	2015 RMB'000
Employees		
— basic salaries and allowances	**2,815**	3,046
— discretionary bonuses	**371**	56
— retirement benefits scheme contributions	**38**	44
	3,224	3,146

Their emoluments were within the following bands:

	Number of employees	
	2016	2015
Up to HK$1,000,000	**2**	2
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**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.

13. TAXATION

	2016 RMB'000	2015 RMB'000
The charge comprises:		
Current tax		
— PRC Enterprise Income Tax	**(66,499)**	(207,852)
— PRC withholding tax	**(3,666)**	(6,553)
— Hong Kong Profits Tax	**(1,212)**	–
Deferred taxation	**13,127**	8,839
	(58,250)	(205,566)

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, 2016 has been accrued at the tax rate of 5% (2015: 5%) on the expected dividend stream of 30% (2015: 30%) which is determined by the directors of the Company.

南京瑞年百思特製藥有限公司 (Nanjing Ruinian Best Pharmaceutical Co., Ltd.) ("Nanjing Ruinian") and 無錫瑞年醫藥有限公司 (Wuxi Ruinian Pharmaceutical Company Limited) ("Ruinian Pharmaceutical") are wholly-owned by the same Hong Kong company, though 75% and 100% of which are held indirectly through Ruinian Industry respectively. According to Article 26 of the EIT Law, dividend income received by Ruinian Industry should be exempted from EIT. However, if Ruinian Industry pays the dividend to its holding company, it will be subject to the 5% withholding tax as mentioned above. For the direct interest of 25% held by the Hong Kong company, the preferential tax rate of 5% on dividend also applies as the Hong Kong company has been holding Nanjing Ruinian for more than a year. The deferred tax liability on the undistributed profits earned for the year ended December 31, 2016 have been accrued at the tax rate of 5% (2015: 5%) on the expected dividend stream of 30% (2015: 30%) which is determined by the directors of the Company after setting off the deficit incurred in the prior period.

13. TAXATION-CONTINUED

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended December 31, 2016. 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, 2015.

Tax charge for the year is reconciled to (loss)/profit before taxation as follows:

	2016 RMB'000	2015 RMB'000
(Loss)/Profit before taxation	**(1,526)**	613,138
Tax at the applicable income tax rate	**382**	(153,285)
Tax effect of expenses not deductible for tax purposes	**(44,914)**	(45,812)
Under-provision in previous years	**(1,212)**	–
Tax effect of unused tax losses not recognised	**(8,840)**	–
PRC withholding tax on undistributed earnings	**(3,666)**	(6,469)
Tax charge for the year	**(58,250)**	(205,566)

14. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as a distribution during the Year		
— 2015 final dividend of HK4.2 cents (2015: 2014 final dividend of HK4.2 cents) per share	**56,278**	44,154
— 2016 interim dividend of nil (2015: 2015 interim dividend of HK3.0 cents) per share	**–**	27,090
	56,278	71,244

The Board does not recommend any payment of final dividend for the year ended December 31, 2016 (2015: HK4.2 cents per share).

15. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

	2016 RMB'000	2015 RMB'000
(Loss)/Earnings:		
(Loss)/Earnings for the purposes of basic (loss)/earnings per share ((loss)/profit for the year attributable to owners of the Company)	**(65,376)**	401,085
Interest on convertible loan notes	**–**	6,154
Gain from change in fair value of derivative component of convertible loan notes	**–**	(2,372)
(Loss)/Earnings for the purposes of diluted (loss)/earnings per share	**(65,376)**	404,867

	2016 '000	2015 '000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	**1,592,511**	1,421,646
Effect of dilutive potential ordinary shares Convertible loan notes	**–**	34,886
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	**1,592,511**	1,456,532

