BBI Life Sciences Corporation
BBI生命科學有限公司

(incorporated in the Cayman Islands with limited liability)

STOCK CODE: 1035

ANNUAL REPORT 2017

A WELL-RECOGNISED PROVIDER OF LIFE SCIENCES RESEARCH PRODUCT AND SERVICE INDUSTRY IN CHINA

We are a well-recognised provider with a comprehensive portfolio coverage in the life sciences research product and service industry in China, and the largest provider of DNA synthesis products in China. Our current business segments include DNA synthesis products, genetic engineering services, life sciences research consumables, and protein and antibody related products and services. With its mature research and development capability and powerful sales network, the Company maintains a stable and sustainable growth.

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CORPORATE PROFILE

BBI Life Sciences Corporation (the "**Company**" or "**BBI Life Sciences**", together with its subsidiaries, the "**Group**") is a renowned supplier of life science products and services in the People's Republic of China (the "**PRC**"). Its wide-range products and services include (1) DNA synthesis products; (2) genetic engineering services; (3) life sciences research consumables, and (4) protein and antibody related products and services (the "**Four Business Segments**"). Its diversified client portfolio comprises mainly universities, research institutes, and pharmaceutical and biotech companies. As one of the largest DNA synthesis product providers in the PRC, BBI Life Sciences has been expanding its product offerings, consistently providing high quality products to its customers. The Group's mission is to become a one-stop solution provider in the long run. Leveraging on our strong research and development capabilities, extensive direct sales network and comprehensive product offerings under the brands "Sangon" and "BBI", the Group serves both domestic and overseas professional markets. We are now ready and prepared to capture opportunities in the market, becoming the preferred supplier for our customers in the life sciences industry.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Qisong
Ms. Wang Luojia
Ms. Wang Jin

Non-executive Director

Mr. Hu Xubo

Independent non-executive Directors

Mr. Xia Lijun
Mr. Ho Kenneth Kai Chung
Mr. Liu Jianjun

AUDIT COMMITTEE

Mr. Xia Lijun *(Chairman)*
Mr. Ho Kenneth Kai Chung
Mr. Liu Jianjun

REMUNERATION COMMITTEE

Mr. Ho Kenneth Kai Chung *(Chairman)*
Mr. Xia Lijun
Mr. Liu Jianjun

NOMINATION COMMITTEE

Mr. Liu Jianjun *(Chairman)*
Mr. Ho Kenneth Kai Chung
Mr. Xia Lijun

RISK MANAGEMENT COMMITTEE

Mr. Liu Jianjun *(Chairman)*
Mr. Ho Kenneth Kai Chung
Mr. Xia Lijun

JOINT COMPANY SECRETARIES

Ms. Hu Heng
Ms. Ng Sau Mei

AUTHORISED REPRESENTATIVES

Ms. Wang Luojia
Ms. Ng Sau Mei

LEGAL ADVISERS

Hong Kong Law:

Howse Williams Bowers
27/F, Alexandra House
18 Chater Road, Central
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 698, Xiangmin Road
Songjiang District
Shanghai, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Times Square, 1 Matheson Street
Causeway Bay, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
16/F, Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

Industrial and Commercial Bank of China
2/F, No. 218, Zhongshaner Road
Songjiang District
Shanghai, PRC

COMPANY WEBSITES

http://www.bbi-lifesciences.com
http://www.sangon.com
http://www.biobasic.com

STOCK CODE

1035

LISTING DATE

30 December 2014

FINANCIAL HIGHLIGHT

- For the year ended 31 December 2017 (the "**Reporting Period**"), the revenue of the Group was approximately RMB462.40 million, representing an increase of 31.4% as compared with RMB352.03 million for the same period of 2016.

- For the year ended 31 December 2017, the gross profit increased by 25.4% from RMB183.97 million for the same period of 2016 to RMB230.78 million.

- For the year ended 31 December 2017, the profit of the Group increased by 3.7% from approximately RMB59.09 million for the same period of 2016 to approximately RMB61.27 million.

- For the year ended 31 December 2017, profit attributable to equity holders of the Company increased by 7.1% from approximately RMB60.18 million for the same period of 2016 to approximately RMB64.45 million.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December RMB thousand				
	2013	**2014**	**2015**	**2016**	**2017**
Operation Results					
Revenue	219,988	253,193	282,390	352,026	462,403
Gross profit	111,090	130,363	151,078	183,971	230,779
Profit after income tax	42,347	35,978	50,348	59,093	61,273
Profit attributable to shareholders of the Company (the "**Shareholders**")	40,249	33,290	50,344	60,183	64,446
Non-controlling interest	2,098	2,688	4	(1,090)	(3,173)
Basic earnings per share (RMB)	0.102	0.084	0.095	0.111	0.118
Diluted earnings per share (RMB)	0.102	0.084	0.093	0.111	0.117
Assets					
Non-current assets	169,483	166,806	205,111	335,656	499,720
Current assets	204,143	432,092	478,958	456,586	403,418
Current liabilities	66,945	99,170	117,584	150,666	207,940
Net current assets	137,198	332,922	361,374	305,920	195,478
Non-current liabilities	4,928	5,578	5,895	6,408	8,687
Net assets	301,753	494,150	560,590	635,168	686,511
Cash and cash equivalents	109,556	195,821	349,892	245,852	174,052
Inventories turnover days (day)	139	127	129	111	89
Trade receivables turnover days (day)	71	74	79	74	69
Trade payables turnover days (day)	20	19	18	20	19

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of BBI Life Sciences Corporation, I am pleased to present the annual report of the Group for the year ended 31 December 2017.

For the year ended 31 December 2017, the total revenue from our business recorded a stable growth of 31.4% from the previous year to RMB462.40 million, mainly attributable to the increase of sales from the Four Business Segments. Gross profit and gross profit margin were RMB230.78 million and 49.9%, respectively, representing increases of 25.4% and -2.4% as compared with the previous year. This was attributable to the increase in the revenue from overseas markets during the Reporting Period, although the gross profit margin thereof was slightly lower than that of the domestic market. Profit attributable to shareholders of the Company amounted to RMB64.45 million, representing an increase of 7.1% as compared with the previous year. In appreciation of our Shareholders' support, the Board proposed a payment of a final dividend of HK$0.014 per ordinary share for the Reporting Period.

During the year, the Group continued to maintain and deepen its advantages in existing businesses, and explored new businesses and cooperation, with the hope of entering new development stage, providing customers with life sciences research products and services of even better quality, and creating more value for Shareholders.

By updating the key technological processes, transforming automated facilities and strengthening employees' service awareness, we enhanced our abilities in responding to market demands and delivering quality and customized products, which enabled us to continuously solidify and expand our market share. In accordance with our strategy of taking root in domestic market and exploring the global market, regarding the business segments where we enjoy advantages, we will use the DNA synthesis production building in Shanghai head office which has a total floor area of 7,000 square meters and is expected to be completed in August 2018. We will also continue to promote the updating and application of automated facilities, and improve quality of our products and services. Regarding other business segments as well as new businesses that will be initiated later, we will rely on the stable and sizable customer base of the business segments where we enjoy advantages, as well as the ties with our partners, increase investment in the businesses with potential, thoroughly tap customer demands and provide diverse and effective products and services to customers.

CHAIRMAN'S STATEMENT (CONTINUED)

The market of products and services for life sciences research and application presents abundant opportunities. Therefore, while maintaining and strengthening our presence in the life sciences research products and services industry, we are actively expanding our products and services to the application area of life sciences. We believe the future launch of such new business will significantly strengthen our competitiveness in the market. In the beginning of 2017, we started to prepare for the application of relevant products and services in healthcare industry, and made sound progress in the year. In future, we will establish medical testing agencies, accelerate the research and development of vitro diagnostic kits, and build distribution channels in the healthcare industry as soon as possible, with the aim of securing an advantageous position in market. In the meantime, our associated company Tianjin Hengjia Biotech Development Company Limited (hereinafter referred to as "**Tianjin Hengjia**") achieved gratifying midway outcomes in the research and pre-clinical experiments for the project "Clinical Research on Autologous Mutation Peptides for Treatment of Cancer". In 2018, the program intends to publish papers with high impact factor based on preliminary research data and complete relevant patent application procedures, and a new round of fundraising will be initiated at appropriate time.

In the beginning of 2018, China's Development and Reform Commission particularly developed and officially published the 13th Five-Year Plan for Bio Industry in accordance with the Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China and the 13th Five-Year Plan for Development of National Emerging Industries of Strategic Importance, with the aim of accelerating the development of the bio industry into a pillar for national economy, laying down solid foundation for innovation in the bio industry, promoting the use of modern bio technologies in improving livelihood, and creating new functions of biological economy. The 13th Five-Year Plan for Bio Industry covers a number of areas, including cell therapy, immunological therapy, genetic diagnosis, and others. In face of the opportunities presented by the plan, as a provider with advantages in the life sciences research products and services industry, we will continuously improve the quality of our products and services, and make contribution to the life sciences research. In the meantime, we will rely on our expertise and resources in the life sciences research products and services industry as well as our insights and analysis into the market to become an emerging provider in the life sciences application products and services industry, thus realizing industrial integration of the products and services in both life sciences research and application.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our clients and business partners for their trust and support. Also, I would like to take this opportunity to extend my appreciation to the management team and all of our employees for their contribution.

Wang Qisong
Chairman

26 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

POSITIONING OF THE COMPANY

BBI Life Sciences Corporation, a well-recognized supplier of life science research products and services in the PRC, is committed to providing the most comprehensive product and service portfolios for colleges and universities, pharmaceutical and biotech companies, research institutes and hospitals. The Group mainly engages in the following businesses: (1) DNA synthesis products; (2) genetic engineering services; (3) life sciences research consumables and (4) protein and antibody related products and services (the "**Four Business Segments**"). The overall gross profit margin of the Group remains at a level of 50%. Leveraging on its quality and cost-effective products and services under "Sangon" and "BBI" brands as well as efficient delivery, the Group has been highly acknowledged by customers in both domestic and overseas markets.

BUSINESS REVIEW

During the Reporting Period, the Group's overall revenue was approximately RMB462.40 million, representing an increase of 31.4% as compared with RMB352.03 million for 2016. The overall gross profit was RMB230.78 million, representing an increase of 25.4% from RMB183.97 million of last year. The overall gross profit margin was maintained at a high level of 49.9%, representing a slight decrease as compared with the level of 52.3% recorded in the previous year. The fluctuation in the gross profit margin was mainly due to the Group recorded higher revenue from overseas markets during the Reporting Period, but the gross profit margin of some operations in our overseas markets was marginally lower than the level in the domestic market. During the Reporting Period, profit attributable to equity holders of the Company was approximately RMB64.45 million.

During the Reporting Period, the revenue of the Group's DNA synthesis products, genetic engineering services, life sciences research consumables and protein and antibody related products and services accounted for approximately 39.3%, 20.6%, 29.8% and 10.3% respectively of the total revenue of the Group.

On 3 March 2017, Sangon Biotech (Shanghai) Company Limited* (生工生物工程(上海)股份有限公司) ("**Sangon Biotech**", a subsidiary of the Company), Sangon Health Sci-Tech (Shanghai) Company Limited* (生工健康科技(上海)有限公司) ("**Sangon Health**") and Mr. Wang Qisong (an executive director, a controlling shareholder of the Company and the sole shareholder of Sangon Health) entered into various agreements in respect of the variable interest entity arrangement ("**VIE Agreements**"), to facilitate the development of genetic diagnosis business of the Group. The structure established through the entering into of the VIE Agreements ("**VIE Structure**") allows Sangon Biotech to exercise full control over Sangon Health and effectively holds 100% through the VIE Structure of the equity interests in Sangon Health which principally engages in genetic diagnosis and related treatment products and services business. Sangon Biotech has effective control over the finance and operations, and the entire economic interest and benefits of Sangon Health through the VIE Agreements. Sangon Health became a subsidiary of the Company and its financial results are consolidated into the financial statements of the Group.

On 6 March 2017, Sangon Health entered into an investment agreement and follow-up capital increase agreement with the shareholders of Tianjin Hengjia pursuant to which Sangon Health obtained 37.05% equity interest of Tianjin Hengjia, with an increase in the capital amount of RMB8.02 million in Tianjin Hengjia. Tianjin Hengjia principally engages in the research and application of technologies and therapeutic methods related to "autologous mutation peptides for treatment of cancer".

* *For identification purpose only*

Results Analysis of the Four Business Segments

1. DNA Synthesis Products

Results

During the Reporting Period, this segment still functioned as the solid foundation for the sustained business growth of the Group. During the Reporting Period, revenue of the DNA synthesis products segment amounted to RMB181.87 million, representing an increase of 28.5% over the same period in 2016. Thanks to the leadership of the segment in the industry, the updated processes and the renovated automated facilities, the Group managed to promptly respond to market demands and at the same time provide quality and customized products, succeeded in continuously solidifying and expanding its market share, and maintained its growth of orders at a relatively high level. Because Bionics Co., Ltd. ("**Bionics**"), a subsidiary of the Group, increased the investment in the South Korean DNA synthesis market, relatively high upfront expenses were incurred, reducing the gross profit margin of this segment to 54.7% (2016: 60.4%).

Development Strategies

With regard to the DNA synthesis products segment, which is our core business, the Group will continue to strengthen the competitiveness of its products and enhance brand awareness by upgrading key technological processes, thus generating stably-growing cash flows.

During the Reporting Period, the revenue from industrial-grade DNA products continued to increase at a relatively high speed. In the meantime, the Group's DNA synthesis production building at Shanghai head office, which has a total floor area of approximately 7,000 square meters and is expected to be completed in August 2018, will be put into use. The building will further facilitate the upgrading of automated facilities as well as quality optimization, and increase the integrated capacity of high quality DNA synthesis products applied in the area of precision medicine. It is expected that in the coming years the Group's industrial-grade DNA business will become a new star in the industry and stand out from competitors, thus providing new impetus for the rapid development of this segment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Genetic Engineering Services

Results

During the Reporting Period, revenue of the genetic engineering services segment amounted to RMB95.27 million, representing an increase of 32.8% compared with the same period of last year. The rapid increase in revenue was driven by the steady growth in the number of orders of the segment as the Group continued to set up domestic service outlets and improved service quality during the Reporting Period. In the meantime, due to fluctuations in first-generation and second-generation sequencing prices, gross profit margin of the segment declined from 47.0% for the same period of last year to 45.3% this year.

Development Strategies

With the development in DNA sequencing technologies, the market's potential grows larger, and DNA sequencing is increasingly applied in fundamental researches and clinical diagnosis. In view of this, the Group will continue to increase its investment in the area, and further gain market share in the genetic engineering services industry, especially the sequencing sector, by leveraging the quality and vast customer base of the Group's DNA synthesis products segment. In the meantime, the Group will be continuously involved in clinical detection and diagnostics industry.

3. Life Sciences Research Consumables

Results

During the Reporting Period, the Group took an active approach to solidify its market position and expand overseas market. On the other hand, the Group optimized the production and logistics model in the PRC to improve the delivery speed and accuracy for its products. These moves fueled a rapid growth in orders. This segment recorded a revenue of RMB137.83 million, representing an increase of 32.6% compared with the same period of last year. Gross profit margin increased to 49.6% in 2017 from 49.0% of the same period last year.

Development Strategies

The entry barrier for life sciences research consumables business is low, and the products are provided in diversified categories. In addition, the market is highly segmented, and multinational companies have captured majority share of domestic market. In future, the Group will strengthen its presence both at home and abroad according to its overseas market development plan, thus achieving certain economies of scale. In addition, the Group will leverage its advanced research and development capabilities and strong brand awareness to focus on development of high valued products, such as detection and diagnostic kits (especially tumor diagnostic kits), thus increasing market share and gross profit.

4. Protein and Antibody Related Products and Services

Results

During the Reporting Period, revenue of the protein and antibody related products and services segment increased by 36.2% to RMB47.44 million. The gross profit margin increased by 1.8 percentage points to 41.6% from 39.8% for the same period last year. Since 2011, the economies of scale are emerging in products and services of the segment, thanks to their strong market competitiveness. Revenue has increased significantly, and gross profit margin also showed a gradual upward trend.

Development Strategies

The protein and antibody related products and services market is relatively small and segmented in the PRC. In future, the Company will continue to develop new products, and find new customers to enrich the portfolio of products and services in this segment, thus seizing more market share and further increasing gross profit margin.

FINANCIAL REVIEW

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	RMB'000
Revenue	**462,403**	352,026	110,377
Gross profit	**230,779**	183,971	46,808
Net profit	**61,273**	59,093	2,180
Profit attributable to Shareholders of the Company	**64,446**	60,183	4,263
Earnings per share (RMB)	**0.118**	0.111	0.007

Revenue

During the Reporting Period, the revenue of the Group was approximately RMB462.40 million, representing an increase of 31.4% as compared with RMB352.03 million for the same period of 2016. This was mainly contributed by the steady growth of the Four Business Segments.

Gross Profit

During the Reporting Period, the Group's gross profit increased by 25.4% from RMB183.97 million for the same period of 2016 to RMB230.78 million. The overall gross profit margin was maintained at a high level of 49.9%, representing a slight decrease as compared with the level of 52.3% recorded in the previous year. The fluctuation in the gross profit margin was mainly due to two factors, first, the Group recorded higher revenue from overseas markets during the Reporting Period, and the gross profit margin of some operations in our overseas markets was marginally lower than the level in the domestic market; second, the Group witnessed a moderate increase in labor costs.

Selling and distribution expenses

The selling and distribution expenses increased by 30.2% to RMB88.82 million during the Reporting Period from RMB68.19 million for the same period of 2016. It was attributed by new market development and sales promotion.

General and administrative expenses

During the Reporting Period, the general and administrative expenses increased by 25.3% to RMB43.43 million from RMB34.65 million for the same period of 2016, excluding the research and development expense. This was mainly due to the increase in staff cost brought along with business expansion.

Research and development expenses

During the Reporting Period, the research and development expenses increased by 74.9% to RMB30.76 million from RMB17.59 million for the same period of 2016. This was mainly because the Company accelerated the upgrade of its technology and expanded the new business sector.

Income tax expenses

The income tax expenses decreased from RMB11.55 million for the same period of 2016 to RMB9.85 million for the Reporting Period. The Company re-measured the defer tax assets of Sangon Biotech as Sangon Biotech regained High-Tech Enterprise qualification in 2016 and the applicable tax rate was reduced from 25% to 15%.

Net profit

During the Reporting Period, net profit of the Group increased by 3.7% from approximately RMB59.09 million for the same period of 2016 to approximately RMB61.27 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Trade receivables

	For the year ended 31 December	
	2017	2016
Trade receivables turnover (day)	**69**	74

The trade receivables of the Group remained stable under the ongoing control and management of the Company.

Inventories

	For the year ended 31 December	
	2017	2016
Inventory turnover (day)	**89**	111

The inventory turnover of the Group improved with constant control and management.

Property, plant and equipment

Property, plant and equipment include buildings, machinery equipment and construction under progress. As at 31 December 2017, the property, plant and equipment of the Group amounted to RMB429.03 million, representing an increase of RMB150.61 million from RMB278.42 million as at 31 December 2016. This was mainly due to the newly-built and newly-purchased plants along with the business expansion.

Intangible assets

As at 31 December 2017, the Group's net intangible assets amounted to RMB13.15 million, representing a decrease of RMB0.02 million from RMB13.17 million as at 31 December 2016.

Working capital and financial resources

As at 31 December 2017, the cash and cash equivalents of the Group amounted to RMB174.05 million (2016: RMB245.85 million).

Cash flow analysis

During the Reporting Period, the Group recorded an annual net cash inflow of RMB87.17 million generated from operating activities.