The computation of diluted (loss)/earnings per share has considered and does not assume the exercise of the Company's share options for the years ended December 31, 2016 and December 31, 2015 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. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At January 1, 2015	663,179	275,125	18,538	649,671	748,449	2,354,962
Additions	17	3,076	14	35,149	382,711	420,967
Transfers	–	4,000	–	–	(4,000)	–
At December 31, 2015	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
DEPRECIATION						
At January 1, 2015	104,289	117,907	13,849	171,892	–	407,937
Provided for the year	39,366	53,703	3,106	62,607	–	158,782
At December 31, 2015	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
CARRYING VALUES						
At December 31, 2016	821,051	140,289	1,235	552,219	676,707	2,191,501
At December 31, 2015	519,541	110,591	1,597	450,321	1,127,160	2,209,210

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 RMB18,574,000 (2015: RMB15,340,000) 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 RMB523,194,000 (2015: RMB377,615,000) 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.

17. LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000
CARRYING VALUE		
At January 1	**364,229**	385,457
Disposal	**–**	(14,628)
Operating lease rentals capitalised under construction in progress	**(3,234)**	(1,625)
Released to profit or loss during the year	**(4,988)**	(4,975)
At December 31	**356,007**	364,229

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 RMB147,700,000 (2015: RMB152,017,000) 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.

18. GOODWILL

	RMB'000
COST	
At January 1, 2015, December 31, 2015 and 2016	113,650

Particulars regarding impairment testing on goodwill are disclosed in note 19.

19. 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 18 and 20 have been allocated to a cash-generating unit related to pharmaceutical product. 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 in 2016 and 2015.

During the year ended December 31, 2016, management of the Group determines that there is no impairment of any of its cash-generating unit containing goodwill and intangible assets with indefinite useful lives.

The basis of the recoverable amounts of the above cash-generating unit and their major underlying assumptions are summarised below:

Pharmaceutical products

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% (2015: 17%) 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.

20. INTANGIBLE ASSETS

	Product development costs RMB'000	Technical knowhow and Patent RMB'000	GMP* certifications RMB'000	Mega data system and applications RMB'000	Total RMB'000
COST					
At January 1, 2015	20,050	458,781	7,000	–	485,831
Transferred from advance payments for acquisition of technical knowhow	–	8,500	–	–	8,500
At December 31, 2015	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
AMORTISATION					
At January 1, 2015	16,569	88,820	7,000	–	112,389
Charged to profit or loss during the year	955	53,883	–	–	54,838
At December 31, 2015	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
CARRYING VALUE					
At December 31, 2016	1,617	304,788	–	64,957	371,362
At December 31, 2015	2,526	324,578	–	–	327,104

* 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.

20. 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 19.

21. ADVANCE PAYMENTS FOR ACQUISITION OF TECHNICAL KNOWHOW

	2016 **RMB'000**	2015 RMB'000
At January 1	**103,965**	112,205
Additions	**4,854**	260
Written off	**(6,610)**	–
Transferred to intangible assets	**(9,993)**	(8,500)
At December 31	**92,216**	103,965

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 2017. During the year ended December 31, 2016, amount of approximately RMB6,610,000 has been written off in research and development costs.

22. DEFERRED TAXATION

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

	Product development costs RMB'000	PRC withholding tax on undistributed earnings RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At January 1, 2015	83	(18,181)	(75,202)	(93,300)
Charged to profit or loss during the year	(83)	(3,623)	8,839	5,133
At December 31, 2015	–	(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)

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

	2016 RMB'000	2015 RMB'000
Deferred tax assets	**–**	–
Deferred tax liabilities	**(75,040)**	(88,167)
	(75,040)	(88,167)

At the end of the reporting period, the Group has an unrecognised deferred tax liability of RMB121,190,000 (2015: RMB97,602,000 in relation to PRC withholding tax on undistributed earnings of RMB2,423,806,000 (2015: RMB1,952,050,000) due to the retention of undistributed earnings by the subsidiaries in the PRC determined by the directors of the Company.

As at December 31, 2016, the Group had unused tax losses of RMB35,360,000 (2015: Nil) available for offset against future profits. Deferred tax assets thereon have not been recognised because of the unpredictability of future profit streams.

23. INVENTORIES

	2016 RMB'000	2015 RMB'000
At cost:		
Raw materials	**40,356**	20,408
Work in progress	**7,308**	6,108
Finished goods	**36,748**	37,406
Merchandise for resale	**3,762**	2,316
Packaging materials	**11,801**	9,735
	99,975	75,973

24. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**619,765**	689,348
Bills receivables	**1,981**	702
	621,746	690,050
Deposits paid to suppliers (note a)	**71,118**	74,298
Property rental deposits and prepaid rental	**23,357**	31,054
Prepayments for media airtime	**1,950**	34,157
Other receivables, prepayments and deposits	**24,196**	58,078
	742,367	887,637

Note:

(a) Included in deposits paid to suppliers, RMB13,665,000 (2015: RMB12,395,000) are amount due from a related party as disclosed in note 34. The amounts are unsecured and interest free and recoverable on demand.

24. TRADE AND OTHER RECEIVABLES-CONTINUED

Payment terms with customers are mainly on credit. Invoices are normally payable within 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:

	2016 RMB'000	2015 RMB'000
Age		
0 to 90 days	**184,544**	376,087
91 to 180 days	**145,432**	213,389
181 to 365 days	**245,811**	81,994
Over 1 year	**45,959**	18,580
	621,746	690,050

The Group does not hold any collateral over these balances. The average age of these receivables at the end of the reporting period is 210 days (2015: 127 days).

Included in the Group's trade receivables balance are trade debtors with an aggregate carrying amount of RMB437,202,000 (2015: RMB313,963,000) 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:

	2016 RMB'000	2015 RMB'000
Age		
91 to 180 days	**145,432**	213,389
181 to 365 days	**245,811**	81,994
Over 1 year	**45,959**	18,580
	437,202	313,963

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.

25. 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 0.3% to 3.0% per annum at the end of the reporting period (2015: from 2.8% to 4.7% per annum).

Included in bank balances and cash is an amount of RMB7,079,000 (2015: RMB18,616,000) and RMB2,260,000 (2015: RMB1,787,000) denominated in HK$ and US$ other than the functional currency of the relevant group companies respectively.

26. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**42,091**	85,090
Other tax payables	**28,775**	34,878
Customers' deposits	**39,952**	30,882
Advertising accruals	**40,425**	76,629
Other payables	**13,343**	13,929
Payroll and welfare payables	**14,468**	14,089
Construction payables	**17,583**	27,512
Other accruals	**2,819**	2,727
	199,456	285,736

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

	2016 RMB'000	2015 RMB'000
Age		
0 to 90 days	**26,004**	50,227
91 to 180 days	**2,384**	22,753
181 to 365 days	**7,111**	7,887
Over 1 year	**6,592**	4,223
	42,091	85,090

27. SHORT-TERM BANK LOANS

	2016 RMB'000	2015 RMB'000
Short-term bank loans		
— secured	**294,121**	102,000
— unsecured	**477,920**	390,000
	772,041	492,000
The Group's bank loans carry interest at		
— variable rate	**94,000**	166,000
— fixed rate	**678,041**	326,000
	772,041	492,000

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% (2015: 4.3% to 6.1%) per annum and fixed rate bank loans carrying interest at 4.4% to 12.0% (2015: 5.0% to 6.4%) 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 (2015: RMB320,149,000).

At the end of the reporting period, the Group has unutilised available credit facilities amounting to RMB10,000,000 (2015: RMB54,000,000).

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.

28. 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, 2015	2,000,000	20,000	1,150,647	11,506
Exercise of share options under 2010 Share Option Scheme (note 29)	–	–	53,715	537
Placement of shares (note (a))	–	–	329,000	3,290
Conversion of convertible loan notes	–	–	66,667	667
— at December 31, 2015	2,000,000	20,000	1,600,029	16,000
Increase (note (b))	8,000,000	80,000	–	–
Shares repurchased (note (c))	–	–	(8,050)	(81)
— at December 31, 2016	10,000,000	100,000	1,591,979	15,919

	2016	2015
	RMB'000	RMB'000
Shown in the consolidated statement of financial position	**13,772**	13,841