During the Reporting Period, the annual cash outflow used in investing activities of the Group was RMB155.99 million. This was mainly due to the acquisition of the shares of Tianjin Hengjia and the newly-built and newly-purchased plants.

During the Reporting Period, the cash inflow generated from financing activities of the Group was RMB0.09 million.

Capital expenditure

During the Reporting Period, the expenditure incurred in purchasing property, plant and equipment and of construction in process amounted to RMB163.02 million.

Material acquisitions and disposals

During the Reporting Period, in addition to the acquisition of shares of Tianjin Hengjia, the Company did not have any material acquisitions and disposals.

Contingent liabilities and guarantees

As at 31 December 2017, the Company did not have any material contingent liabilities and guarantees.

Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong dollar and United States dollar. Foreign exchange risk arises from foreign currencies held in certain overseas subsidiaries. The Group did not hedge against any fluctuation in foreign currency during the Reporting Period. The management of the Group may consider entering into currency hedging transactions to manage the Group's exposure towards fluctuations in exchange rates in future.

Cash flow and fair value interest rate risk

Other than bank balances with variable interest rate, the Group has no other significant interest-bearing assets. The management of the Group does not anticipate any significant impact to interest bearing assets resulting from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

Credit risk

The carrying amounts of cash and cash equivalents, bank deposits with maturities over 3 months, trade and bills receivables, and deposits and other receivables are the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problems.

In respect of trade bills and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up actions will be taken to recover overdue debts. We grant credit limits to certain customers in consideration of their payment history and business performance. Prepayment is usually required for orders placed over credit limits. In addition, the Group reviews the recoverable amount of each individual trade bills and other receivable balance at the end of the year to ensure adequate impairment losses are made for irrecoverable amounts.

Significant investments held, material acquisitions and disposals

Save as disclosed in this annual report, the Group did not have any significant investments held, material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2017.

Future plans for significant investment or capital assets

Save as disclosed in this annual report, there was no specific plan for material investments or capital assets as at 31 December 2017.

Charges on Group assets

As at 31 December 2017, KRW96,180,000 (equivalent to RMB588,000) of property, plant and equipment were pledged as collateral for the borrowings of KRW179,551,000 (equivalent to RMB1,097,000).

Prospects

In the beginning of 2018, China's Development and Reform Commission particularly developed and officially published the 13th Five-Year Plan for Bio Industry in accordance with the Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China and the 13th Five-Year Plan for Development of National Emerging Industries of Strategic Importance, with the aim of accelerating the development of the bio industry into a pillar for national economy, laying down solid foundation for innovation in the bio industry, promoting the use of modern bio technologies in improving livelihood, and creating new functions of biological economy. The 13th Five-Year Plan for Bio Industry covers a number of areas, including cell therapy, immunological therapy, genetic diagnosis, and others. In face of the opportunities presented by the plan, as a provider with advantages in the life sciences research products and services industry, we will continuously improve the quality of our products and services, and make contribution to the life sciences research. In the meantime, we will rely on our expertise and resources in the life sciences research products and services industry as well as our insights and analysis into the market to become an emerging provider in the life sciences application products and services industry, thus realizing industrial integration of the products and services in both life sciences research and application.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Future Development Strategies

In general, the Group will implement three strategies as specified below in the future to expand market share, enhance returns and achieve sustainable development:

1. Thoroughly tapping the potentials of existing businesses, and solidifying and expanding market share.

   During the Reporting Period, all of the existing Four Business Segments of the Group experienced stable growth and posted record-high revenues. At present, the Group's customers are concentrated in the scientific research area. To meet related demands in scientific research and production, in addition to maintaining advantages in scientific research, the Group's relevant business segments will enhance production capacity and technologies of industrial-grade DNA products as well as research and development of diagnostic kits, with the aim of expanding from the scientific research area to the clinical diagnostics area. In addition, the Group will extend existing industry chains by merger and acquisitions or equity investment, so as to build a competitive ecological cycle.

2. Improving the portfolio of products and services of newly-built branches in overseas market, strengthening presence of the direct sales network in overseas market, further expanding overseas market share, and enhancing the corresponding returns;

3. Being involved in the healthcare industry by developing the portfolio of high quality products and services for end-consumers. Relevant measures are as follows:

   (1) Establishing medical testing agencies to provide a large number of end-consumers with direct genetic screening services with the application of high-throughput sequencing technology, and broadening the target markets;

   (2) Accelerating the research and development of vitro diagnostic products (in particular, diagnostic kits for tumors), and taking proper measures to align with the provision of products and services related to vitro diagnosis, with a view to further improve our portfolio of products and services;

   (3) Accelerating the exploration for distributors and establishment of sales network in the healthcare industry.

In the meantime, the Company will actively prompt Tianjin Hengjia, our associated company, to make advances in the researches and pre-clinical experiments for the project "Clinical Research on Autologous Mutation Peptides for Treatment of Cancer". In 2018, we expect that papers based on primary research data of the project will be published in high impact factor journals, and relevant patent application procedures will be completed, and a new round of fundraising will be initiated at appropriate time.

In conclusion, the management of the Company is confident in the future development of the Group and believes that they are able to create more returns for the Group and the Shareholders.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had a total of 1,238 employees. The Group has entered into employment contracts covering positions, employment conditions and terms, salary, employees' benefits, responsibility for breach of contractual obligations and reason for termination with its employees. The remuneration package of the Group's employees includes basic salary, subsidies and other employees' benefits, which are determined with reference to the experience and working years of the employees and general situations.

For the Reporting Period, the Group's total expenses on the remuneration of employees was approximately RMB116.95 million (excluding share-based payment of approximately RMB0.47 million), representing 25.3% of the revenue of the Group.

On 4 September 2014, the Company adopted the First 2014 Employee Stock Option Plan A (the "**Pre-IPO Scheme A**") and First 2014 Stock Option Plan B (the "**Pre-IPO Scheme B**"). On 8 December 2014, the Company adopted a Post-IPO share option scheme (the "**Post-IPO Share Option Scheme**"). No further options have been granted under Pre-IPO Scheme A and Pre-IPO Scheme B since 4 September 2014 up to 31 December 2017. No further options have been granted under the Post-IPO Share Option Scheme since 8 December 2014 up to 31 December 2017.

The number of employees of the Group categorised by function as at 31 December 2017 is set forth as follows:

Function	Number of employees	Percentage
Production	540	43.62%
Sales and marketing	323	26.09%
Administration	134	10.82%
Research and development	132	10.66%
Management	109	8.81%
Total:	1,238	100%

The Group's remuneration policy and structure for remunerations of the directors and senior management of the Group are based on the Group's operating results, individual performance and comparable market statistics and are reviewed by the remuneration committee of the Company (the "**Remuneration Committee**") periodically.

The remunerations of the directors of the Company (the "**Directors**") are recommended by the Remuneration Committee and are decided by the Board, having regard to the merit, qualifications and competence of individual Director, the Group's operating results and comparable market statistics.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board currently consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets out certain information concerning our Directors:

Name	Age	Position	Date of Appointment
Executive Directors			
Mr. WANG Qisong	76	Chairman and executive Director	16 January 2014
Ms. WANG Luojia	48	Chief executive officer and executive Director	26 September 2014
Ms. WANG Jin	46	President and executive Director	26 September 2014
Non-executive Director			
Mr. HU Xubo	42	Non-executive Director	16 January 2014
Independent non-executive Directors			
Mr. XIA Lijun	41	Independent non-executive Director	16 January 2014
Mr. HO Kenneth Kai Chung	52	Independent non-executive Director	10 October 2014
Mr. LIU Jianjun	49	Independent non-executive Director	10 October 2014

EXECUTIVE DIRECTORS

Mr. WANG Qisong (王啟松), aged 76, is the founder of our Group. He was appointed as a Director and the chairman of the Board on 16 January 2014 and became our executive Director on 10 October 2014, and is primarily responsible for our Group's development, positioning and strategy planning. He was one of the founders of Shanghai Sangon Biological Engineering Technology & Services Co, Ltd.* (上海生工生物工程技術服務有限公司) ("**SSBETS**") in 2001, was a director of Bio Basic USA Inc. ("**BBI US**") from 2009 to 2010 and is currently chairman and director of Sangon Biotech and an executive director of Shanghai Qisong Investment Consulting Company Limited* (上海啟松投資諮詢有限公司).

Mr. Wang has nearly 50 years of experience in the biotechnology industry. Prior to joining our Group, from August 1965 to May 1985, he worked as an assistant researcher in the Institute of Biochemistry and Cell Biology, Shanghai Institutes for Biological Sciences, China Academy of Sciences (中國科學院上海生命科學研究院生物化學與細胞生物學研究所) and from March 1980 to March 1983, Mr. Wang Qisong was seconded to the University of Toronto in Canada as a visiting scholar. From June 1985 to October 1991, he was an associate professor in the Institute of Genetics, School of Life Sciences, Fudan University (復旦大學生命科學學院遺傳學研究所). From June 1987 to December 1989, he was an expert member in the Biotechnology Group of the State High-Tech Development Plan (863 Programme)* (國家高技術研究發展計劃(863計劃)). From March 1991 to August 1991, he was a consultant in the United Nations Industrial Development Organization (聯合國工業發展組織). He is currently a supervisor of Wuhan Wenwang Cultural Education and Communication Limited* (武漢文王文化教育傳播有限公司).

Mr. Wang graduated from Wuhan University (武漢大學) in Hubei Province, PRC with a Bachelor of Science in Organic Chemistry in July 1965.

Mr. Wang is the father of Ms. Wang Luojia and Ms. Wang Jin.

Ms. WANG Luojia (王珞珈), aged 48, was appointed as an executive Director and the chief executive officer of our Company on 26 September 2014 and 16 January 2014 respectively and is primarily responsible for our Group's strategies and overall operation management. Ms. Wang is currently a director of Bio Basic Canada Inc. ("**Bio Basic (Canada)**"), Sangon Biotech, BBI Asia Limited ("**BBI Asia**") and BBI International Limited ("**BBI International**").

Ms. Wang graduated from the University of Calgary in Alberta, Canada with a Bachelor of Science in Chemistry in June 1995. In April 2006, she returned to China and worked as a general manager at SSBETS. Subsequently, she became general manager of Sangon Biotech in October 2009.

Ms. Wang is the daughter of Mr. Wang Qisong and sister of Ms. Wang Jin.

Ms. WANG Jin (王瑾), aged 46, was appointed as an executive Director and the president of our Company on 26 September 2014 and 16 January 2014 respectively and is primarily responsible for our Group's strategies and operational management, overseas sales and development, and overall operations of Bio Basic (Canada) and Bio Basic, Inc. ("**Bio Basic (US)**"). Ms. Wang is currently a director of Bio Basic (Canada), Bio Basic (US), Sangon Biotech, BBI Asia and BBI International.

Ms. Wang graduated from the University of Calgary in Alberta, Canada with a Master of Science degree in Biochemistry and Molecular Biology in November 1997. She was a director of Bio Basic Inc. ("**BBI Canada**") from 2005 to 2011 and BBI US from 2009 to 2012. Since June 2012, she was a senior deputy general manager of Sangon Biotech, and was the president of Bio Basic (Canada) and Bio Basic (US) since November 2010 and December 2010 respectively.

Ms. Wang is the daughter of Mr. Wang Qisong and sister of Ms. Wang Luojia.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

NON-EXECUTIVE DIRECTOR

Mr. HU Xubo (胡旭波), aged 42, was appointed as a Director on 16 January 2014 and became our non-executive Director on 10 October 2014. Mr. Hu has been a director of Sangon Biotech since April 2010.He is primarily responsible for advising on strategic development, corporate governance, compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") regarding connected transactions, remuneration and nomination of our Directors.

Mr. Hu has over ten years of experience in investment management, strategic consulting and operations management in the area of biomedicine.

Mr. Hu joined Qiming Weichuang Venture Capital Management (Shanghai) Co. Ltd (啓明維創創業投資管理(上海)有限公司) in November 2006 and is currently a Partner of the firm. Mr. Hu is also a director of Hunan Tiger-Xiangya R&D Co., Ltd.* (湖南泰格湘雅藥物研究有限公司), China Pharmaceutical Distribution Holding Co., Ltd (英凡醫藥), Beijing Centre Biology Co., Ltd.* (北京生泰爾生物科技有限公司), Shanghai Tellgen Life Co., Ltd.* (上海透景生命科技有限公司), Vinno Technology (Suzhou) Co., Ltd.* (飛依諾科技(蘇州)有限公司), Sino Medical-Device Technology Co., Ltd.* (深圳聖諾醫療設備有限公司), Shanghai Rendu Biotechnology Limited* (上海仁度生物科技有限公司), Shanghai Pine & Power Biotech Co Ltd.* (上海松力生物科技有限公司), Shenzhen APT Medical Devices Co., Ltd (深圳市惠泰醫療器械有限公司), Shanghai Xinghe Investment Management Ltd.* (上海杏和投資管理有限公司), Zhuhai DL Biotech Co., Ltd.* (珠海市迪爾生物工程有限公司), Shanghai Sanyou Medical Technology Co. Ltd. (上海三友醫療器械有限公司), Arrail Group Limited (瑞爾齒科), Guangzhou Baoyu Game Technology Limited (廣州暴雨網絡技術有限公司), HORTOR (Beijing) Technology Limited (北京豪騰嘉科科技有限公司), Beijing Tiangua Online Technology limited (北京甜瓜在綫科技有限公司) and the supervisor of Hangzhou Tigermed Consulting Co., Ltd. (Stock Code: 300347) (杭州泰格醫藥科技股份有限公司), a company listed on Shenzhen stock exchange.

Mr. Hu graduated from Shanghai Medical University (上海醫科大學) (now Fudan University Shanghai Medical College (復旦大學上海醫學院)) in Shanghai with a Bachelor of Medicine in July 1998. He also holds a Shanghai International Master of Business Administration from École Nationale des Ponts et Chaussées (now École des Ponts ParisTech) School of International Management in Shanghai, obtained in October 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. XIA Lijun (夏立軍), aged 41, was appointed as an independent non-executive Director on 16 January 2014. Mr. Xia was an independent director of Sangon Biotech from 2012 to 2013. From June 2008 to March 2011, he was a professor in the School of Accountancy in the Shanghai University of Finance and Economics (上海財經大學) in the PRC. Since March 2011, he has been a professor and head of department in the Department of Accounting, Antai College of Economics and Management, Shanghai Jiao Tong University in the PRC.

Mr. Xia obtained his Doctor of Philosophy in Management (Accounting) from the Shanghai University of Finance and Economics (上海財經大學) in the PRC in March 2006.

Mr. Xia has been an independent director of Shanghai Guangdian Electric Group Co. Ltd. (stock code: 601616), a company listed on the Shanghai stock exchange, since April 2014.

Mr. HO Kenneth Kai Chung (何啟忠), aged 52, was appointed as an independent non-executive Director on 10 October 2014.

Mr. Ho has served successively as head of China research, China strategist and equity sales in top international investment banks, including Credit Lyonnais, Jardine Fleming, JP Morgan and HSBC, from 1999 to 2013. From2008 to 2010, he set up Beijing research office for HSBC, established and acted as leader of the local research team as well as the chief representative for the research office. From 2011 till January 2013, Mr. Ho worked as a Hong Kong China equity sales director for HSBC. From January 2014 to March 2015, Mr. Ho served as a director for Munsun Asset Management (Asia) Limited.

Mr. Ho obtained his Bachelor of Economics from The University of Sydney in May 1988 and Master of Commence in Finance from The University of New South Wales in April 1991. Mr. Ho was awarded a Chartered Financial Analyst in January 1999.

Mr. Ho has been an independent non-executive director of TK Group (Holdings) Limited (stock code: 2283) since 27 November 2013 and an independent non-executive director of Tsaker Chemical Group Limited (stock code: 1986), both are companies listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), since 5 March 2015. Mr. Ho had been an independent non-executive director of Evershine Group Holdings Limited (stock code: 8022) (formerly known as TLT Lottotainment Group Limited), a company listed on the GEM of the Stock Exchange, since 22 November 2013 to 1 April 2014. Mr. Ho has served as a director for Fifth Element Resources Ltd. (stock code: FTH), a company listed on the Australian Securities Exchange since 11 February 2015.

From August 2015, Mr. Ho became the Chief Financial Officer and joint company secretary for Greentown Service Group Co. Ltd. (stock code: 2869), a company listed on the Stock Exchange since July 2016.

Mr. LIU Jianjun (劉健君), aged 49, was appointed as an independent non-executive Director on 10 October 2014. Mr. Liu was in the legal department of China Ocean Shipping (Group) Company container lines (中國遠洋運輸(集團)總公司(集裝箱運輸)) from July 1993 to March 1999, a partner at Zhong Sheng Law Firm, Beijing (北京中盛律師事務所) from April 2001 to October 2006, a senior associate in ZhongLun Law Firm, Beijing (北京中倫律師事務所) from November 2006 to May 2007, and a partner at Zhonglun W&D Law Firm, Beijing (北京中倫文德律師事務所) from June 2007 to around 2012. Mr. Liu started practicing as a lawyer in the PRC in August 2001.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Liu obtained a master degree in law from Peking University, the PRC, in July 1998, and a law degree from Washington University in St. Louis, the U.S., in May 2004.

Mr. Liu has been an independent non-executive director of Nexteer Automotive Group Limited (stock code: 1316), a company listed on the Stock Exchange, since 15 June 2013.

SENIOR MANAGEMENT

The following table sets out certain information concerning our senior management:

Name	Age	Year of joining our Group	Positions
Mr. LI Ruifeng	41	2008	Vice president
Mr. LI Wei	34	2009	Vice president
Mr. YAN Hua	51	2011	Vice president
Mr. GU Xiaolei	40	2015	Chief financial officer
Mr. WANG Zhi	40	2009	Senior manager
Mr. ZHOU Mi	34	2011	Senior manager
Mr. TENG Yuantung	52	2013	Internal auditor

Mr. LI Ruifeng (李瑞峰), aged 41, was appointed as a vice president of our Company on 16 January 2014. Mr. Li joined SSBETS in 2001 and has been a director and deputy general manager of Sangon Biotech since May 2008 and October 2009 respectively. He finished his undergraduate course in microbiology at Inner Mongolia University in the PRC in July 2001.

Mr. LI Wei (李威), aged 34, was appointed as a vice president of our Company on 16 January 2014. He joined SSBETS and Sangon Biotech in August 2009 and October 2009 respectively, and since May 2010 has been a deputy general manager of Sangon Biotech. Mr. Li was a research assistant at the Plant Biotechnology Research Centre of Shanghai Jiao Tong University* (上海交通大學植物生物技術研究中心) from September 2008 to August 2009. Mr. Li obtained his Doctor of Philosophy in Genetics from Fudan University (復旦大學) in Shanghai in January 2012.

Mr. YAN Hua (顏華), aged 51, was appointed as a vice president of our Company on 16 January 2014. He joined our Group in June 2011 as technical director and since June 2012 has been a deputy general manager of Sangon Biotech. From February 2008 to May 2011, Mr. Yan was a deputy general manager of Neweast (Wuhan) Biosciences Limited (武漢紐斯特生物技術有限公司). Mr. Yan obtained his Doctor of Philosophy in Immunology from Wuhan Institute of Biological Products (武漢生物製品研究所) in Hubei Province, PRC in 2012.

Mr. GU Xiaolei (顧曉磊), aged 40, was appointed as the chief financial officer of our Company on 11 September 2015. Mr. Gu has over 15 years of financial management experience in bio-medical industry in the PRC. Mr. Gu holds a Bachelor degree in Economics from Shanghai University of Financial and Economics (上海財經大學).