Notes:

(a) On July 22, 2015, the company entered into a placing agreement and a top-up subscription agreement for a private placement to independent third parties and top-up subscription by Furui Investments Limited, a substantial shareholder of the Company and 100% beneficially owned by Mr. Wang Fucai, an executive director and chairman of the Company, of 59,000,000 ordinary shares of HK$0.01 each, for consideration of HK$2 per placing share, representing a discount of 6.10% to the closing market price of the Company's ordinary shares on July 22, 2015. The placing and the top-up subscription were completed on July 27, 2015 and July 28, 2015, respectively. The proceeds intended to use for merger and acquisition and general working capital of the Group.

On April 10, 2015 and June 3, 2015, the Company entered the placing agreements to place 130,000,000 and 140,000,000 new ordinary shares of HK$0.01 each of the Company at a price of HK$2.36 and HK$2.65 per ordinary share respectively. The said placings were completed on April 17, 2015 and June 10, 2015, respectively. The proceeds were intended to use for merger and acquisition and general working capital of the Group.

The 130,000,000 new shares issued under the placing which was completed on April 17, 2015 were issued under the general mandate granted to the directors of the Company at the annual general meeting held on May 27, 2014. The 140,000,000 new shares issued under the placing which was completed on June 10, 2015 and the 59,000,000 new shares issued under the placing with top-up subscription which were issued on July 27, 2015 were issued under the general mandate granted to the directors of the Company at the annual general meeting held on June 2, 2015.

All new shares rank pari passu with other shares in issue in all respects.

28. SHARE CAPITAL-CONTINUED

Notes:-Continued

(b) 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.

(c) 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 year ended December 31, 2016.

29. 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. 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 July 4, 2014, a total of 99,600,000 share options were granted to 72 qualified participants, including the directors of the Company, at an exercise price of HK$2 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 July 3, 2016 (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 July 4, 2014, the date of grant, was HK$1.77.

29. SHARE OPTION SCHEMES-CONTINUED

2010 Share Option Scheme-continued

The fair values of the options determined at the grant date using the Binomial model and recognised immediately in profit or loss was HK$37,540,000 (equivalent to RMB29,614,000).

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

	July 4, 2014
Grant date share price	HK$1.77
Exercise price	HK$2.00
Expected life	2 years
Expected volatility	50%
Dividend yield	1.93%
Risk-free interest rate	0.505%

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.

A summary of the movements of the outstanding options during the years ended December 31, 2016 and 2015 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 at 1.1.2016	Granted during the year	Lapsed during the year	Outstanding at 12.31.2016
Directors	7.4.2014	7.4.2014–7.3.2016	2	1,800,000	–	(1,800,000)	–
Employees	7.4.2014	7.4.2014–7.3.2016	2	2,752,000	–	(2,752,000)	–
Others#	7.4.2014	7.4.2014–7.3.2016	2	13,722,000	–	(13,722,000)	–
				18,274,000	–	(18,274,000)	–

29. SHARE OPTION SCHEMES-CONTINUED

2010 Share Option Scheme-continued

Type of participants	Date of grant	Exercise period	Exercise price per share HK$	Number of share options: Outstanding at 1.1.2015	Granted during the year	Exercised during the year	Outstanding at 12.31.2015
Directors	7.4.2014	7.4.2014–7.3.2016	2	2,000,000	–	(200,000)	1,800,000
Employees	7.4.2014	7.4.2014–7.3.2016	2	15,100,000	–	(12,348,000)	2,752,000
Others#	7.4.2014	7.4.2014–7.3.2016	2	54,889,000	–	(41,167,000)	13,722,000
				71,989,000	–	(53,715,000)	18,274,000

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.

	2016	2015
Number of share options exercisable at December 31	–	18,274,000

In respect of share options exercised during the year, the weighted average closing price immediately before the dates on which the more options were exercised was HK$Nil (2015: HK$2.53).