Mr. WANG Zhi (王志), aged 40, was appointed as a senior manager of our Company on 16 January 2014. Mr. Wang joined SSBETS in June 2001 and our Group in October 2009, and has been the DNA synthesis department director of Sangon Biotech since October 2012. Mr. Wang obtained his Master of Business Administration from Donghua University (東華大學) in Shanghai in May 2011.

Mr. ZHOU Mi (周密), aged 34, was appointed as a department director of our Company on 16 January 2014. He joined BBI Canada in November 2007, and has been a department director of Bio Basic (Canada) and Bio Basic (US) since January 2011 and April 2011, respectively. Mr. Zhou obtained his Bachelor of Science in Biochemistry from Carleton University in Ottawa, Canada in June 2007.

Mr. TENG Yuantung (鄧元東), aged 52, was appointed as the internal auditor of our Company on 16 January 2014. Mr. Teng joined Sangon Biotech as internal audit director in May 2013.

Mr. Teng has over 13 years of experience in internal controls, audit and compliance matters. From May 2011 to May 2012, Mr. Teng was the audit manager and assistant to the general manager, mainly responsible for its listing proposal, shareholding and legal matters, internal audit and control development, management policy planning and development, ISO management system implementation in Guangdong Wanxing Inorganic Co., Ltd.* (廣東萬興無機顏料股份有限公司) which is primarily engaged in non-metal mineral products production. From August 2012 to March 2013, he was the audit manager, mainly responsible for development and supervising the audit team, legal compliance and parent company internal audit and other specific audit matters of Zhangzhou Tsannkuen Enterprise Co., Ltd.* (漳洲燦坤實業股份有限公司), a subsidiary of Tsannkuen (China) Enterprise Co., Ltd (廈門燦坤實業股份有限公司) which is listed on the Shenzhen stock exchange (stock code: 200512). From May 2005 to April 2011, he was the regional manager of USUN TECHNOLOGY CO., LTD* (陽程科技股份有限公司), an OTC-listed company on GreTai Securities Market (stock code: 3498). From September 2004 to April 2005, he was an assistant audit manager of Wonderful Hi-Tech Co. Ltd. (萬泰科技股份有限公司). From March 2001 to April 2002, Mr. Teng was an audit manager of ITEQ Corporation (聯茂電子股份有限公司). Mr. Teng obtained his Bachelor of Management in Enterprise Management from Tamkang University (私立淡江大學) in Taiwan in June 1995. He also received a certificate on tax accounting from the Centre for Public and Business Administration Education of the National Chengchi University* (國立政治大學公共行政企業管理教育中心) in 1998. Mr. Teng is a Certified Internal Auditor (CIA) conferred by the Institute of Internal Auditors in November 2004.

Mr. Teng resigned from the Company on 31 March 2018.

* *For identification purposes only*

REPORT OF THE DIRECTORS

The Board is pleased to present its report and the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Group is mainly a well-recognized provider with comprehensive portfolio coverage in the life sciences research products and services industry in the PRC, as well as the largest provider of DNA synthesis products in the PRC. We offer DNA synthesis products, genetic engineering services, life sciences research consumables, and protein and antibody related products and services which are used to facilitate the studies of life sciences including animal and plant, disease, medical diagnosis, drug development, food and agriculture industry. The Group provides our DNA synthesis products and life sciences research consumables primarily in the PRC, North America, South America, Europe and Africa. The analysis of the principal activities of the Company's subsidiaries is set out in Note 40 to the financial statements.

BUSINESS REVIEW

During the Reporting Period, the revenue of the Group's DNA synthesis products, genetic engineering services, life sciences research consumables and protein and antibody related products and services accounted for approximately 39.3%, 20.6%, 29.8% and 10.3% respectively of the total revenue of the Group.

Details of business review including an indication of likely future development in the Group's business and an analysis of Group's performance using financial key performance indication, are set out in the Chairman's Statement and the Management Discussion and Analysis on pages 8 and 12 of this annual report respectively.

PRINCIPAL RISKS AND UNCERTAINTIES

There are various risks and uncertainties including foreign exchange risk, cash flow and fair value interest rate risk and credit risk, that may have different levels of impact on the Group's financial performance, operations, business as well as future prospects.

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material as at the date of this annual report but could turn out to be material in future.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it operates. As a responsible corporation, the Group has complied with all relevant laws and regulations regarding environmental protection, health and safety, workplace conditions and employment and has adopted effective measures to achieve efficient use of resource, energy saving and waste reduction.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group recognizes the importance of compliance with regulatory requirements and the risks of non-compliance with the applicable laws and regulations. To the best knowledge of the Directors, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 December 2017. There was no material breach or non-compliance with the applicable laws and regulations by the Group during the year ended 31 December 2017.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and Shareholders. During the year ended 31 December 2017, there was no material and significant dispute between the Group and its key stakeholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

CORPORATE INFORMATION

The Company was incorporated on 10 July 2013 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's shares (the "**Shares**") were listed on the Main Board of the Stock Exchange on 30 December 2014 (the "**Listing**"or the "**Listing Date**").

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in pages 77 to 81 of the financial statements.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.014 per share for the year ended 31 December 2017 (the "**Final Dividend**"), amounting to a total sum of approximately HK$7,637,226.70 (equivalent to RMB6,127,300) to Shareholders out of share premium account of the Company. The Final Dividend is subject to the approval by the Shareholders at the forthcoming annual general meeting of the Company (the "**AGM**") to be held on Friday, 29 June 2018. The Final Dividend, if approved, is expected to be paid on Tuesday, 31 July 2018 to the Shareholders whose names appear on the register of members of the Company on Friday, 6 July 2018.

CLOSURE OF REGISTER OF MEMBERS

(a) Determining the entitlement of Shareholders to attend and vote at the AGM

In order to determine the entitlement of Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 26 June 2018 to Friday, 29 June 2018 (both dates inclusive), during which period no transfer of Shares will be registered. All transfer documents, accompanied by the relevant share certificates, shall be lodged with the Company's 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 no later than 4:30 p.m. on Monday, 25 June 2018.

b) Determining the entitlement of Shareholders to receive the Final Dividend

In order to determine the list of the Shareholders entitled to receive the Final Dividend, the register of members of the Company will also be closed from Friday, 6 July 2018 to Wednesday, 11 July 2018 (both dates inclusive), during which period no transfer of Shares will be registered. All transfer documents, accompanied by the relevant share certificates, shall be lodged with the Company's 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 no later than 4:30 p.m. on Thursday, 5 July 2018.

REPORT OF THE DIRECTORS (CONTINUED)

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 7 of this annual report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

The turnover attributable to the top five customers of 2017 accounted for 5.1% of the Company's operating income for the year ended 31 December 2017. The turnover of the largest single transaction accounted for 1.3% of the Company's operating income for 2017.

Major Suppliers

The turnover attributable to the top five suppliers accounted for 28.2% of the Company's total purchases for the year ended 31 December 2017. The turnover of the largest single supplier accounted for 8.0% of the Company's total purchases for 2017.

During the year, to the best knowledge of the Directors, none of the Directors or any of their close associates or any Shareholders (which, to best the knowledge of the Directors, own more than 5% of the number of the issued Shares capital) had an interest in any of the Company's top five suppliers or customers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 6 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 17 to the financial statements in this annual report.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity on page 80 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised), amounted to RMB517,038,000 (as at 31 December 2016: approximately RMB544,855,000), of which RMB6,127,300 (equivalent to HK$7,637,226.70) was recommended to be the payment of the Final Dividend.

BANK LOANS AND OTHER BORROWINGS

The Group has bank loans and other borrowings amounted to RMB6,635,000 as at 31 December 2017.

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this annual report were:

Executive Directors:

Mr. Wang Qisong *(Chairman)*
Ms. Wang Luojia *(Chief Executive Officer)*
Ms. Wang Jin *(President)*

Non-executive Director:

Mr. Hu Xubo

Independent non-executive Directors:

Mr. Xia Lijun
Mr. Ho Kenneth Kai Chung
Mr. Liu Jianjun

Pursuant to the articles of association of the Company (the "**Articles**"), Mr. Wang Qisong, Mr. Xia Lijun and Mr. Liu Jianjun will retire at the AGM, and being eligible, offer themselves for re-election. Biographical details of the Directors to be re-elected at the AGM are set out in the circular dated 26 April 2018 to the Shareholders.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management of the Company are set out in page 20 to 25 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received the annual confirmation from each of the independent non-executive Directors in respect of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent throughout the year ended 31 December 2017 in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a fixed term of three years commencing on the Listing Date which can be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

The non-executive Director has signed an appointment letter with the Company for a term of three years with effect from 30 December 2017. The appointment is subject to the provisions of retirement and rotation of Directors under the Articles.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of two years with effect from the Listing Date. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

REPORT OF THE DIRECTORS (CONTINUED)

Save as disclosed herein, none of the Directors has entered into any service contract with the Group which is not determinable.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRAGEMENTS OR CONTRACTS OF SIGNIFICANCE

At any time during the year, none of the Company or any of its subsidiaries entered into, whether directly or indirectly, any transaction, arrangement or contract of significance which a Director had a material interest in, was related to the Company's business and subsisted during and up to the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

REMUNERATION POLICIES

The Group's remuneration policy and structure for remuneration of the directors and senior management of the Group are based on the Group's operating results, individual performance and comparable market statistics and are reviewed by the Remuneration Committee periodically.

The remuneration of the Directors are recommended by the Remuneration Committee and are decided by the Board, having regard to the merit, qualifications and competence of individual Directors, the Group's operating results and comparable market statistics.

The Company has also adopted the Pre-IPO Scheme A and Pre-IPO Scheme B (collectively, the "**Pre-IPO Share Option Schemes**") and Post-IPO share option scheme (together with the Pre-IPO Share Option Schemes, the "**Share Option Schemes**"). The purpose of the Share Option Schemes is to enable us to grant options to selected participants as incentives or rewards for their contributions. The Directors consider the Share Option Schemes, with its broad basis of participation, will enable the Company to reward its employees, Directors and other selected participants for their contributions.

SHARE OPTION SCHEMES

During the year ended 31 December 2017, no option has been granted under the Pre-IPO Share Option Schemes or the Post-IPO Share Option Scheme.

As disclosed above, the Company has adopted the Pre-IPO Share Option Schemes and Post-IPO Share Option Scheme. The purpose of the Share Option Schemes is to enable us to grant options to selected participants as incentives or rewards for their contributions. The Directors consider the Share Option Schemes, with its broad basis of participation, will enable the Company to reward its employees, Directors and other selected participants for their contributions.

Set out below are details of the outstanding options under the Pre-IPO Share Option Schemes:

Summary of Share Option Schemes

Category/ Name of Grantee	Scheme Type	Date of Grant	Number of Outstanding Options		Exercise Price per Share	Exercise during the Reporting Period	The Weighted average closing price before the exercised dates	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Vesting/ Exercise Period (Day/ Month/Year)
			As at 1 January 2017	As at 31 December 2017						
Wang Luojia	B	16/01/2014	**483,149**	**483,149**	HK$1.1	–	–	–	–	16/01/2014-16/01/2019
4 Employees	A	16/01/2014	**94,256**	**94,256**	HK$1.1	–	–	–	–	note 1
Sub-Total	–	16/01/2014	**577,405**	**577,405**	HK$1.1	–	–	–	–	–
79 Employees	A	04/09/2014	**1,075,866**	**792,874**	HK$1.1	282,992	3.08	–	–	note 1
76 Employees	B	04/09/2014	**7,584,701**	**6,337,172**	HK$1.1	1,067,020	2.97	–	180,509	16/01/2014-16/01/2019
Total	–	–	**9,237,972**	**7,707,451**	–	1,350,012	–	–	180,509	–

Note:

1. At any time and from time to time up to the last day of the 5th anniversary of 16 January 2014.

REPORT OF THE DIRECTORS (CONTINUED)

	Details	Pre-IPO Scheme A	Pre-IPO Scheme B	Post-IPO Share Option Scheme
1.	Purpose	To recognise and acknowledge the contributions that the eligible participants have or may have made to the Group and to provide the eligible participants with an opportunity to have a personal stake in the Company with a view to achieving the following objectives: (1) motivate the eligible participants to optimise their performance efficiency for the benefit of the Group; and (2) attracting and retaining or otherwise maintaining relationships with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.		To provide participants with the opportunity to acquire proprietary interests in the Company and to encourage such participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and the Shareholders as a whole.
2.	Participants	(1) Executive Directors, (2) senior management of the Group and (3) other employees of the Group who, in the sole opinion of the Board, have contributed or will contribute to the Company and/or any of the subsidiaries.		(1) Directors and (2) employees of any member of the Group, as the Board may in its absolute discretion select.
3.	Maximum number of Shares	Options to subscribe for an aggregate of 781,374 Shares were outstanding, representing approximately 0.14% % of the issued Shares as of the date of this annual report. No further option could be granted under the Pre-IPO Scheme A.	Options to subscribe for an aggregate of 5,953,787 Shares were outstanding, representing approximately 1.09% of the issued Shares as of the date of this annual report. No further option could be granted under the Pre-IPO Scheme A.	The maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme was 52,466,310, representing approximately 9.60% of the issued Shares as of the date of this annual report. No option has been granted under the Post-IPO Share Option Scheme. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time.
4.	Maximum entitlement of each participant	10% of the total number of Shares entitled to be subscribed for under each grant of options by the Company; The maximum number of shares to be subscribed for by each participant for each financial year shall not be more than 1% of the total issued share capital of the Company as at the last financial year end of the Company.		1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant.

	Details	Pre-IPO Scheme A	Pre-IPO Scheme B	Post-IPO Share Option Scheme
5.	Option period	At any time and from time to time up to the last day of the 5th anniversary of 16 January 2014.	(1) up to 20% of the options so granted to him/her (rounded down to the nearest whole number) at any time commencing from the 1st anniversary of 16 January 2014; (2) up to 40% of the options so granted to him/her (rounded down to the nearest whole number) at any time commencing from the 2nd anniversary of 16 January 2014; (3) up to 60% of the options so granted to him/her (rounded down to the nearest whole number) at any time commencing from the 3rd anniversary of 16 January 2014; (4) up to 80% of the options so granted to him/her (rounded down to the nearest whole number) at any time commencing from the 4th anniversary of 16 January 2014; and (5) such number of unexercised options so granted to him/her at any time commencing from the 5th anniversary of 16 January 2014 until the 6th anniversary of 16 January 2014.	The period of time to be notified by the Board to each grantee at the time of making an offer, which shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option. The terms of an offer may include any minimum periods for which an option must be held and/or any minimum performance targets that must be reached, before the options can be exercised in whole or in part, and may include at the discretion of the Board other terms imposed (or not imposed) either on a case by case basis or generally.

REPORT OF THE DIRECTORS (CONTINUED)

	Details	Pre-IPO Scheme A	Pre-IPO Scheme B	Post-IPO Share Option Scheme
6.	Acceptance of offer	On acceptance of the offer of the option, the participant shall execute and return an acceptance letter in accordance with the terms and conditions set by the Company.	On acceptance of the offer of the option, the participant shall execute and return an acceptance letter in accordance with the terms and conditions set by the Company.	An offer shall remain open for acceptance by the participant concerned for a period of 14 days from the date of the offer. HK$1.00 is payable by the grantee to the Company on acceptance of the offer of the option.
7.	Exercise Price	HK$1.1 per Share		The subscription price shall not be less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share on the date of grant.
8.	Remaining life of the scheme	The schemes expired on 30 December 2014.		It shall be valid and effective for a period of ten years commencing on 8 December 2014, and the remaining life is around 6 years and 9 months.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of Directors and the five highest paid individuals are set out on note 29 to the consolidated financial statements in this annual report.

CHANGES TO INFORMATION OF DIRECTORS

Save as disclosed in this annual report, there has been no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the Reporting Period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONSINS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, are set out as follows:

Name of Director	Nature of interest	Number of shares/ underlying shares held	Shareholding percentage (%)	Long position/ short position/ lending pool
Wang Luojia *(Notes 1, 2, 3)*	Trustee of a trust, interest in a controlled corporation and interests held jointly with another person	311,611,172	57.13	Long position
Wang Jin *(Notes 1, 2, 4)*	Trustee of a trust and interests held jointly with another person	311,611,172	57.13	Long position
Wang Qisong *(Notes 1, 2, 5)*	Settlor of trust and interests held jointly with another person	311,611,172	57.13	Long position

Note:

1. Wang J Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, with Wang Qisong as the settler, Wang Luojia as the trustee and Wang Jin and her children as the beneficiaries. Wang J Family Trust owns 51.15% of the total issued shares of LJ Peace Ltd. and 50% of the total issued shares of LJ Venture Ltd.

2. Wang L Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, with Wang Qisong as the settler, Wang Jin as the trustee and Wang Luojia and her children as the beneficiaries. Wang L Family Trust owns 48.85% of the issued shares of LJ Peace Ltd. and 50% of the issued shares of LJ Venture Ltd.

REPORT OF THE DIRECTORS (CONTINUED)

3. Wang Luojia (i) is the trustee of Wang J Family Trust which owns 51.15% of the total issued shares of LJ Peace Ltd. and 50% of the total issued shares of LJ Venture Ltd.; (ii) owns 50% of the total issued shares of LJ Hope Ltd. which in turn holds 8,449,833 Shares; (iii) is the grantee of an option granted pursuant to the Pre-IPO Share Option Schemes pursuant to which 483,149 Shares will be issued to Wang Luojia upon exercise of the same; (iv) personally owns 322,099 Shares as beneficial owner; and (v) is a party to the a deed of confirmation ("**Acting in Concert Deed**") dated 4 November 2014 executed by Mr. Wang Qisong, Ms. Wang Luojia and Ms. Wang Jin, pursuant to which each of Wang Qisong, Wang Luojia and Wang Jin has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any shareholders' meeting of the Company in a unanimous manner. Wang Luojia is therefore deemed to be interested in the Shares held by LJ Peace Ltd.,LJ Venture Ltd. and LJ Hope Ltd. respectively and the underlying Shares in respect of the options granted to herself and to Wang Qisong pursuant to the Pre-IPO Share Option Schemes under the SFO. Each of Wang Luojia, Wang Jin and Wang Qisong is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

4. Wang Jin is the trustee of Wang L Family Trust which owns 48.85% of the total issued shares of LJ Peace Ltd. and 50% of the total issued shares of LJ Venture Ltd. Accordingly, Wang Jin, being the trustee of Wang L Family Trust, is deemed to be interested in the Shares held by LJ Peace Ltd. and LJ Venture Ltd. respectively under the SFO. Pursuant to the Acting in Concert Deed, each of Wang Qisong, Wang Luojia and Wang Jin has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any shareholders' meeting of the Company in a unanimous manner and hence each of Wang Luojia, Wang Jin and Wang Qisong is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

5. In light of notes 1 and 2, Wang Qisong, being the settlor of both Wang L Family Trust and Wang J Family Trust, is deemed to be interested in the Shares held by LJ Venture Ltd. and LJ Peace Ltd., respectively. Wang Qisong personally owns 200,000 Shares as beneficial owner. Pursuant to the Acting in Concert Deed, each of Wang Qisong, Wang Luojia and Wang Jin has agreed to consolidate their respective interests in the Company and to vote on any resolution to be passed at any shareholders' meeting of the Company in a unanimous manner and hence each of Wang Luojia, Wang Jin and Wang Qisong is deemed to be interested in all the Shares held by them in aggregate by virtue of the SFO.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interests or short positions in the Shares or underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that (i) was recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise (ii) was required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTEREST SHARES

As at 31 December 2017, to the best knowledge of the Directors, the following persons (other than the Directors or chief executive of the Company) had an interests or short positions in the Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Name of interest	Number of Shares/ underlying Shares held	Shareholding percentage %	Long position/ short position/ lending pool
LJ Peace Ltd. *(Notes 1, 2)*	Beneficial owner	184,156,346	33.76	Long position
LJ Venture Ltd. *(Notes 1, 2)*	Beneficial owner	118,049,745	21.64	Long position
Lu Guang Yi *(Note 3)*	Interest of a spouse	311,661,172	57.13	Long position
Qiming Venture Partners II, L.P. ("**QVP II**") *(Note 4)*	Beneficial owner and person acting in concert	69,656,176	12.77	Long position
Qiming Venture Partners II-C, L.P. ("**QVP II-C**") *(Note 4)*	Beneficial owner and person acting in concert	69,656,176	12.77	Long position
Qiming Managing Directors Fund II, L.P. ("**QMDF**") *(Note 4)*	Beneficial owner and person acting in concert	69,656,176	12.77	Long position
Grandeur Peak Global Advisors, LLC	Investment Manager	49,369,500	9.05	Long position

Notes:

1. Wang J Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, with Wang Qisong as the settlor, Wang Luojia as the trustee and Wang Jin and her children as the beneficiaries. Wang J Family Trust owns 51.15% of the total issued shares of LJ Peace Ltd. and 50% of the total issued shares of LJ Venture Ltd.

2. Wang L Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, with Wang Qisong as the settlor, Wang Jin as the trustee and Wang Luojia and her children as the beneficiaries. Wang L Family Trust owns 48.85%of the issued shares of LJ Peace Ltd. and 50% of the issued shares of LJ Venture Ltd.

3. Lu Guang Yi is the spouse of Wang Jin. Accordingly, Lu Guang Yi is deemed to be interested in the Shares which are deemed to be interested by Wang Jin under the SFO.

4. QVP II, QVP II-C and QMDF beneficially hold 75,135,068 Shares, 6,583,159 Shares and 1,093,506 Shares respectively, representing approximately 14.33%, 1.21% and 0.21% respectively of the total issued share capital of the Company. By virtue of QVP II acting in concert with QVP II-C and QMDF, each of QVP II, QVP II-C and QMDF is deemed to be interested in all Shares held by them in aggregate under the SFO.

REPORT OF THE DIRECTORS (CONTINUED)

Save as disclosed above, as at 31 December 2017, to the best knowledge of the Directors, there has not any other person who had interests or short positions in the Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Group had not purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

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

NON-COMPETING UNDERTAKINGS

Controlling shareholders of the Company, namely Wang Qisong, Wang Jin, Wang Luojia, LJ Peace Ltd. and LJ Venture Ltd. or any of them (the "**Controlling Shareholders**"), have signed the deed of non-competition (the "**Deed of Non-competition**") dated 8 December 2014, pursuant to which, each of our Controlling Shareholders shall, and shall procure that their respective close associates and/or companies controlled by them (other than our Group) (i) not, directly or indirectly, be interested or involved or engaged in or acquire or hold any right or interest (in each case whether as a director or shareholder (other than being a director or shareholder of the Group), partner, agent or otherwise and whether for profit, reward or otherwise) in any business which competes or is likely to compete directly or indirectly with the business currently carried out and from time to time engaged by the Group (including but not limited to the provision of life sciences research products and services) within the PRC or overseas (the"**Restricted Activity**"); (ii) not solicit any existing employee of the Group for employment by them or their close associates (excluding members of our Group); (iii) not, without the consent from the Company, make use of any information pertaining to the business of the Group which may have come to their knowledge in their capacity as the controlling shareholders for any purpose of engaging, investing or participating in any Restricted Activity;(iv) if there is any project or new business opportunity that relates to the Restricted Activity, refer such project or new business opportunity to the Group for consideration; (v) not invest or participate in any Restricted Activity; and (vi) procure their close associates (excluding our Group) not to invest or participate in any project or business opportunity of the Restricted Activity. Details of the Deed of Non-competition are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus.

The Company has received the annual confirmation of the Controlling Shareholders in respect of their compliance with the non-competition undertakings under the Deed of Non-competition during the year ended 31 December 2017.

The independent non-executive Directors also reviewed the Controlling Shareholders' compliance with the non-competition undertakings. The independent non-executive Directors confirmed that the Controlling Shareholders were not in breach of the non-competition undertakings during the year ended 31 December 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2017, no Director or any of their close associates had any interests in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

CONNECTED TRANSACTION

During the year ended 31 December 2017, the Company had no connected transaction or continuing connected transaction which was required to be disclosed pursuant to the provisions under Chapter 14A of the Listing Rules. For details on related-party transactions conducted during the year ended 31 December 2017, please refer to note 38 to the financial statement on page 142 of this annual report. None of these related party transactions referred to in the financial statements falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

On 3 March 2017 (after trading hours), Sangon Biotech, Mr. Wang (an executive Director, a controlling Shareholder and the sole shareholder of Sangon Health) and Sangon Health entered into various VIE Agreements, to facilitate the development of genetic diagnosis business of the Group. The VIE Structure allows Sangon Biotech to exercise full control over Sangon Health. As a result, Sangon Biotech effectively holds, through the VIE Structure, 100% of the equity interests in Sangon Health which principally engages in genetic diagnosis and related treatment products and services business. Sangon Biotech will have effective control over the finance and operations, and the entire economic interest and benefits of Sangon Health through the VIE Agreements. Sangon Health will become a subsidiary of the Company and its financial results will be consolidated into the financial statements of the Group.

I. The difference between existing business of the Company and the business operated in the mode of VIE

The products and services of the Company provide include DNA synthesis products, genetic engineering services, life sciences research consumables, and protein and antibody related products and services. The business aforesaid mainly provides the products and services for basic life sciences research, mainly staying at the level of the experiment service and small-scale industry production, without involving in the clinical and illness diagnosis fields based on the gene level. It expands our products and services into the application area of life sciences, such as disease diagnosis technology based on molecular biology, tumour treatment based on polypeptide technology, etc. to take full use of the technological advantages that have been accumulated in the life sciences by the Group and to enhance the Group's competitiveness in the future market. Therefore, the Company intends to enter the clinical and disease diagnosis related fields based on the gene level.

Given that the Company is the limited company incorporated in Cayman Islands, according to the laws of the PRC, Sangon Biotech is a foreign-invested enterprise. According to the Catalogue for the Guidance of Industries for Foreign Investment (revised version in 2015) (hereafter referred to as "**Guidance Catalogue**") issued by the National Development and Reform Commission, and the Ministry of Commerce of the PRC, the provisions of Type 20, Item VIII, the Prohibited Class for foreign investment: human stem cells, gene diagnosis and treatment technology development and application.

REPORT OF THE DIRECTORS (CONTINUED)

Gene diagnosis refers to the technological method using the modern molecular biology and molecular genetics to directly detect if the internal gene structure and its expression level are normal, making a diagnosis or assistant diagnosis on illness to detect and analyze gene existence, structural variation and expression state at DNA/RNA level. All of the methods of transferring a genetic material to a patient's cell by using the principle of molecular biology method to make it work in vivo for the purpose of treatment are called gene therapy. According to the provisions of the Guidance Catalogue, the development and application of the technologies involving genetic diagnosis and treatment do not allow foreign investment, while the clinic and illness diagnosis at the genetic level is within the prohibited field. Therefore, under the current conditions, the Company cannot carry out the business of relevant products and services with genetic diagnosis and treatment independently in the PRC.

Sangon Health is a limited company established in the PRC by Mr. Wang Qisong. According to the laws of the PRC, Sangon Health can carry out the business of relevant products and services with genetic diagnosis and treatment, without limitation from the Guidance Catalogue. By signing the VIE agreement with Sangon Health, the Company are enabled to be engaged in the business of relevant products and services with genetic diagnosis and treatment in the name of Sangon Health.

II. Determination benchmark on annual cap of related transactions

According to the arrangements recently made for the business plan, the source of earnings for Sangon Health will mainly focus on the following two aspects in the next three years: (1) the earnings from the investment of Tianjin Hengjia Biotech Development Company Limited (天津亨佳生物科技發展有限公司) ("**Tianjin Hengjia**") of Sangon Health; and (2) the earnings from the services of medical laboratory (the "**Earnings**") fully funded by Sangon Health.

Specifically speaking, Tianjin Hengjia currently devotes itself to research and application of relevant technologies and treatment methods of autologous mutation peptides for treatment of cancer. If the items are successfully, Tianjin Hengjiacan keep a foothold on Tianjin, the PRC, to provide treatment services for the group with cancers, thus obtaining stable earnings. The Earnings are conductive for the technological advantages accumulated by the Group by virtue of high-throughput sequencing field. The Group will provide reliable, quick and convenient medicare detection services to the huge group of end users. The detection services currently are designed for the high-end market to obtain stable earnings in first-tier of cities in the PRC.

The determination method for the earnings above-mentioned has been approved by the Board meeting held on 3 March 2017.

CHARITABLE DONATION

During the year ended 31 December 2017, the Group did not make charitable and other donations.

EQUITY-LINKED AGREEMENT

For the year ended 31 December 2017, the Company has not entered into any equity-linked agreement.

PERMITTED INDEMNITY PROVISION

The Articles provides that each Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2017, the Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatening the Group as far as the Directors were aware of.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the annual results announcement and the financial statements for the year ended 31 December 2017 prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**").

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standards of corporate governance practice. The Company has applied the principles set out in the Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules. During the Reporting Period, the Company has adopted and complied with the mandatory code provisions of the CG Code. For details, please refer to the Corporate Governance Report on pages 57 to 71 of this annual report.

PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company had maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules as at the date of this annual report.

CONSULTING PROFESSIONAL TAX ADVISERS

The Shareholders are recommended to consult professional advisers if they are in any doubt as to the tax implications of the purchasing, holding, disposal of, buying and selling of the Shares or exercising any rights concerned.

REPORT OF THE DIRECTORS (CONTINUED)

AUDITOR

PricewaterhouseCoopers was appointed as the auditor of the Company to audit the financial statements prepared in accordance with the HKFRS for the year ended 31 December 2017.

PricewaterhouseCoopers shall retire at the AGM and, being eligible, has offered itself for re-election. The resolution regarding the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the AGM.

By order of the Board

Wang Qisong
Chairman

Hong Kong, 29 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To align with the requirements set out in the Environmental Social Report Guide in Appendix 27 of the Listing Rules, the Company hereby presents its Environmental, Social and Governance Report for the year ended 31 December 2017.

A. OUR ENVIRONMENTAL RESPONSIBILITY

The Group has prepared a series of internal environmental management indicators and guidelines to ensure enforcement of substantive work of environmental protection; and complied with the requirements under relevant laws and regulations including the Environmental Protection Law of People's Republic of China in fulfillment of our obligation of environmental protection.

During the Reporting Period, we established an environmental, safety and occupational health management system and prepared comprehensive management principles. In 2016, the Company passed the certification of ISO14001: 2008 Environmental Management System and ISO18001: 2008 Quality Management System again.

To implement the Law on Promoting Clean Production of the PRC, Sangon Biotech began to work on clean production in 2013, focusing on the goal of "energy saving, consumption cutback, emission reduction and efficiency enhancement", and passed the review and acceptance by environmental protection authorities during the year.

A.1 Up-to-standard discharge of wastes

In the production process of the Group, the main wastes produced include waste gas, wastewater, hazardous wastes and general industrial solid wastes (the "**General Solid Wastes**"). The waste discharge of the Company has satisfied the regulatory requirements of government departments due to effective recovery and disposal of wastes.

During the year, the Company formulated the Management Measures for Hazardous Wastes which set forth the standard procedures for the collection, transfer, storage, and disposal of hazardous wastes. As a result of effective recycling and disposal of hazardous wastes, the collection rate and disposal rate of hazardous wastes both reached 100%.

The types and disposal methods of wastes of the Company are as follows:

Types of waste	Types of waste Treatment and disposal methods
Waste gas	A small amount of organic waste gas is produced due to the volatilization of materials in production and is subject to high-altitude emission after collection and activated carbon adsorption. The waste gas produced in the injection molding process in production of consumables for laboratory is subject to high-altitude emission after collection and activated carbon adsorption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Wastewater	The wastewater from restaurant, after oil separation treatment, and the wastewater produced in production will be treated with the "biological + physicochemical" processes at the Company's wastewater treatment station. Meanwhile, a normalized sewage outfall is set to discharge all up-to-standard wastewater into the urban sewage pipe network. The concentration and total amount of wastewater are monitored on a daily basis so as to ensure up-to-standard wastewater discharge.
Hazardous wastes	Hazardous wastes are collected with leakage-proof containers (e.g. scrap metal bucket) to avoid leakage during transfer. A hazardous wastes warehouse is established for collection and classified storage of hazardous wastes. Eventually, a qualified company will be engaged to transport the wastes out for disposal. The disposal rate of hazardous wastes by qualified third party disposal companies is up to 100%.
General Solid Wastes	Recyclable General Solid Wastes (e.g. packaging materials) will be recovered by suppliers or sold to relevant companies for recycling. The unrecyclable wastes will be transported out for disposal.

A.2 Exhaust emission treatment

In 2016, in compliance with the control requirements on Volatile Organic Compounds (VOCs) emission reduction launched by the Environmental Protection Bureau, Sangon Biotech proactively completed the filing of the "One Scheme for Each Factory" for the treatment of VOCs, identified the emission source of existing VOCs of the Company, and determined the emission reduction scheme. The treatment process was completed in 2017 with annual VOCs reduction of 0.3 ton, representing a reduction rate of 24.9%. During the year, the Company has not been subject to administrative penalties for exceeding the exhaust emission limit.

A.3 Sewage discharge treatment

In compliance with the control requirements on rain and sewage diversion launched by the Water Authority, Sangon Biotech examined and reconstructed old and worn pipes in the Shanghai factory in June 2017 to prevent adverse impact on the environment due to the mixture of rain and sewage and damaged pipes. After the reconstruction, the Company successfully passed the acceptance by the Water Authority in November 2017. The Company will continue to monitor the impacts of rain and sewage discharge on the environment. During the Reporting Period, the Company has not been subject to any penalty for exceeding sewage discharge limit, nor has it received any complaint from the neighbouring community about corporate sewage discharge.

A.4 Normalization of energy management and reduction of greenhouse gas emissions

In 2017, the Company consumed a total of 56,453 cubic metres of water and 5,876,100Kwh of electricity, mainly for production and manufacturing, operational services, water consumption at offices, environment and fire emergency. The Group attaches great importance to the impact of water consumption on the environment and actively promotes the upgrade and application of water-saving devices (such as sensor faucets) among its member companies. In addition, it enhances the method for preparing pure water to reduce water consumption. For administrative management, measures such as three-tier measurement are taken to control water leakage or running faucets and strength energy regulation and management. The Company replaced fluorescent lights in the office areas with energy-efficient LED bulbs.

B. OUR SOCIAL RESPONSIBILITY

B.1 Employment

Talent is the foundation to support the Company's long-term and healthy development. We are committed to establishment of a scientific and systematic human resources management system and a competitive market-based remuneration system, to create a talent growth environment and working atmosphere in respect of employees' value, development of employees' potentials and sublimation of employees' soul. The continuous recruitment and cultivation of domestic and overseas excellent talents representing advanced level in the field of life sciences provides guarantee of human resources for the realization of the Company's strategy and an incentive policy is adopted to maximize the value of staff.

B.2 Health and safety

Health and Safety Policy of the Company

We have developed occupational health and safety management procedures for control of operation of occupational health and safety within the Group, and complied with the requirements under relevant laws and regulations including Production Safety law of the People's Republic of China in fulfillment of our obligation of production safety. The departments at all levels have established and implemented a health and safety system in accordance with this policy, and implemented this policy in the production and business activities for continuous improvement of health and safety management. This policy applies to all fields and areas of production and operation of the Company.

Health and Safety Goals of the Company

Effective control is implemented for the operation and activities in relation to the major hazardous sources of the Group to eliminate or reduce occupational health and safety risks exposed to the staff and other relevant parties arising from organizational activities, to ensure compliance with occupational health and safety policy and meet the requirements of goals and continuous improvement.

Our business development plan includes a series of quantifiable health and safety indicators. All staff, contractors, suppliers and other relevant parties of the Group have the responsibility to work together to achieve these goals. We intend to win the trust of customers, Shareholders and the society with good health and safety performance, and make our contributions to maintain corporate sustainable development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Health and safety performance

1. *Data Source*

   The health, safety and environment (HSE) performance provides key health and safety data of the Company for the Reporting Period, which demonstrates our health and safety management.

   The HSE data during the Reporting Period was from the statistics of the Group and has not undergone external review.

2. *Inclusion and exclusion of data*

   The data includes the HSE data in the production and business activities of the Company and excludes the health and safety data of contractors and suppliers.

3. *Health performance*

   During the Reporting Period, we focused on occupational health surveillance centering on occupational health examination for staff. The rate of occupational health examination for staff and occupational hazards detection for workplace rate reached 95%. There was no large or serious occupational hazardous accident.

4. *Safety performance*

   (1) Overview (number and ratio of deaths due to work)
   In 2017, the Group recorded 0 injury and 0 death in industrial production.

   (2) Number of working days lost due to work-related injuries:
   In 2017, the Group recorded 0 working day lost due to work-related injuries.

Healthy and safety management

1. *Basic management*

   (1) Carry out publicity of law on safety in production
   The competent leaders and main leaders of regional companies of the Group took the lead in giving lessons and organizing all staff to learn the law on safety in production and participate in competitions thereon to create the atmosphere of study and compliance of laws. The head office promptly streamlined and improved the ISO institutional framework, and amended company-level systems and standards; all branches and offices improved their systems and procedures to ensure compliance of rules and regulations on safety and environmental protection.

(2) Strengthen system construction

We have developed control procedures for occupational health and safety operation that are suitable to the Group and established the Safety Production Management System, pursuant to which the production department is responsible for occupational health and safety control; the workshop is responsible for operation control on production site; the staff representatives shall assist the occupational health and safety management; the equipment management personnel are responsible for the implementation and control of occupational health and safety in relation to equipment management in the Company; the environmental protection and safety department and procurement department are in charge of implementation and control of occupational health and safety for relevant parties; and other departments are responsible for the implementation and control of their occupational health and safety.

(3) Establish control procedures for identification of health and safety

Safety awareness and safety identification methods as required for health and safety were normalized for the work sites to prevent accidents caused by improper or lack of identification.

(4) Insist on full coverage of system audit

We strictly enforce the Group's safety inspection system to discover and identify various hazards and hidden dangers, supervise rectifications and the implementation of various safety rules and regulations and stop illegal command and illegal operations.

We implement the principle of combination of examination by leaders and masses. The examination mainly covers employee's self-examination, comprehensive examination, professional examination, seasonal examination, examination on holidays, selective examination at night and routine examination.

There are specific plan, clear objectives, requirements and contents of safety examination. We have prepared a Safety Checklist, and conducted rectification while carrying out examination and promptly summarize relevant experience for future reference purpose.

(5) Intensify training of staff on key positions

We organized training for staff on key positions and improved the way of training in accordance with the Safe Production Responsibility System, Regulations for Safe Operation on Positions and other occupational health regulations prepared by the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2. Occupational Health Management

In order to earnestly implement the requirements under the Labour Law and the Law on Prevention and Control of Occupational Disease, prevent sudden major occupational hazardous accidents, and implement effective control and treatment after the occurrence of occupational hazardous accidents, the Group has developed the Preventive and Control Measures for Occupational Hazards and the Emergency Plan for Occupational Hazardous Accidents of the Group in accordance with the requirements of superior competent department of occupational health and the actual conditions of the Company, so as to prevent, control and eliminate occupational hazards, prevent occupational diseases, protect health and rights of workers, and control occupational hazardous accidents in a timely and effective manner, to mitigate the damage caused by occupational hazardous accidents.