30. DEEMED DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

On June 1, 2015, China Railway Trust Co., Ltd 中鐵信托有限責任公司 ("New Investor") agreed and paid RMB40 million as a capital injection into a subsidiary of the Company, Anhui Sangtian Green Food Company Limited 安徽省桑田綠色食品有限公司 ("Anhui Sangtian"). The transaction was completed by July 7, 2015 and after the capital injection, the New Investor held approximately a 44.44% equity interest in Anhui Sangtian, while the equity interest in the subsidiary of the Group proportionally decreased from 100% to 55.56%. Anhui Sangtian remains a subsidiary of the Group subsequent to the deemed disposal.

	RMB'000
Net assets at the date of disposal	87,069
Non-controlling interests at the date of disposal	38,693
Cash consideration received	(40,000)
	(1,307)

30. DEEMED DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY-CONTINUED

The RMB1,307,000 was recorded as the change in equity from deemed disposal of a subsidiary without loss of control.

The non-controlling interest recognised at the respective acquisition date was measured with reference to the non-controlling interest's proportionate share of the net assets of Anhui Sangtian at that date.

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:

	2016 **RMB'000**	2015 RMB'000
Within one year	**25,636**	40,380
In the second to fifth year inclusive	**–**	200
	25,636	40,580

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

32. CAPITAL COMMITMENTS

	2016 **RMB'000**	2015 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
— property, plant and equipment	**84,529**	190,325
— technical knowhow	**31,000**	50,844
	115,529	241,169

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 24.

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

Related party	Relationship	Nature of transactions	2016 RMB'000	2015 RMB'000
Jiangsu Ruinian Qianjin Pharmaceutical Company Limited ("Jiangsu Ruinian")	(Note)	Trade purchases	**16,526**	7,271
		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:

	2016 RMB'000	2015 RMB'000
Fees, salaries and other benefits	**9,600**	9,609
Discretionary bonuses	**510**	89
Retirement benefits scheme contributions	**130**	162
	10,240	9,860

35. PRINCIPAL SUBSIDIARIES

Details of Company's principal subsidiaries, all of which are owned by the Company indirectly, at December 31, 2016 and 2015 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
Nanjing Ruinian	PRC as a sino-foreign equity joint venture for a term of 20 years commencing January 5, 2004	US$20,000,000	Manufacture and sales of pharmaceutical products
Ruinian Pharmaceutical	PRC as a wholly owned domestic limited liability company	RMB20,000,000	Sales of pharmaceutical products
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
安徽省雙科藥業有限公司 (Anhui Province Shuangke Pharmaceutical Company Limited ("Anhui Shuangke"))*	PRC as a 60% non-wholly owned foreign enterprise for a term of 40 years commencing December 11, 2000	RMB20,000,000	Manufacture and sales of pharmaceutical products

35. PRINCIPAL SUBSIDIARIES-CONTINUED

Name of subsidiary	Country of establishment/ operations/kind of legal entity	Registered capital	Principal activity
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.

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	
		2016	2015
Trading of health and nutritional supplements	Hong Kong	**1**	1
Investment holding	British Virgin Islands	**3**	3
	Hong Kong	**2**	2
Property holding for construction of production facilities	PRC	**1**	1
Inactive	British Virgin Islands	**3**	3
	Hong Kong	**1**	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.

* for identification purpose only

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, 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**
December 31, 2015				
Anhui Shuangke	PRC	40.00%	10,390	150,309
Anhui Sangtian	PRC	44.44%	(1,416)	37,277
Individually immaterial subsidiaries with non-controlling interests			(2,487)	(2,121)
			6,487	185,465

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, 2016 RMB'000	At December 31, 2015 RMB'000	**At December 31, 2016 RMB'000**	At December 31, 2015 RMB'000
Current assets	**97,078**	91,135	**1,620**	39,213
Non-current assets	**459,694**	443,459	**541,171**	470,266
Current liabilities	**(92,155)**	(91,813)	**(475,194)**	(425,597)
Non-current liabilities	**(59,877)**	(67,007)	**–**	–
Equity attributable to owners	**242,844**	225,465	**37,557**	46,605
Non-controlling interests	**161,896**	150,309	**30,040**	37,277