(1) We have developed the Preventive and Control Measures for Occupational Hazards to prevent, control and eliminate occupational hazards, prevent occupational diseases, protect health and rights of workers, and control occupational hazardous accidents in a timely and effective manner, to mitigate the damage caused by occupational hazardous accidents.

(2) In order to earnestly implement the requirements under the Labour Law and the Law on Prevention and Control of Occupational Disease, prevent sudden major occupational hazardous accidents, and implement effective control and treatment after the occurrence of occupational hazardous accidents, the Emergency Plan for Occupational Hazardous Accidents of the Group is prepared in accordance with the requirements of superior competent department of occupational health and the actual conditions of the Company following the principle of "rapid response and proper treatment".

(3) The Company always provides employees with a sound office and work environment for them to carry out day-to-day business so as to reduce their exposure to occupational diseases. For employees in direct or indirect contact with occupational hazards (such as noise, dust, and chemical hazards) during the production process, the Company provides annual physical examination on occupational physical examination, achieving a physical examination completion rate of 100%. No employees were found to suffer from occupational diseases in the physical examination, indicating a 100% pass rate for occupational physical examination.

B.3 Development and training

Employees are contributors of knowledge and skills in the course of their work. We also want staff to have the opportunity to realize their self-worth. Therefore, the Group provides channels and opportunities for staff's self-improvement in various mechanisms and actions. In addition, the Group also proactively provides various on-the job trainings for staff to improve their professional skills. Every new staff is required to pass the following trainings:

1. Education of basic knowledge on the Group: training on profile, organizational operations, main business, rules and regulations, awareness of safety and environmental protection, relevant laws and regulations, and other basic knowledge of the Group.

2. Training on job skills: study of work and operation instructions, performance of equipment used, operation procedures, safety issues and countermeasures for emergencies, which shall be organized and implemented by the person responsible for technology.

New staff of middle-level or above will only be officially employed after acceptance and passing of the induction training specially arranged. In addition to the aforementioned basic induction trainings, the Group has developed specific vocational trainings for different positions. In addition to the Group's internal trainings, we also proactively encourage and support staff to participate in targeted external trainings based on job requirements to improve their professional competence.

During the Reporting Period, the Group organized 119 training sessions, accumulating a total of 4,480 training hours. Each employee received 4 hours of training on average, and 100% of the employees participated in training.

By employee category, of all those that have received training, employees from senior management accounted for 3%, employees from middle management accounted for 8%, and ordinary employees accounted for 89%.

By gender, female employees each receives approximately 4 hours of training per year, and male employees each receives approximately 4 hours of training per year.

By employee category, employees from senior management each receives approximately 3 hours of training per year, employees from middle management each receives approximately 4 hours of training per year, and ordinary employees each receives approximately 5 hours of training per year.

B.4 Supportive human resources policy

The main principle of recruitment is staff's satisfaction of capacity requirements of the position. In recruitment, all candidates will be treated equally, and will not be affected by race, nationality, religion, place of birth and other factors. We adopt the principles of fairness, justice and openness in selection of every candidate, and all staff recruited by the Company will enjoy equal treatment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

We strictly abide by the Labour Law of the People's Republic of China, the Regulations on Banning the Use of Child Labour, the law of Labor Contract, the Rules of the State Council on working Hours of workers and staff Members and other relevant labour laws and regulations. The human resources department will conduct earnest verification of staff's age, and arrange reasonable work and rest time for staff to the extent permitted by laws and regulations. During the Reporting Period, we did not identify any child labour or forced labour and have complied with the relevant law to prevent child and forced labour.

We have established a complete staff remuneration management system. After giving comprehensive consideration to the differences in terms of region, level and function, we have prepared a remuneration and welfare policy suitable to the Group consisting of annual salary, performance pay, options and other allowances. We also have a set of performance and career development appraisal system in place for staff appraisal on a yearly basis. Proper promotions are made to staff and adjustments to staff remuneration with reference to job requirements and employees' actual professional proficiency.

In respect of employee welfare, we pay full amount of basic endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and accumulation fund for each staff. In addition, the Company also provides employees with enterprise business welfare including additional commercial insurance and annual physical examination for employees. Employees are entitled to statutory holidays and public holidays, statutory annual leave, marriage leave, maternity leave, bereavement leave, allowance for high temperature and other statutory welfare. The Group has also prepared non-statutory welfare in the principle of caring staff including holiday gifts, birthday parties, annual travel, working lunch and staff quarters.

Overview of staff

During the Reporting Period, the Company had 1,238 staff, including 23 retired staff, and 294 staff resigned.

By gender, there are 631 male staff, representing 51% of the total number of staff; and 607 female staff, representing 49% of the total number of staff.

By employment category, permanent employees accounted for 96%, interns accounted for 2%, and retired staff re-employed employees accounted for 2%.

The age structure of all staff is as follows:

Age groups	Number of staff	Percent (%)
Below 30 years old	532	43
30-40 years old (exclusive of 40 years old)	520	42
40-50 years old (exclusive of 50 years old)	124	10
Over 50 years old	62	5

B.5 Our Supply Chain

The materials required for the research and development and production of the Group's is in the charge of the supply chain management department. The products provided include: biochemical reagents, tool enzyme, DNA monomer and plastic particles. The supply chain management department purchases the aforementioned products in strict accordance with the Measures for Management of Suppliers prepared by the Group's management center, and use such products for packaging or production.

We select qualified suppliers to ensure suppliers' consistent satisfaction of the Group's quality standards, timely delivery and satisfaction of the Group's requirements with reasonable prices and high quality services. Only the enterprises that are respected in the industry with reliable product quality and service, strong delivery capability and good financial position will be selected.

We regularly review suppliers' performance in terms of environment, safety and health, and provide relevant trainings and carry out supervision and inspection for suppliers in due course to ensure suppliers' satisfaction of requirements on environmental management, occupational health and safety management. During the Reporting Period, we had dealings with 1,823 domestic and foreign suppliers.

The number of suppliers by regions is as follows:

Ares of Suppliers	**Number of Suppliers**
Domestic	1,823
Foreign	430
Number of suppliers implementing the Company's requirements regarding the supply chain	2,253

We conduct semi-annual evaluation and assessment for suppliers with continuous transactions with us based on their actual delivery quality, delivery period, transaction price, degree of cooperation with the Company, and risk tolerance. The assessment items include product quality, product price, arrival period, degree of cooperation, and risk tolerance. The suppliers who have passed assessment will be entered into the Sheet of Supplier Evaluation Records. For unqualified suppliers, the purchasing staff will directly cancel their supply qualification or call manufacturers to inform rectification within a limited period. Those who have passed rectification examination will be subject to assessment by the Company again. The suppliers who have passed the assessment will be included in the Company's qualified supplier system and the unqualified ones will be disqualified for supply.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

B.6 Our Product Responsibility

The Company firmly believes that "Product quality is the cornerstone of enterprise development", which has a decisive role in the development of the company. During the Reporting Period, the Company strictly abides by the Law of the People's Republic of China on Product Quality and other relevant laws and regulations. Through adopting the ISO9001 quality management system, the Company strictly controls product quality and forbids the unqualified products to the market. Benefit from the implementation of above-mentioned measures, the Company is able to maximize maintenance of the customer interest.

In order to improve the quality of management of customer complaints, strengthen the complaint reception processing capability of the Company's service windows and professional skills, we have revised the Customer Complaint Management System and prepared the Product Quality Feedback Form and Customer Satisfaction Survey Form, and provided guidelines on business operation and service standards for customer complaints service personnel.

Customer privacy and information security

In view of the customer confidential information, the Company implemented a strict confidentiality system. According to the system, the Company should enter into a confidentiality agreement with the client who provides the confidential information. Meanwhile, for ensuring no betraying confidential matters, risk control department of the Company is responsible for investigating the confidential information to delimit secrecy scope and ascertain crypto security. The Company also provides employees with education regarding confidentiality, including specifies the confidentiality obligation of employees in employee manual.

Product recall

The Company has formulated Product and Service Management Procedures which set forth the procedures for handling unqualified products. During the Reporting Period, the Company had no product recall.

B.7 Anti-corruption of the Company

The importance of steady development has become a big issue related to the overall development of the Group. During the Reporting Period, we continued to follow various regulatory requirements, adhered to the bottom line of risk and regulated staff's behavior, striving to achieve balance among capital, scale, risk and revenue. We strictly abide by the Criminal Law of the People's Republic of China and relevant laws and regulations, and the Group's legal department and audit department conducted streamlining for major business processes and work review for the Group's staff under the unified leadership of the risk management committee of the Company (the "**Risk Management Committee**") in accordance with the Measures for Management of Internal Control of the Company to screen out the possible hidden corruption risks in the Company's daily operation and management. In particular, for possible bribery, extortion, fraud and money laundering, we improved the reporting channel and informants to reflect the possible corruption, bribery, extortion, fraud and money laundering to the Company by e-mail, telephone, mail, etc., and the legal department performed supervision and treatment therefor.

We actively carry out educational activities on anti-corruption and legal compliance for staff, and publicize relevant laws and regulations to staff by pictorial, legal training and other means to strengthen staff's awareness of legal compliance and sense of discipline.

During the Reporting Period, the Group and staff were not engaged in any corruption, bribery, fraud, extortion or money laundering, and there was no corruption case involving any agency or staff that was filed by the Group which had been concluded.

B.8 Community investment

As a corporate citizen, we promote the social contribution of all members of the Group as a whole to the community where we carry out our operations. We attach great importance to inspire a sense of social responsibility in employees and encourage them to make greater contribution to our community both at work and in their spare time. We strive to increase our social investment to create a better environment for our community as well as our business.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

B.9 Digital performance

ESG Key Performance Indicator

Categories of the Indicator	Unit	Data as of 31 December 2017
A. Environment		
Aspect A1: Emissions		
CO_2 emission[1]	ton	4,800
CO_2 emission per RMB10,000 of sales volume	ton/RMB10,000	0.104
NMHC emission	ton	3.36
NMHC emission per RMB10,000 of sales volume	ton/RMB10,000	0.0001
Waste water disposal	ton	50,807.7
Waste water disposal per unit of sales volume	ton/RMB10,000	1.099
Hazardous waste produced	ton	114.05
Hazardous waste produced per RMB10,000 of sales volume	ton/RMB10,000	0.002
Non-hazardous waste produced	ton	86.33
Non-hazardous waste produced per RMB10,000 of sales volume	ton/RMB10,000	0.002
Aspect A2: Usage of Resources		
Comprehensive energy consumption	ton of standard coal	1,502.42
Energy consumption per RMB10,000 of sales volume	ton of standard coal/ RMB10,000	0.032
Total power consumption	10,000 kwh	609.08
Power consumption per RMB10,000 of sales volume	10,000 kwh/ RMB10,000	0.013
Total water consumption	ton	56,453
Water consumption per RMB10,000 of sales volume	ton/RMB10,000	1.221
Gasoline consumption	ton	22.85
Packaging material used for finished products	ton	143
Packaging material used for finished products per RMB10,000 of sales volume	ton/RMB10,000	0.003

[1] Note: CO_2 emission is calculated in accordance with the Technical Document of Shanghai's Greenhouse Gas Emissions Accounting and Reporting: SH/MRV-001-2012.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Categories of the Indicator	Unit	Data as of 31 December 2017
B. Society		
Employment and Labour Practices		
Aspect B1: Employment		
Total workforce	person	1,238
Number of retired employees	person	23
Total employee turnover	person	294
Number of employees by gender		
Female	person/%	49%
Male	person/%	51%
Number and percentage of employees by employment type		
Permanent employees	person/%	96%
Interns	person/%	2%
Rehired employees after retirement	person/%	2%
Number and percentage of employees by age group		
Under 30 years old	person/%	43%
30-40 years old	person/%	42%
40-50 years old	person/%	10%
Over 50 years old	person/%	5%
Aspect B2: Health and Safety		
Number of work-related fatalities	person	0
Lost days due to work injury	day	0

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Categories of the Indicator	**Unit**	**Data as of 31 December 2017**
Aspect B3: Development and Training		
Number of training sessions	session	119
Total hours in training sessions	hour	4,480
Percentage of training employees	%	100%
Average training hours per employee	hours/person	3.62
Percentage of training employees by employee category		
Senior management	%	3
Middle management	%	8
Ordinary employees	%	89
Average training hours per employee by gender		
Female	hours/person	4
Male	hours/person	4
Average training hours per employee by employee category		
Senior management	hours/person	3
Middle management	hours/person	4
Ordinary employees	hours/person	5
Aspect B5: Supply Chain Management		
Number of domestic suppliers	number	1,823
Number of overseas suppliers	number	430
Aspect B6: Product Responsibility		
Percentage of products subject to recalls for safety and health reasons	%	0
Number of products related complaints	number	13

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report as set out in the annual report of the Company for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Company has complied with the applicable code provisions as set out in the CG Code during the year ended 31 December 2017 and up to the date of this annual report. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, the Remuneration Committee, the nomination committee (the "**Nomination Committee**") and the Risk Management Committee (together, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

Under code provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. The Company has arranged an insurance in December 2017 with 12 months' coverage starting from 29 December 2017 in respect of legal actions against its Directors and senior management.

Board Composition

As at the date of this annual report, the Board comprises 7 members, consisting of 3 executive Directors, 1 non-executive Director and 3 independent non-executive Directors as set out below:

Executive Directors

Mr. Wang Qisong *(Chairman)*
Ms. Wang Luojia *(Chief Executive Officer)*
Ms. Wang Jin *(President)*

Non-executive Director

Mr. Hu Xubo

Independent non-executive Directors

Mr. Xia Lijun
Mr. Ho Kenneth Kai Chung
Mr. Liu Jianjun

CORPORATE GOVERNANCE REPORT (CONTINUED)

The biographies of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

During the Reporting Period and up to the date of this annual report, the Board met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

Mr. Wang Qisong, executive Director and Chairman, is the father of the executive Directors, Ms. Wang Luojia and Ms. Wang Jin. Save as disclosed in the biographies of the Directors as set out in the section headed "Directors and Senior Management" of this annual report and above, none of the Directors have any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Group's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

According to the records kept by the Company, all the existing Directors have received continuous and professional development and training as set out below with an emphasis on the roles, functions and duties of directors in listed companies:

Name of Directors	**Attending internal briefings or trainings, participating seminars or reviewing materials**
Executive Directors	
Mr. Wang Qisong *(Chairman)*	✓
Ms. Wang Luojia *(Chief executive officer)*	✓
Ms. Wang Jin *(President)*	✓
Non-executive Director	
Mr. Hu Xubo	✓
Independent non-executive Directors	
Mr. Xia Lijun	✓
Mr. Ho Kenneth Kai Chung	✓
Mr. Liu Jianjun	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As required by code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. The Chairman and the Chief Executive Officer of the Company, as assumed by Mr. Wang Qisong and Ms. Wang Luojia respectively, are two different positions with expressly stipulated duties. The Chairman is responsible for management and leadership of the Board to formulate overall strategies and business development directions for the Company, to ensure that adequate, complete and reliable information is provided to all Directors in a timely manner, and to ensure that the issues raised at the Board meetings are explained appropriately. The Chief Executive Officer is responsible for managing business activities of the Company, implementing policies, business objectives and plans adopted by the Board, and reporting to the Board on the Company's overall operation.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a fixed term of three years commencing from the Listing Date, which may be terminated before the expiration of the term by not less than three months' notice in writing served by either party on the other. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

The non-executive Director has signed an appointment letter with the Company for a term of three years with effect from the Listing Date. His appointment is subject to the provisions of retirement and rotation of Directors under the Articles.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of two years with effect from the Listing Date. Their appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Save as disclosed above, no Director has entered into a service contract with the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Pursuant to the Articles, at each annual general meeting, one-third of the Directors shall retire from office by rotation, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her 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 annual general meeting of the Company and shall then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles. The Nomination Committee is responsible for reviewing the Board composition, and making recommendations to the Board on appointment, re-election and succession planning of Directors.

BOARD MEETINGS

The Company adopts the practice of holding Board meetings regularly. Notices of not less than fourteen days are given for regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other committee meetings, at least seven days' notice will be given in writing to all committee members. The meeting notice states the time and place of the meeting. The agenda and accompanying board committee papers will be provided at least three days before the date of meeting to ensure that Directors have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting.

Minutes of the Board meetings and committee meetings will be recorded in sufficient details for the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are/will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

During the Reporting Period, the Board held five meetings. The specific agenda of the Board meetings covered the following aspects:

(i) to consider and review the financial statements for the year ended 31 December 2016 and for the six-month period ended 30 June 2017 and matters concerning corporate governance and risk management;

(ii) to discuss the overall strategies of the Group, monitor the financial and operational performance, and approve the annual and interim results of the Group;

(iii) to consider and approve the merge and acquisition projects, the project of VIE structure;

(iv) to consider and approve the adjustment of the House and Building Provision Standard for the Fixed Assets Depreciation Period Standard; and

(v) to consider and discuss the basic due diligence report for the investment project of HuBei Dangerous Chemical.

The attendance of the individual Directors at the Board meetings mentioned above and the annual general meeting held on 31 May 2017 is set out below:

Name of Director	Attendance/Number of Meetings Board Meeting	General Meeting
Mr. Wang Qisong	5/5	1/1
Ms. Wang Luojia	5/5	1/1
Ms. Wang Jin	5/5	1/1
Mr. Hu Xubo	5/5	1/1
Mr. Xia Lijun	5/5	1/1
Mr. Ho Kenneth Kai Chung	5/5	1/1
Mr. Liu Jianjun	5/5	1/1

The Company's external auditor also attended the annual general meeting of the Company held on 31 May 2017.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made to all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code during the Reporting Period.

The Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision on all major matters of the Group, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Group's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

1. to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. to review the Group's compliance with the CG Code and disclosure in the Corporate Governance Report.

The duty to review and monitor the training record and continuous professional development of the Directors and senior management of the Group has been delegated to the Risk Management Committee.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee currently comprises three members, namely Mr. Liu Jianjun (chairman), Mr. Ho Kenneth Kai Chung and Mr. Xia Lijun, all being independent non-executive Directors.

The principal duties of the Nomination Committee include:

1. to review the structure, size and composition (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, the skills, knowledge and length of service) of the Board at least once a year and make recommendations regarding any proposed changes in the Board in line with the Company's corporate strategy;

2. to identify individuals suitably qualified to become members of the Board, select and nominate candidates of Directors or make recommendations to the Board in this regard;

3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer;

5. to review the board diversity policy, to develop and review measurable objectives for implementing the board diversity policy and to monitor the progress on achieving these objectives; and to ensure that a summary of such policy is disclosed in the Corporate Governance Report as required under the Listing Rules; and

6. where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, to ensure it is set out in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why the Directors believe he should be elected and the reason why they consider him to be independent.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties. The recommendations of the Nomination Committee will then be put to the Board for decision. The Nomination Committee should report back to the Board on its decisions or recommendations after every Nomination Committee meeting.

Pursuant to code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The Company believes that board diversity can enhance the performance of the Company. After taking into account the Company's own business model and specific needs and upon the recommendation of the Nomination Committee, the Board has adopted a board diversity policy (the "**Policy**") to ensure in designing the Board's composition, board diversity will be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

During the Reporting Period, the Nomination Committee held one meeting. The specific agenda of the Nomination Committee meeting covered the following aspects:

(i) To consider and review the adoption of the Board Diversity Policy and assess the independence of the independent non-executive Directors;

(ii) To consider and nominate the candidate of Re-election of retiring Directors toward the Board.

The attendance of the individual committee members at the Nomination Committee meeting mentioned above is set out below:

Name of committee member	**Committee meetings attended/ eligible to attend**
Mr. Liu Jianjun *(Chairman)*	1/1
Mr. Xia Lijun	1/1
Mr. Ho Kenneth Kai Chung	1/1

CORPORATE GOVERNANCE REPORT (CONTINUED)

Remuneration Committee

The Remuneration Committee currently comprises three members, namely Mr. Ho Kenneth Kai Chung (chairman), Mr. Xia Lijun and Mr. Liu Jianjun, all being independent non-executive Directors.

The principal duties of the Remuneration Committee include:

1. to consult the Chairman of the Board and/or the chief executive officer about the remuneration proposals for other executive Directors;

2. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The remuneration packages should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

5. to make recommendations to the Board on the remuneration of non-executive Directors;

6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

7. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

8. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

9. to ensure that no Director or any of his associates (as defined under the Listing Rules) is involved in deciding his own remuneration.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

During the Reporting Period, the Remuneration Committee held one meeting. The specific agenda of the Remuneration Committee meeting covered the following aspects:

(i) To determine the remuneration policy and structure of Directors and senior management for 2018;

(ii) To evaluate the remuneration of the Directors and senior management for the year ended 31 December 2017; and

(iii) To review the remuneration of non-executive directors (including independent directors) of peer companies.

The attendance of the individual committee members at the Remuneration Committee meeting mentioned above is set out below:

Name of committee member	Committee meetings attended/ eligible to attend
Mr. Ho Kenneth Kai Chung *(Chairman)*	1/1
Mr. Liu Jianjun	1/1
Mr. Xia Lijun	1/1

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2017 are set out in note 42 to the financial statements.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. Remuneration paid to the senior management members (excluding the Directors) for the year ended 31 December 2017 is within the range below:

Range of remuneration	Persons
Nil to HK$1,000,000 (equivalent to approximately RMB837,500)	7

Audit Committee

The Audit Committee currently comprises three members, namely Mr. Xia Lijun (chairman), Mr. Ho Kenneth Kai Chung and Mr. Liu Jianjun, all being independent non-executive Directors. The principal duties of the Audit Committee are to review and monitor the Company's financial reporting process and internal control procedures, to maintain the relations with the external auditor of the Company and review the financial information of the Company.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the Reporting Period, the Audit Committee held three meetings with all members attended. The Audit Committee reviewed the financial reporting system, compliance procedures, internal controls (including the adequacy of resources, staff qualifications and experience, training programme and budget of the Group's accounting and financial reporting function), risk management system and procedures and the re-appointment of external auditor. The Board did not have separate opinion on any recommendation and suggestion by the Audit Committee in relation to the appointment of external auditor.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The attendance record of the individual committee members at the Audit Committee meetings mentioned above is set out in the table below:

Name of Committee member	**Committee meetings attended/ eligible to attend**
Mr. Xia Lijun *(Chairman)*	3/3
Mr. Ho Kenneth Kai Chung	3/3
Mr. Liu Jianjun	3/3

The Audit Committee also reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017 and unaudited financial statements of the Group for the six-month period ended 30 June 2017, as well as the auditor's report prepared by the external auditor relating to accounting issues and major findings in course of audit.

The Audit Committee also met the external auditor three times without the presence of the executive Directors.

The Audit Committee is also responsible for the daily execution of anti-corruption measures. Its scope of duties includes reviewing and assessing the Company's anti-corruption measures, reviewing complaints and reports from the external and internal sources with respect to the relevant anti-corruption measures, conducting investigations and undertaking rectification actions accordingly.

After reviewing the anti-corruption measures and standards and internal control policy of the Group, the Audit Committee believed that the Company's anti-corruption measures and standards were fully and effectively implemented during the financial year ended 31 December 2017 and were consistent with the anti-corruption laws applicable to the Group.

Risk Management Committee

The Risk Management Committee currently comprises three members, namely Mr. Liu Jianjun (chairman), Mr. Ho Kenneth Kai Chung and Mr. Xia Lijun, all being independent non-executive Directors.

The principal duties of the Risk Management Committee include:

1. to review the Company's risk management policies and standards, as well as the fundamental concepts and scope of compliance management;

2. to review and provide comment on the overall target and basic policy of the compliance and risk management;

3. to supervise and monitor the Company's exposure to sanctions law risks and implementation of the related internal control policies and procedures adopted by the Company;

4. to supervise and monitor the development of risk and compliance management system of the Company; and

5. to review the settings and responsibilities of the Company's compliance and risk management, and to advise on the same.

The written terms of reference of the Risk Management Committee are available on the websites of the Stock Exchange and the Company.

During the Reporting Period, the Risk Management Committee held two meetings. The specific agenda of the Risk Management Committee meetings covered the following aspects:

(i) To review the Implement Report of Management of Major Contracts; and

(ii) To consider the adoption of the report of risk Management and control submitted by the management of the Company.

The attendance of the individual committee members at the Risk Management Committee meetings mentioned above is set out below:

Name of committee member	Committee meetings attended/ eligible to attend
Mr. Liu Jianjun *(Chairman)*	2/2
Mr. Ho Kenneth Kai Chung	2/2
Mr. Xia Lijun	2/2

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding its reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on page 72 of this annual report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

RISK MANAGEMENT AND INTERNAL CONTROL

The Company abides by the relevant provisions of risk management and internal control in the CG Code contained in Appendix 14 to the Listing Rules to disclose the risk management and internal control system of the Company.

The potential behaviors, events or environment and other adverse factors related to the risks recognized by the Company will affect the objectives of the corporate operation. Therefore, the Company will put the risk management into the core position of the corporate governance to prevent, control and handle any risk and crisis that may occur or possibly occurs at any time in the complicated and changing operation environment, and control the risks within the scope which the objectives adapt and can be borne, and built the procedures and internal controls that the Board is responsible for the managements of inside information, without the approval of the Board, the Company prohibits any inside information from being disclosed to the public for the handing and dissemination of inside information ensuring various businesses of the Company and its overall operation can have continuous, stable and healthy development. The Board confirms that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Referring to the Committee of Sponsoring Organizations of the Treadway commission ("**COSO**") structure and measuring the control environment, risk assessment, control activities, information and communication, supervision and other factors, the Company established the operation and management mechanism with the functions of risk management and internal control. The overall risk management mechanism is described as follows:

Risk Management Structure

1. The Board of Directors:

    (1) develops and reviews the Company's policies and practices on corporate governance;

    (2) reviews the overall effectiveness of the risk management and internal control system; and

    (3) reviews the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

2. The Risk Management Committee:

    (1) reviews the Company's risk management policies and standards, as well as the fundamental concepts and scope of compliance management;

    (2) reviews and provides comment on the overall target and basic policy of the compliance and risk management;

    (3) supervises and monitors the Company's exposure to legal sanctions risks and implements the related internal control policies and procedures adopted by the Company;

    (4) supervises and monitors the development of risk and compliance management system of the Company;

    (5) reviews the settings and responsibilities of the Company's compliance and risk management, and to advise on the same.

3. The Operation Management:

   (1) assesses this Company's risks and corresponding countermeasures;

   (2) plans, designs and supervises the risk management and internal control system of the Company.

4. The Internal Audit are:

   (1) responsible for organizing and carrying out the risk management system and its evaluation activities for the execution situation;

   (2) responsible for inspection and evaluation of the efficiency and effect for major risk management;

   (3) responsible for proposing the improvement suggestions on the risk management;

   (4) responsible for issuing the internal control report for the risk management, and reports it to the Risk Management Committee.

Risk management establishment and implementation

The risk item is subject to the results of the risk identification and the risk assessment to determine the degree of adverse influence of the risk item on the corporate operation, such as major risks, minor risks and the slight risks.

Through the evaluation, it is informed that the major inherent risk items faced during the operation are summarized into nine items: places of product production and marketing, for example, the products cannot be sold and produced due to the reasons of national politics, military and laws etc.; the infringement of patents, for example the products cannot be sold and transported therefrom; the dramatic decrease in orders due to the new competitors seizing the market by cutting their prices; sudden interruption of supply of main materials or failure of main supply of goods; loss of directors or executives lead to the problems in the Company's management, affecting its operation; the information system cannot operate appropriately or is interrupted, leading to negative influence on corporate business and operation performance; large increase in the price of raw materials and labor cost may have very bad influence on the corporate profitability; sharp fluctuation in exchange rate; the negative direction of cash flow leads to shortage and exhausting of the operation working fund and other risk items. The remaining items are just minor or slight risks for operation.

Management of the Company carries out the internal control implementation and risk supervision management according to the scope of its business in its charge and operation management mechanism process; the auditing unit checks and evaluates the internal control of risks; the administration units, such as the finance, legal affairs, human resources and environmental security and other functions take and support the corresponding measures on the operation management mechanism process.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Review on risk management

The Company implements self-inspection for the internal risk control system annually to summarize the implementation effect of internal risk control, including: self-inspection and appraisal for annual risk internal control organized and carried out by the audit department and participated by all departments semi-annually and at the end of the year for systematic identification, analysis and evaluation of the internal and external risks affecting the Company's strategies and objectives of operation as well as the summary and review of internal control measures. The audit department reviews the results of self-inspection of internal control system of the risk management of the departments, and submits the results to the Risk Management Committee or the Board for consideration. The Risk Management Committee or the Board shall confirm the effectiveness of implementation of the Company's risk management.

The self-inspection and appraisal (carried out in the last 10 days of June 2017 and the last 10 days of December 2017) indicated that the nature of risk factors of the Company had not changed dramatically, and the corresponding internal control measures were still effective and valid.

AUDITOR'S REMUNERATION

For the audit of the Group's consolidated financial statements for the year ended 31 December 2017, the total remuneration paid or payable to the Company's auditor, PricewaterhouseCoopers, for audit and audit related services amounted to RMB1.9 million.

JOINT COMPANY SECRETARIES

Ms. Hu Heng ("**Ms. Hu**"), one of our joint company secretaries, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, and the applicable laws, rules and regulations are followed. In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Ms. Ng Sau Mei ("**Ms. Ng**"), senior manager of TMF Hong Kong Limited (a company secretarial service provider), as another joint company secretary of the Company to assist Ms. Hu to discharge her duties as company secretary of the Company. Ms. Hu is Ms. Ng's primary corporate contact person of the Company.

During the year ended 31 December 2017, Ms. Hu and Ms. Ng undertook no less than 15 hours of professional training to update their skills and knowledge in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of its information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for Shareholders to communicate directly with the Directors. The Chairman of the Board and chairmen of the Board Committees will attend the annual general meeting to answer the Shareholders' questions. The external auditor of the Company will also attend the annual general meeting to answer questions about the conduct of the audit, the preparation and contents of the auditors' report, accounting policies and auditor independence.

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website at http://www.bbi-lifesciences.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of Extraordinary General Meetings and Putting Forward Proposals

In accordance with the Articles, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any matter specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Shareholders who intend to put forward their enquiries about the Company to the Board could email their enquiries to the joint company secretary of the Company at her email address: huheng@sangon.com.

CHANGE IN CONSTITUTIONAL DOCUMENTS

There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2017.

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

To the shareholders of BBI Life Sciences Corporation
(Incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of BBI Life Sciences Corporation (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 77 to 81, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is summarised as follows:

- Revenue recognition

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue Recognition *Refer to Note 2.23 and Note 5 to the Group consolidated financial statements.* For the year ended 31 December 2017, the Group recognised revenue of RMB462,403,000, of which RMB357,170,000 related to sales of goods and RMB105,233,000 related to provision of services to the customers. Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer and the customer has accepted the products, the collectability of the related receivables is reasonably assumed and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Service income is recognised when the services have been rendered and it is probable that the economic benefits will flow to the Group and the relevant fees can be measured reliably. We focused on this area due to the huge volume of revenue transactions mainly with numerous customers including college professors, hospitals, research institutions, corporation and distributors that located in many different locations. There could be potential misstatement in relation to the occurrence of revenue transactions, and whether these transactions are recognised in the proper reporting period.	We understood, evaluated and validated management's controls in respect of the Group's sales transactions from customer order's approval to sales recording, through reconciliations with cash receipts and customers' records. In addition, we tested the general control environment of the Group's information technology system. We conducted testing of revenue recorded covering different locations and customers, by examining the relevant supporting documents, including customer orders or sales contracts, goods delivery records and customer's acceptance records on sample basis. In addition, we confirmed customers' receivable balances using targeted basis and sampling techniques. Our work to address occurrence of revenue transactions also included testing manual journal entries in connection with risk of fraud and inquiring the nature of these entries and inspecting the supporting documents. Credit notes being recorded during a selected period after the balance sheet date have been inspected for the same purpose. Furthermore, we also performed the test, on a sample basis, of sales transactions in which goods or services are delivered during a selected period before and after the balance sheet date, by reconciling the date of recognised revenue to the date of the goods delivery records and customers' acceptance records, to assess whether revenue was recognised in the correct reporting periods. Based on the work performed, we noted that the revenue recognition of the Group's sales transactions was consistent with the Group's accounting policy.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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 scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about 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 Chan Chiu Kong, Edmond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2018

CONSOLIDATED BALANCE SHEET

For the year ended 31 December 2017

		As at 31 December	
		2017	2016
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**429,031**	278,419
Land use rights	*7*	**28,836**	29,507
Intangible assets	*8*	**13,148**	13,174
Investments in associates	*9*	**16,896**	9,833
Available-for-sales financial assets	*10*	**9,899**	2,000
Deferred income tax assets	*21*	**1,046**	1,388
Other non-current assets	*13*	**864**	1,335
		499,720	335,656
Current assets			
Inventories	*11*	**60,052**	52,680
Trade and bills receivables	*12*	**94,288**	73,740
Prepayments, deposits and other receivables	*13*	**31,985**	27,222
Bank deposits with maturities over 3 months	*14*	**43,041**	49,198
Cash and cash equivalents	*15*	**174,052**	245,852
Non-current assets held for sale	*16*	**–**	7,894
		403,418	456,586
Total assets		**903,138**	792,242
EQUITY			
Share capital	*17*	**4,315**	4,304
Share premium	*17*	**464,306**	463,062
Other reserves	*19*	**(38,994)**	(43,905)
Retained earnings	*18*	**257,993**	207,333
		687,620	630,794
Non-controlling interests		**(1,109)**	4,374
Total equity		**686,511**	635,168

The notes on page 82 to 148 are an integral part of these consolidated financial statements.

Director: *Director:*

CONSOLIDATED BALANCE SHEET

For the year ended 31 December 2017

		As at 31 December	
		2017	2016
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*25*	**4,085**	–
Deferred income tax liabilities	*21*	**4,602**	5,474
Deferred income	*22*	**–**	934
		8,687	6,408
Current liabilities			
Trade payables	*23*	**13,149**	11,365
Accruals and other payables	*24*	**192,241**	139,034
Borrowings	*25*	**2,550**	–
Current portion of deferred income	*22*	**–**	267
		207,940	150,666
Total liabilities		**216,627**	157,074
Total equity and liabilities		**903,138**	792,242

The notes on page 82 to 148 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 26 March 2018, and were signed on its behalf.

Director: *Director:*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	5	**462,403**	352,026
Cost of sales	28	**(231,624)**	(168,055)
Gross profit		**230,779**	183,971
Selling and distribution expenses	28	**(88,816)**	(68,193)
General and administrative expenses	28	**(74,191)**	(52,233)
Other income – net	26	**1,991**	820
Other (losses)/gains – net	27	**(450)**	570
Operating profit		**69,313**	64,935
Finance income		**3,598**	8,088
Finance costs		**(827)**	(712)
Finance income – net	30	**2,771**	7,376
Share of loss of associates		**(957)**	(1,667)
Profit before income tax		**71,127**	70,644
Income tax expense	31	**(9,854)**	(11,551)
Profit for the year		**61,273**	59,093
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
– Currency translation differences		**(3,847)**	7,193
Total comprehensive income for the year		**57,426**	66,286
Total profit attributable to:			
Equity holders of the Company		**64,446**	60,183
Non-controlling interests		**(3,173)**	(1,090)
		61,273	59,093
Total comprehensive income attributable to:			
Equity holders of the Company		**60,808**	67,450
Non-controlling interests		**(3,382)**	(1,164)
		57,426	66,286
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– Basic	32	**0.118**	0.111
– Diluted	32	**0.117**	0.111

The notes on page 82 to 148 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the Company						
	Share capital	**Share Premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total Equity**
	RMB'000 *(Note 17)*	RMB'000 *(Note 17)*	RMB'000 *(Note 19)*	RMB'000 *(Note 18)*	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	4,239	456,013	(58,525)	158,841	560,568	22	560,590
Comprehensive income							
Profit for the year	–	–	–	60,183	60,183	(1,090)	59,093
Currency translation differences	–	–	7,267	–	7,267	(74)	7,193
Total comprehensive income	–	–	7,267	60,183	67,450	(1,164)	66,286
Transactions with owners							
Share-based payment							
-Value of employee services	–	–	774	–	774	–	774
-Exercise of share options	65	7,049	–	–	7,114	–	7,114
Dividends *(Note 33)*	–	–	–	(5,112)	(5,112)	–	(5,112)
Appropriation to statutory reserve	–	–	6,579	(6,579)	–	–	–
Capital injection by the equity holder of a subsidiary *(Note 35)*	–	–	–	–	–	5,516	5,516
Total transactions with owners	65	7,049	7,353	(11,691)	2,776	5,516	8,292
Balance at 31 December 2016	4,304	463,062	(43,905)	207,333	630,794	4,374	635,168
Balance at 1 January 2017	**4,304**	**463,062**	**(43,905)**	**207,333**	**630,794**	**4,374**	**635,168**
Comprehensive income							
Profit for the period	**–**	**–**	**–**	**64,446**	**64,446**	**(3,173)**	**61,273**
Currency translation differences	**–**	**–**	**(3,638)**	**–**	**(3,638)**	**(209)**	**(3,847)**
Total comprehensive income	**–**	**–**	**(3,638)**	**64,446**	**60,808**	**(3,382)**	**57,426**
Transactions with owners							
Employees share option scheme	**–**	**–**	**472**	**–**	**472**	**–**	**472**
Exercise of share options	**11**	**1,244**	**–**	**–**	**1,255**	**–**	**1,255**
Dividends *(Note 33)*	**–**	**–**	**–**	**(5,709)**	**(5,709)**	**–**	**(5,709)**
Appropriation to statutory reserve	**–**	**–**	**8,077**	**(8,077)**	**–**	**–**	**–**
Acquisition of equity interests of a subsidiary from a non-controlling shareholder *(Note 37)*	**–**	**–**	**–**	**–**	**–**	**(2,101)**	**(2,101)**
Total transactions with owners	**11**	**1,244**	**8,549**	**(13,786)**	**(3,982)**	**(2,101)**	**(6,083)**
Balance at 31 December 2017	**4,315**	**464,306**	**(38,994)**	**257,993**	**687,620**	**(1,109)**	**686,511**

The notes on page 82 to 148 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	*34*	**102,395**	95,153
Income tax paid		**(15,228)**	(15,875)
Net cash generated from operating activities		**87,167**	79,278
Cash flows from investing activities			
Acquisition of a subsidiary	*35*	**(1,582)**	(10,075)
Purchase of property, plant and equipment	*9*	**(163,015)**	(128,894)
Investment in an associate		**(8,020)**	(11,500)
Acquisition of intangible assets		**(280)**	(16)
Proceeds from disposal of an associate		**7,627**	7,627
Interest received from available-for-sale financial assets		**2,663**	4,680
Loan granted to a third party		**–**	(6,617)
Proceeds from disposal of property, plant and equipment	*34*	**8,358**	9
Payment of bank deposits with maturities over 3 months		**(96,038)**	(165,634)
Receipt from bank deposits with maturities over 3 months		**102,195**	116,436
Purchases of available-for-sale financial assets		**(516,374)**	(415,995)
Disposal of available-for-sale financial assets		**508,475**	413,995
Net cash used in from investing activities		**(155,991)**	(195,984)
Cash flows from financing activities			
Capital injections from non-controlling interests		**–**	2,973
Net proceeds from issue of new shares		**1,255**	7,114
Purchase of equity interests of a subsidiary from a non-controlling shareholder		**(2,101)**	–
Proceeds from borrowings		**6,648**	–
Dividends paid to equity shareholders		**(5,709)**	(5,112)
Net cash generated from financing activities		**93**	4,975
Net decrease in cash and cash equivalents		**(68,731)**	(111,731)
Cash and cash equivalents at beginning of the year		**245,852**	349,892
Effect of foreign exchange rate changes		**(3,069)**	7,691
Cash and cash equivalents at end of the year	*15*	**174,052**	245,852

The notes on page 82 to 148 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 GENERAL INFORMATION OF THE GROUP

BBI Life Sciences Corporation (the "**Company**") was incorporated in the Cayman Islands on 10 July 2013 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office was Floor 4, Willow House, Cricket Square, P.O.BOX 2804 Grand Cayman KY1-1112, Cayman Islands. In September 2014, the Company's registered office was changed to Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 30 December 2014.