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

	Year ended December 31, 2016 RMB'000	Year ended December 31, 2015 RMB'000	**Year ended December 31, 2016 RMB'000**	Year ended December 31, 2015 RMB'000
Revenue	**121,905**	105,991	**553**	–
Expenses	**(92,937)**	(80,015)	**(16,838)**	(3,187)
Profit/(Loss) and total comprehensive income/(expenses) attributable to owners of the Company	**17,381**	15,586	**(9,048)**	(1,771)
Profit/(Loss) and total comprehensive income/(expenses) attributable to non-controlling interests	**11,587**	10,390	**(7,237)**	(1,416)
Profit/(Loss) and total comprehensive income/(expenses) for the year	**28,968**	25,976	**(16,285)**	(3,187)
Net cash inflow/(outflow) from operating activities	**51,725**	1,550	**42,337**	(16,462)
Net cash outflow from investing activities	**(51,379)**	(902)	**(82,700)**	(164,001)
Net cash (outflow)/inflow from financing activities	**(291)**	(388)	**24,267**	40,000
Net cash inflow/(outflow)	**55**	260	**(16,096)**	(140,463)

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:

	2016 **RMB'000**	2015 RMB'000
Assets		
Unlisted investment in a subsidiary	**433,977**	433,977
Amounts due from subsidiaries	**2,215,966**	2,228,806
Other receivables, prepayments and deposits	**809**	6,064
Bank balances and cash	**5,328**	16,840
Total assets	**2,656,080**	2,685,687
Liabilities		
Other payables and accruals	**10,347**	12,254
Total liabilities	**10,347**	12,254
Net assets	**2,645,733**	2,673,433
Capital and reserves		
Share capital	**13,772**	13,841
Reserves	**2,631,961**	2,659,592
Total equity	**2,645,733**	2,673,433

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on March 30, 2017 and are signed on its behalf by:

WANG FUCAI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

AU-YEUNG KAM LING CELESTE
EXECUTIVE DIRECTOR

MOVEMENT IN RESERVES

	Share premium RMB'000	Contribution surplus RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Non-distributable reserve RMB'000	Retained profits RMB'000	Total RMB'000
At January 1, 2015	1,264,726	427,384	71	36,122	43	4,086	7,851	1,740,283
Profit for the year	–	–	–	–	–	–	76,915	76,915
Exchange differences arising on translation of convertible loan notes	–	–	–	–	(43)	–	–	(43)
Issue of ordinary shares under share option scheme	106,447	–	–	(16,894)	–	–	–	89,553
Issue of ordinary shares under placement of shares	663,948	–	–	–	–	–	–	663,948
Transaction costs on placing of shares	(6,817)	–	–	–	–	–	–	(6,817)
Issue of ordinary shares upon conversion of convertible loan notes	166,997	–	–	–	–	–	–	166,997
Dividends	–	–	–	–	–	–	(71,244)	(71,244)
At December 31, 2015	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**

FINANCIAL SUMMARY

	Year ended December 31,				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
RESULTS					
Revenue	1,755,201	1,903,142	2,061,897	2,051,263	**1,140,904**
(Loss)/Profit before taxation	676,445	700,300	810,456	613,138	**(1,526)**
Taxation	(210,517)	(207,175)	(229,205)	(205,566)	**(58,250)**
(Loss)/Profit for the year	465,928	493,125	581,251	407,572	**(59,776)**

	At December 31,				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	3,667,571	4,610,373	5,901,888	6,666,163	**6,699,189**
Total liabilities	(371,875)	(870,390)	(1,432,449)	(904,917)	**(1,061,689)**
Net assets	3,295,696	3,739,983	4,469,439	5,761,246	**5,637,500**
Attributable to:					
Owners of the Company	3,295,696	3,739,983	4,329,154	5,575,781	**5,446,435**
Non-controlling interests	–	–	140,285	185,465	**191,065**
	3,295,696	3,739,983	4,469,439	5,761,246	**5,637,500**