The Company, an investment holding company, and its subsidiaries (the "**Group**") are principally engaged in the development, manufacture and sale of various life science products used in scientific research, and the provision of life science related services. The products and services include mainly DNA synthesis products, genetic engineering services, life science research consumables and protein and antibody related products and services.

These consolidated financial statements are presented in Renminbi (RMB), unless otherwise stated, and were approved for issue by the Board of Directors on 26 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") and disclosure requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sales financial assets which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(a) ***New and amended standards adopted by the Group*** *(continued)*

HKAS 7 (Amendments) "Statement of cash flows" is effective for annual periods beginning on or after 1 January 2017. The amendments introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments and interpretations as mentioned above has no impact on the Group's operating results, financial position or comprehensive income.

(b) ***Standards, amendments and interpretations to existing standards effective in 2017 but not relevant to the Group.***

		Effective for annual periods beginning on or after
HKAS 12 (Amendments)	Income taxes	1 January 2017
HKFRS 12 (Amendment)	Disclosure of interest in other entities	1 January 2017

(c) ***The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted.***

		Effective for annual periods beginning on or after	
HKFRS 1 (Amendment)	First time adoption of HKFRS	1 January 2018	
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018	
HKFRS 4 (Amendments)	Insurance contracts	1 January 2018	
HKFRS 9	Financial instruments	1 January 2018	*(i)*
HKFRS 15	Revenue from contracts with customers	1 January 2018	*(ii)*
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018	
HKAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2018	
HKAS 40 (Amendments)	Transfers of investment property	1 January 2018	
HKFRS 16	Leases	1 January 2019	*(iii)*
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019	
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined	
HKFRS 17	Insurance contracts	1 January 2021, with earlier application permitted as long as HKFRS9 and HKFRS15 are also applied.	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(i) HKFRS 9, Financial Instruments

Nature of change

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group does not expect the new guidance to have significant impact on the classification and measurement of its financial assets as the Group's equity instruments currently classified as available-for-sale financial assets will satisfy the conditions for classification as at fair value through other comprehensive income and the Group's debt instruments currently classified as available-for-sale financial assets will satisfy the conditions for classification as at fair value through profit and loss.

The Group does not have the instruments mentioned blow:

- Debt instrument classified as held-to-maturity and measured at amortised cost;

- Equity investment measured at fair value through profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(i) ***HKFRS 9, Financial Instruments*** *(continued)*

Impact *(continued)*

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) ***HKFRS 15, Revenue from Contracts with Customers***

Nature of change

The HKICPA issued HKFRS 15 as a new standard for the recognition of revenue to replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

When applying HKFRS 15, revenue shall be recognized by applying following steps:

- identify the contract with customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognize revenue when (or as) the entity satisfies a performance obligation.

The Group is engaged in life sciences research products and services. The Group didn't introduce any customer loyalty programme which is likely to be affected by the new HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(ii) HKFRS 15, Revenue from Contracts with Customers (continued)

Impact *(continued)*

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. Due to the large size and low value of the Group's products, the historical goods return rate is very low. The financial impact of applying new HKFRS 15 is not material.

- presentation of contract assets and contract liabilities in the balance sheet – HKFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities which are currently included in other balance sheet line item.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. As the nature of the Group's business is to deliver consumer products to various customers, management concludes no material financial impact due to the effectiveness of HKFRS 15.

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(ii) ***HKFRS 15, Revenue from Contracts with Customers*** *(continued)*

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB1,952,000. The Group will recognise these short-term and low value leases on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

The standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations. According to the preliminary assessment, other than the assessment results of HKFRS 9, 15 and 16 stated above, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Subsidiaries arising from contractual arrangements

The Group's wholly-owned subsidiary has entered into certain contractual arrangements (the "**Contractual Arrangements**") with Sangon Health Sci-Tech (Shanghai) Co., Ltd. ("**Sangon Health**") and its equity holder, which enable the Group to:

– exercise effective financial and operational control over Sangon Health;

– exercise equity holder's voting right of Sangon Health;

– receive substantially all of the economic interest returns generated by Sangon Health.

The Group does not have any equity interest in Sangon Health. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with Sangon Health and has the ability to affect those returns through its power over Sangon Health and is considered to control Sangon Health. Consequently, the Company regards Sangon Health as an indirect subsidiary under HKFRS 10. The Group has consolidated the financial position and results of Sangon Health in the consolidated financial statements of the Group during the year ended 31 December 2017.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Sangon Health and uncertainties presented by the People's Republic of China (the "**PRC**") legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Sangon Health. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(b) Business combinations

The Group uses the acquisition method of accounting to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 Associated companies

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in Other Comprehensive Income ("**OCI**") are reclassified to profit or loss where appropriate.

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated statements of comprehensive income, and its share of post-acquisition movements in OCI is recognised in OCI. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'Share of profit of an associate' in the consolidated statements of comprehensive income.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associate are recognised in the statement of comprehensive income.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). The consolidated financial statements are presented in RMB, which is the Group's and the Company's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "**finance income or cost**". All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within "**other gains/(losses) – net**".

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates the transactions); and

(iii) all resulting exchange differences are recognised in OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in OCI.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to OCI. When a foreign operation is partially disposed of or sold, corresponding exchange differences that are recorded in OCI are recognised in the consolidated statement of comprehensive income as part of the gains or losses on sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.6 Property, plant and equipment

Construction-in-progress (the "**CIP**") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

Other property, plant and equipment are stated at historical cost less depreciation and impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	29-40 years
Machinery and equipment	5-10 years
Office equipments	3-5 years
Other equipments	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "**Other gains/(losses) – net**" in the consolidated statement of comprehensive income.

2.7 Land use rights

All land in the People's Republic of China (the "**PRC**") is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease periods of 50 years using the straight-line method. The land use rights are stated at historical cost less accumulated amortisation and impairment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Computer softwares

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. The costs are amortised over their estimated useful lives of 5 to 10 years.

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of 9.5 years.

(d) Brand name

Brand name acquired in a business combination is recognised at fair value at the acquisition date. The brand name has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the brand name of 4.5 years.

(e) Patent

Separately acquired patent is shown at historical cost. Patent has finite useful lives and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patent over their estimated useful lives of 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.8 Intangible assets *(continued)*

(f) Development costs

Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible assets so that it will be available for use;
- Management intends to complete the intangible assets and use or sell it;
- There is an ability to use or sell the intangible assets;
- It can be demonstrated how the intangible assets will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible assets are available; and
- The expenditure attributable to the intangible assets during its development can be reliably measured.

Development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs recognised as assets are amortised over their estimated useful lives.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below) are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, joint ventures and associates) and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables mainly comprise "trade and bills receivables", "deposits and other receivables", "cash and cash equivalents", and "bank deposits with maturities over 3 months" in the balance sheet.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as "other gains/(losses) – net".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Financial assets *(continued)*

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(d) Impairment

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Financial assets *(continued)*

(d) Impairment *(continued)*

Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services provided in the ordinary course of business. If collection of trade and other receivables is expected within one year, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 Borrowing costs

General and specific 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.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.19 Current and deferred income tax *(continued)*

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries or areas where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join defined contribution plans, including pension, medical, housing and other welfare benefits, organised by the PRC government. According to the relevant regulations, the monthly contributions that should be borne by the PRC subsidiaries of the Company are calculated based on percentages of the total salary of employees, subject to a certain ceiling. The assets of these plans are held separately from those of the Group in independent funds managed by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.20 Employee benefits *(continued)*

The non-PRC employees are covered by other defined contribution pension plans sponsored by respective local governments.

The Group has no further payment obligations once the above contributions have been paid. The Group's contributions to these plans are charged to the consolidated statement of comprehensive income as incurred.

2.21 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plans, under which the entity receives services from directors and employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and an employee remaining on service of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity on the Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivables for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer and the customer has accepted the products, the collectability of the related receivables is reasonably assumed and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(ii) Service income is recognised when the services have been rendered and it is probable that the economic benefits will flow to the Group and the relevant fees can be measured reliably.

(iii) Dividend income is recognised when the right to receive payment is established.

2.24 Interest Income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.26 Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.27 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has certain trade and bills receivables, cash and cash equivalents and trade payables denominated in HK$ and USD, which are exposed to foreign currency translation risk. Details of the Group's trade and bills receivables, bank deposits with maturities over 3 months, cash and cash equivalents, trade payables are disclosed in Notes 12, 14, 15 and 23 respectively.

Most foreign exchange transactions were denominated in USD. As at 31 December 2017, if RMB had strengthened/weakened by 10% against the USD with all other variables held constant, net profit for the year would have been RMB3,478,000 lower/higher (2016: RMB3,312,000 lower/higher).

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. Details of the Group's borrowings have been disclosed in Note 25.

As at 31 December 2017 and 2016, if interest rates on borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of higher/lower interest expense on floating rate borrowings. Details of the changes are as follows:

	2017 RMB'000	2016 RMB'000
For the year ended: Post-tax profit (decrease)/increase – 10 basis points higher	**(4)**	–
– 10 basis points lower	**4**	–
As at: Owners' equity (decrease)/increase – 10 basis points higher	**(4)**	–
– 10 basis points lower	**4**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, bank deposits with maturities over 3 months, trade and bills receivables, deposits and other receivables as well as credit exposures to customers, including outstanding receivables and committed transactions. Certain Group's sales are settled in cash by its customers on delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has policies in place to ensure that trade receivables are followed up on a timely basis.

As at 31 December 2016 and 2017, the Group has no significant concentration risk. The carrying amounts of cash and cash equivalent, trade and bills receivables, and deposits and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2016 and 2017, all cash and cash equivalents and bank deposits with maturities over 3 months were placed in highly reputable and sizable banks and financial institutions without significant credit risk. The table below shows bank deposits and cash at bank balances by counterparties:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
The Group		
Counterparties		
– Big 4 PRC banks*	**108,950**	160,783
– Other PRC commercial banks*	**38,855**	53,654
– Non-PRC banks*	**69,234**	80,550
	217,039	294,987

* Big 4 PRC banks comprise Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited and China Construction Bank Corporation.

The credit rating of Big 4 PRC bank is cnA.

The credit rating of other PRC commercial banks is cnA-.

The credit rating of Non-PRC banks ranges from BBB+ to AA-.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

Cash flow is managed at group level by head office finance department ("**Group Finance**"). Group Finance monitors the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs at all times.

Group Finance mainly invests surplus cash in time deposits and available-for-sale financial assets with appropriate maturities.

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year RMB'000	**1-2 years** RMB'000	**2-5 years** RMB'000	**Total** RMB'000
As at 31 December 2017				
Borrowings *(i)*	**2,747**	**314**	**3,997**	**7,058**
Trade payables	**13,149**	**–**	**–**	**13,149**
Other payables	**40,271**	**–**	**–**	**40,271**
	56,167	**314**	**3,997**	**60,478**
As at 31 December 2016				
Trade payables	11,365	–	–	11,365
Other payables	17,166	–	–	17,166
	28,531	–	–	28,531

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2017 and without taking account of future issues. Floating-rate interest is estimated using interest rate prevailing of as at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's abilities to continue as a going concern in order to provide returns for equity holders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or sell assets to reduce debt.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the net gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. As at 31 December 2017 and 2016, cash and cash equivalents is much more than total borrowings of the Group, therefore, the gearing ratio is not applicable.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value measurements by level of the fair value measurement hierarchy were as follows:

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
As at 31 December 2017				
Available-for-sales financial assets				
– Debenture securities *(Note 10)*	–	7,899	–	7,899
Total Assets	–	7,899	–	7,899
As at 31 December 2016				
Available-for-sales financial assets				
– Debenture securities *(Note 10)*	–	–	–	–
Total Assets	–	–	–	–

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

Valuation techniques used to derive fair value (Level 2)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- Other techniques, such as discounted cash flow analysis, are used to determine the fair value for the remaining financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use and the fair value less cost of disposed calculations. These calculations require the use of estimates as disclosed in Note 8. When the results of key assumption are different from original estimates, such difference will impact carrying value of goodwill and impairment would be recognised in the consolidated statement of comprehensive income in the period in which such estimates have been changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(ii) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions and the practice in similar industry. Management will increase or decrease the depreciation charge where updated estimated useful lives of the property, plant and equipment are less or more than previously estimated useful lives. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation expenses in the future periods.

During the year, the Group's management has reviewed and revised the estimated useful lives of buildings of property, plant and equipment (Note 6) as following:

	Previous useful lives	**Revised useful lives**
Buildings	20 to 40 years	29 to 40 years

The change in accounting estimates on the useful lives of certain categories of property, plant and equipment, effective from 1 January 2017, has decreased the depreciation by RMB3,964,000 for the year ended at 31 December 2017.

(iii) Estimated write-downs of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

(iv) Impairment of trade and other receivables

The Group's management estimates the provision of impairment of trade and other receivables by assessing their recoverability. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivable and impairment charge in the period in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(v) Current tax and deferred tax

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the actual tax rate is different from the original expectation.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on the internal reports provided for review by the Executive Directors. The Executive Directors consider the performance of the Group from a product perspective. The Executive Directors assess the performance of the operating segments based on a measure of gross profit for the year which is consistent with that in the consolidated financial statements.

The Group's operations are mainly organised under the following business segments: DNA synthesis products, genetic engineering services, life science research consumables and protein and antibody related products and services.

The amounts provided to Executive Directors with respect to total assets, total liabilities and capital expenditure are measured in a manner consistent with that of consolidated financial statements. Executive Directors review the total assets, total liabilities and capital expenditure at Group level, therefore no segment information of total assets, total liabilities and capital expenditure information was presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 SEGMENT INFORMATION *(CONTINUED)*

(a) Revenue

The Group's revenue which represents turnover for the year ended 31 December 2017 and year ended 31 December 2016 is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
DNA synthesis products	**181,866**	141,520
Genetic engineering services	**95,269**	71,752
Life science research consumables	**137,833**	103,919
Protein and antibody related products and services	**47,435**	34,835
Total	**462,403**	352,026

(b) Segment information

The segment information for the year ended 31 December 2017 is as follows:

	DNA synthesis products RMB'000	Genetic engineering services RMB'000	Life science research consumables RMB'000	Protein and antibody related products and services RMB'000	Total RMB'000
Segment sales	**181,866**	**95,269**	**137,833**	**47,435**	**462,403**
Segment cost of sales	**(82,345)**	**(52,152)**	**(69,448)**	**(27,679)**	**(231,624)**
Segment gross profit	**99,521**	**43,117**	**68,385**	**19,756**	**230,779**

5 SEGMENT INFORMATION *(CONTINUED)*

(b) Segment information *(continued)*

The segment information for the year ended 31 December 2016 is as follows:

	DNA synthesis products RMB'000	Genetic engineering services RMB'000	Life science research consumables RMB'000	Protein and antibody related products and services RMB'000	Total RMB'000
Segment sales	141,520	71,752	103,919	34,835	352,026
Segment cost of sales	(56,047)	(38,004)	(53,031)	(20,973)	(168,055)
Segment gross profit	85,473	33,748	50,888	13,862	183,971

(c) Entity-wide information

Analysis of the Group's sales to external customers in different countries is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
PRC	**343,809**	276,029
Overseas	**118,594**	75,997
	462,403	352,026

The total of non-current assets other than deferred income tax assets located in different countries is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Total non-current assets other than deferred income tax assets		
– PRC	**455,796**	304,036
– Overseas	**42,878**	30,232
Deferred income tax assets	**1,046**	1,388
	499,720	335,656

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6 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Office equipment	Others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016							
Cost	6,375	58,434	90,694	6,403	10,339	45,103	217,348
Accumulated depreciation	–	(18,396)	(32,849)	(4,245)	(5,934)	–	(61,424)
Net book amount	6,375	40,038	57,845	2,158	4,405	45,103	155,924
Year ended 31 December 2016							
Opening net book amount	6,375	40,038	57,845	2,158	4,405	45,103	155,924
Acquisition of a subsidiary *(Note 35)*	3,075	5,049	2,469	130	220	–	10,943
Additions	–	39,548	20,342	1,770	1,433	73,359	136,452
Transfers	–	36,455	1,617	46	865	(38,983)	–
Disposals *(Note 34)*	–	–	(80)	(4)	(2)	–	(86)
Depreciation *(Note 34)*	–	(4,305)	(10,442)	(999)	(2,289)	–	(18,035)
Transfer to non-current assets held for sale *(Note 16)*	(2,999)	(4,895)	–	–	–	–	(7,894)
Exchange difference	534	628	(60)	(1)	14	–	1,115
Closing net book amount	6,985	112,518	71,691	3,100	4,646	79,479	278,419
At 31 December 2016							
Cost	6,985	135,350	120,094	8,567	13,015	79,479	363,490
Accumulated depreciation	–	(22,832)	(48,403)	(5,467)	(8,369)	–	(85,071)
Net book amount	6,985	112,518	71,691	3,100	4,646	79,479	278,419
Year ended 31 December 2017							
Opening net book amount	**6,985**	**112,518**	**71,691**	**3,100**	**4,646**	**79,479**	**278,419**
Additions	**–**	**10,837**	**29,597**	**3,467**	**1,192**	**129,456**	**174,549**
Transfers	**–**	**45,925**	**2,617**	**182**	**4,532**	**(53,256)**	**–**
Disposals *(Note 34)*	**–**	**–**	**(367)**	**(28)**	**(172)**	**–**	**(567)**
Depreciation *(Note 34)*	**–**	**(4,063)**	**(16,330)**	**(1,540)**	**(1,808)**	**–**	**(23,741)**
Exchange difference	**45**	**40**	**245**	**35**	**6**	**–**	**371**
Closing net book amount	**7,030**	**165,257**	**87,453**	**5,216**	**8,396**	**155,679**	**429,031**
At 31 December 2017							
Cost	**7,030**	**192,167**	**151,091**	**11,902**	**17,623**	**155,679**	**535,492**
Accumulated depreciation	**–**	**(26,910)**	**(63,638)**	**(6,686)**	**(9,227)**	**–**	**(106,461)**
Net book amount	**7,030**	**165,257**	**87,453**	**5,216**	**8,396**	**155,679**	**429,031**

6 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) Depreciation expense has been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cost of sales	**17,684**	12,329
Administrative expenses	**4,546**	5,139
Selling and distribution costs	**1,511**	567
	23,741	18,035

(b) As at 31 December 2017, machinery and equipment of KRW179,551,000 (equivalent to RMB1,097,000) are pledged as collateral for the borrowing of KRW96,180,000 (equivalent to RMB588,000) (Note 25).

7 LAND USE RIGHTS

Land use rights represent the net book amount of prepaid operating lease payments. All the land use rights of the Group are located in the PRC and are held on leases of 50 years.

Movements in land use rights are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening	**29,507**	30,178
Amortisation *(Note 34)*	**(671)**	(671)
	28,836	29,507

(a) Amortisation expense has been charged to "general and administrative expenses" in the consolidated statement of comprehensive income.

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
General and administrative expenses	**671**	671

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8 INTANGIBLE ASSETS

	Patent RMB'000	Goodwill RMB'000	Computer softwares RMB'000	Brand name RMB'000	Contractual customer relationships RMB'000	Total RMB'000
At 1 January 2016						
Cost	406	1,566	5,501	114	2,351	9,938
Accumulated amortisation	(406)	–	(1,176)	(9)	(82)	(1,673)
Net book amount	–	1,566	4,325	105	2,269	8,265
Year ended 31 December 2016						
Opening net book amount	–	1,566	4,325	105	2,269	8,265
Additions	–	–	16	–	–	16
Acquisition of a subsidiary *(Note 35)*	–	6,276	12	–	–	6,288
Amortisation	–	–	(544)	(24)	(230)	(798)
Exchange difference	–	(336)	–	(11)	(250)	(597)
Closing net book amount	–	7,506	3,809	70	1,789	13,174
At 31 December 2016						
Cost	406	7,506	5,529	114	2,351	15,906
Accumulated amortisation	(406)	–	(1,720)	(44)	(562)	(2,732)
Net book amount	–	7,506	3,809	70	1,789	13,174
Year ended 31 December 2017						
Opening net book amount	**–**	**7,506**	**3,809**	**70**	**1,789**	**13,174**
Additions	**–**	**–**	**280**	**–**	**–**	**280**
Amortisation *(Note 34)*	**–**	**–**	**(538)**	**(23)**	**(226)**	**(787)**
Exchange difference	**–**	**418**	**4**	**2**	**57**	**481**
Closing net book amount	**–**	**7,924**	**3,555**	**49**	**1,620**	**13,148**
At 31 December 2017						
Cost	**406**	**7,924**	**5,817**	**117**	**2,417**	**16,681**
Accumulated amortisation	**(406)**	**–**	**(2,262)**	**(68)**	**(797)**	**(3,533)**
Net book amount	**–**	**7,924**	**3,555**	**49**	**1,620**	**13,148**

8 INTANGIBLE ASSETS *(CONTINUED)*

Amortisation expense has been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Selling and distribution expenses	**250**	255
Administrative expenses	**537**	543
	787	798

Impairment tests for goodwill

Goodwill is allocated to the Group's CGUs. The goodwill allocated to the CGUs is presented below:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
NBS Biologicals Limited ("**NBL**")	**1,430**	1,386
Bionics Co., Ltd. ("**Bionics**")	**6,494**	6,120
	7,924	7,506

The principal component of goodwill represents the excess of cost of acquisition of NBL and Bionics over the fair value of the identified net assets acquired. The goodwill impairment assessment is based on recoverable amounts of respective CGUs.

(a) The recoverable amount of investment in NBL is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections which are based on financial budgets approved by NBL management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the life science research consumables business in which the CGU operates.

The key assumptions, long term growth rate and discount rate used in the value-in-use calculations in 2017 are as follows:

	NBL
Average annual growth rate	**5.89%**
Gross margin (% of revenue)	**33.4%~33.80%**
Long term growth rate	**2.00%**
Pre-tax discount rate	**13.00%**

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8 INTANGIBLE ASSETS *(CONTINUED)*

(a) *(continued)*

The key assumptions, long term growth rate and discount rate used in the value-in-use calculations in 2016 are as follows:

	NBL
Average annual growth rate	6.00%
Gross margin (% of revenue)	28.4%~28.80%
Long term growth rate	2.00%
Pre-tax discount rate	13.00%

Sales amount is the average annual growth rate over the five-year forecast period. It is based on past performance, management's expectations of market development and the integration of BBI overseas life science research consumables segment.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels and sales mix, with adjustments made to reflect the expected future changes to the business integration.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

A fall in expected annual sales growth rate, gross margin, long term growth rate, or a rise in discount rate would remove the impairment test remaining headroom.

(b) The recoverable amount of investment in Bionics for the year ended 2017 is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections which are based on financial budgets approved by Bionics management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the life science research consumables business in which the CGU operates.

The key assumptions, long term growth rate and discount rate used in the value-in-use calculations in 2017 are as follows:

	Bionics
Average annual growth rate	**10.50%**
Gross margin (% of revenue)	**27.89%~33.76%**
Long term growth rate	**2.00%**
Pre-tax discount rate	**16.00%**

8 INTANGIBLE ASSETS *(CONTINUED)*

(b) *(continued)*

The recoverable amount of Bionics for the year ended 2016 was determined based on fair value less costs of disposal. The fair value of the CGU is a level 3 input which is calculated based on the market approach.

The key assumptions used for fair value less cost of calculations in 2016 are as follows.

	Bionics
EV/S ratio:	2.84

9 INVESTMENTS IN ASSOCIATES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**9,833**	–
Addition	**8,020**	11,500
Share of results	**(957)**	(1,667)
At 31 December	**16,896**	9,833

On 6 March 2017 and 7 July 2017, Sangon Health, the subsidiary of the Company with Contractual Arrangements, enter into certain agreements with Tianjin Hengjia Biotech Development Co., Ltd. ("**Tianjin Hengjia**") and its shareholders. Pursuant to such agreements, Sangon Health acquired 37.05% equity interest in Tianjin Hengjia with a cash consideration of RMB8,020,000.

All associates are private companies and there is no quoted market price available for their shares.

There are no material contingent liabilities relating to the Group's interest in the associates.

See out below are the associates of the Group as at 31 December 2017, which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary share, which are held directly by the Group and the country of incorporation or registration is also its principle place of business.

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For the year ended 31 December 2017

9 INVESTMENTS IN ASSOCIATES *(CONTINUED)*

Nature of investments in associates as at 31 December 2017:

Name of the entity	Place of business/country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Youlong Biotech	Shanghai/PRC	34.00%	Associate	Equity
Tianjin Hengjia	Tianjin/PRC	37.05%	Associate	Equity

Summarised financial information for associates

Set out below is the summarised financial information for Youlong Biotech and Tianjin Hengjia which are accounted for using the equity method.

	Youlong Biotech As at 31 December		Tianjin Hengjia As at 31 December	
Summarised balance sheet	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Current assets	**11,550**	9,179	**4,264**	–
Current liabilities	**(5,227)**	(2,001)	**(3,956)**	–
Non-current				
Non-current assets	**24,714**	22,365	**22,137**	–
Non-current liabilities	**(4,958)**	(623)	**–**	–
Net assets	**26,079**	28,920	**22,445**	–

	Year ended 31 December		Year ended 31 December	
Summarised statement of comprehensive income	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
(Loss)/profit for the period	**(2,841)**	(4,532)	**24**	–
Other comprehensive income	**–**	–	**–**	–
Total comprehensive income	**(2,841)**	(4,532)	**24**	–

9 INVESTMENTS IN ASSOCIATES *(CONTINUED)*

Reconciliation of summaries financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in associates.

	Youlong Biotech		Tianjin Hengjia	
	Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Opening net assets at investment date	**28,920**	33,823	**21,647**	–
Loss for the year	**(2,841)**	(4,903)	**24**	–
Closing net assets	**26,079**	28,920	**21,671**	–
Interests in associates (34.00%/37.05%)	**8,867**	9,833	**8,029**	–
Carrying value	**8,867**	9,833	**8,029**	–

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Unlisted securities, at cost		
– Debenture securities *(i)*	**7,899**	–
Unlisted securities, at fair value		
– Equity securities *(ii)*	**2,000**	2,000
	9,899	2,000

(i) The average interest rate on the Debenture securities during the year was 0.81% (2016: nil).

(ii) The balance represents the Group's investment in a company which do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11 INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Raw materials	**30,026**	30,996
Work in progress	**4,102**	3,291
Finished goods	**30,262**	23,543
	64,390	57,830
Less: inventory provision	**(4,338)**	(5,150)
	60,052	52,680

Inventory provision of RMB812,000 were reversed for the year ended 31 December 2017 (2016: provision of RMB244,000). Inventory provision has been included in "cost of sales" in the consolidated statement of comprehensive income.

The cost of inventories amounting to approximately RMB232,436,000 for the year ended 31 December 2017 (2016: RMB167,811,000) has been recognised as cost of sales.

12 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade and bills receivables	**97,479**	76,418
Less: provision for impairment of trade receivables	**(3,191)**	(2,678)
	94,288	73,740

The carrying amounts of the trade and bills receivables are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**77,816**	61,942
KRW	**10,996**	4,487
USD	**5,014**	6,643
EUR	**1,935**	1,443
CAD	**760**	869
SGD	**598**	354
GBP	**360**	680
	97,479	76,418

12 TRADE AND BILLS RECEIVABLES *(CONTINUED)*

The maximum exposure to credit risk at the reporting date is the carrying value of trade and bills receivables, net of the impairment provision. The Group does not hold any collateral as security as at the balance sheet date.

The majority of the Group's sales are on credit with credit terms ranging from 1 month to 6 months. Trade receivables are non-interest bearing.

As at 31 December 2017 and 2016, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	**61,862**	47,659
3 to 6 months	**14,625**	13,635
6 to 12 months	**12,829**	8,729
Over 12 months	**8,163**	6,395
	97,479	76,418

As at 31 December 2017 and 2016, trade receivables of RMB16,183,000 and RMB14,451,000, respectively, were past due but not impaired. These relate to a number of independent customers for whom there were no recent history of default.

As at 31 December 2017 and 2016, trade receivables of RMB20,992,000 and RMB15,124,000 were impaired and provided for. The amount of the provision was RMB3,191,000 and RMB2,678,000 respectively. The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations and are therefore provided for. The ageing analysis of these receivables was as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
6 to 12 months	**12,829**	8,729
Over 12 months	**8,163**	6,395
	20,992	15,124

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12 TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Movements on the Group's provision for impairment of trade and bills receivables are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**2,678**	5,638
Provision for/(reversal of) impairment	**513**	(2,960)
At 31 December	**3,191**	2,678

The provision for impaired receivables has been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current:		
Lease prepayments	**360**	840
Others	**504**	495
	864	1,335
Current:		
Prepayments for purchases of raw materials	**3,788**	6,325
Receivables for disposal of an associate	**–**	7,423
Prepaid value-added tax, current income tax and other taxes	**11,962**	2,335
Others	**16,235**	11,139
	31,985	27,222

14 BANK DEPOSITS WITH MATURITIES OVER 3 MONTHS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Bank deposits with maturities ranging from 3 months to 12 months	**43,041**	49,198

The carrying amounts of the Group's bank deposits with maturities over 3 months are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
USD	**41,819**	–
KRW *(i)*	**1,222**	–
HK$	**–**	49,198
	43,041	49,198

(i) As at 31 December 2017, the bank deposit of KRW200,000,000 (equivalent to RMB1,222,000) was placed with Shinhan Bank as pledge to a vendor of the Group.

15 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash at bank and on hand	**174,052**	203,477
Short-term time deposits	**–**	42,375
Cash and cash equivalents	**174,052**	245,852

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15 CASH AND CASH EQUIVALENTS *(CONTINUED)*

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**107,918**	176,163
HK$	**2,732**	4,337
USD	**50,141**	53,413
KRW	**6,626**	5,137
CAD	**2,594**	4,327
GBP	**3,382**	2,211
SGD	**620**	264
EUR	**39**	–
	174,052	245,852

RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks to conduct foreign exchange transactions.

16 NON-CURRENT ASSETS HELD FOR SALE

The land and building owned by Bionics have been presented as held for sale following the approval of the BBI Asia Limited ("**BBI Asia**", a subsidiary of the Company)'s management on 10 December 2016 to sell the land and building owned by Bionics. The completion date for the transaction is 20 February 2017.

The land and building related to Bionics were remeasured at the lower of carrying amount and fair value less cost to sell as at 31 December 2016.

Assets classified as held for sale as follow:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Assets classified as held for sale:		
– Property, plant and equipment *(Note 6)*	**–**	7,894

17 SHARE CAPITAL AND SHARE PREMIUM

	Number of issued and fully paid shares	Nominal value of ordinary shares HK$
Authorised:		
At 31 December 2015, 2016 and 2017	2,000,000,000	20,000,000

	Note	Number of issued and fully paid shares	Nominal value of ordinary shares HK$	Equivalent nominal value of ordinary shares RMB'000	Share Premium RMB'000
Issued:					
At 1 January 2016		536,874,480	5,368,745	4,239	456,013
Exercise of share options	*20*	7,291,701	72,917	65	7,049
Balance at 31 December 2016		544,166,181	5,441,662	4,304	463,062
Exercise of share options	*20*	**1,350,012**	**13,500**	**11**	**1,244**
At 31 December 2017		**545,516,193**	**5,455,162**	**4,315**	**464,306**

18 RETAINED EARNINGS

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**207,333**	158,841
Profit for the year	**64,446**	60,183
Dividends	**(5,709)**	(5,112)
Appropriation to statutory reserve	**(8,077)**	(6,579)
At 31 December	**257,993**	207,333

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19 OTHER RESERVES

	Capital reserve *(i)*	Statutory reserve *(ii)*	Share-based payment reserve	Currency translation reserve	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	(91,004)	15,977	14,166	8,791	(6,455)	(58,525)
Currency translation differences	–	–	–	7,267	–	7,267
Share-based payment						
– value of employee service *(Note 29)*	–	–	774	–	–	774
Appropriation to statutory reserve	–	6,579	–	–	–	6,579
At 31 December 2016	(91,004)	22,556	14,940	16,058	(6,455)	(43,905)
Currency translation differences	**–**	**–**	**–**	**(3,638)**	**–**	**(3,638)**
Share-based payment						
– value of employee service *(Note 29)*	**–**	**–**	**472**	**–**	**–**	**472**
Appropriation to statutory reserve	**–**	**8,077**	**–**	**–**	**–**	**8,077**
At 31 December 2017	**(91,004)**	**30,633**	**15,412**	**12,420**	**(6,455)**	**(38,994)**

(i) Capital reserve represents the difference between the share capital and premium issued by the Company for acquisition of the subsidiaries pursuant to the reorganisation and the aggregate capital of the subsidiaries being acquired at the time of the group reorganisation prior to its initial public offering.

(ii) In accordance with the PRC regulations and the articles of association of the companies of the Group, before distributing the net profit of each year, companies of the Group registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory reserve. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

20 SHARE-BASED PAYMENT

During the year 2014, the board of BBI International Limited, an investment holding company of the Group, approved the grant of share options to the executive directors and certain employees of the Group at exercise price of HK$1.1 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The share options are divided into two sub-plans. For plan A, the options are exercisable upon listing of the Company's shares on the Main Board of the Stock Exchange. For plan B, the options are exercisable during the following periods upon listing of the Company's shares on the Main Board of the Stock Exchange

(a) up to 20% on or after 17 January 2015;

(b) up to 40% on or after 17 January 2016;

(c) up to 60% on or after 17 January 2017;

(d) up to 80% on or after 17 January 2018;

(e) all the remaining options on or after 17 January 2019;

and no later than 17 January 2019 and 17 January 2020 for share options granted under plan A and plan B respectively.

The fair value of share options was determined by using the binominal model. The significant inputs into the model were share prices, the exercise price, volatility, dividend yield, and annual risk-free interest rate. The volatility measured at the standard deviation of the underlying stock over a time period corresponding to the remaining life of the share options.

Movement in the number of share options outstanding and their related weighted average exercise prices for the year ended 31 December 2017 was as follows:

	2017		2016	
	Average exercise price in HK$	**Number of options**	Average exercise price in HK$	Number of options
At 1 January	**HK$1.1**	**9,237,972**	HK$1.1	16,880,343
Forfeited	**HK$1.1**	**(180,509)**	HK$1.1	(350,670)
Exercise	**HK$1.1**	**(1,350,012)**	HK$1.1	(7,291,701)
At 31 December	**HK$1.1**	**7,707,451**	HK$1.1	9,237,972

(a) 180,509 options were forfeited during the year ended 31 December 2017 due to employees resignation.

(b) Options exercised during the year ended 31 December 2017 resulted in 1,350,012 shares being issued (2016: 7,291,701 shares), with proceeds of HK$1,485,000 (equivalent to RMB1,255,000) (2016: HK$7,953,000 (equivalent to RMB7,114,000)).

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For the year ended 31 December 2017

20 SHARE-BASED PAYMENT *(CONTINUED)*

Share options outstanding at 31 December 2017 and 31 December 2016 have the following expiry dates and exercise prices:

Expiry date	Exercise price (HK$ per share)	Number of options As at 31 December 2017	2016
17 January 2019	1.1	**887,130**	1,170,122
17 January 2020	1.1	**6,820,321**	8,067,850
		7,707,451	9,237,972

21 DEFERRED INCOME TAX

	As at 31 December 2017 RMB'000	2016 RMB'000
Deferred tax assets:		
– Deferred income tax assets to be recovered within 12 months	**1,046**	1,388
Deferred tax liabilities:		
– Deferred income tax liabilities to be settled after 12 months	**(4,602)**	(5,474)

The movements on the deferred income tax assets are as follows:

	Write down of inventories to net realisable value RMB'000	Impairment of trade receivables RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	1,131	1,400	871	3,402
Charged to the consolidated statement of comprehensive income	(449)	(1,010)	(555)	(2,014)
At 31 December 2016	682	390	316	1,388
Charged to the consolidated statement of comprehensive income	**(121)**	**19**	**(240)**	**(342)**
At 31 December 2017	**561**	**409**	**76**	**1,046**

21 DEFERRED INCOME TAX *(CONTINUED)*

The movements of the deferred tax liabilities are as follows:

	Withholding tax on unremitted earnings of PRC subsidiaries	Fair value gains through business combination	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2016	4,217	477	4,694
Charged to the consolidated statement of comprehensive income	–	(90)	(90)
Acquisition of a subsidiary *(Note 35)*	–	948	948
Exchange difference	–	(78)	(78)
At 31 December 2016	4,217	1,257	5,474
Charged to the consolidated statement of comprehensive income	**–**	**(911)**	**(911)**
Exchange difference	**–**	**39**	**39**
At 31 December 2017	**4,217**	**385**	**4,602**

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB2,988,000 (31 December 2016: RMB3,326,000) in respect of the tax losses amounting to RMB14,494,000 (as at 31 December 2016: 13,999,000) as at 31 December 2017.

The expiry of related tax losses are analyzed as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Expire year		
2018	**–**	1,346
2021	**3,872**	3,778
2022	**8,986**	–
After 2022 *(i)*	**1,636**	8,875
	14,494	13,999

(i) The amount includes the tax losses of Bio Basic (Canada), Bio Basic (US) (2016: Bio Basic (Canada), Bio Basic (US), Bio Basic Asia Pacific PTE. Ltd., and NBS Biologicals Limited). The tax loss of Bio Basic (Canada) and Bio Basic (US) would be deductible against future taxable profit within the next 20 years, and the tax loss of NBS Biologicals Limited and Bio Basic Asia Pacific PTE. Ltd. would be carried forward indefinitely.

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21 DEFERRED INCOME TAX *(CONTINUED)*

According to board resolutions, all profits earned by Shanghai Qisong Investment Consulting Co., Ltd. ("**BBI China**") and Sangon Biotech after 1 January 2015 will be retained in the PRC for future business expansion and management has no intention to remit those earnings in the foreseeable future. Accordingly, deferred income tax liabilities of RMB25,481,000 (2016: RMB18,532,000) have not been recognised for the unremitted earnings of those subsidiaries. Such unremitted earnings totalled RMB254,811,000 as at 31 December 2017 (2016: RMB185,324,000).

22 DEFERRED INCOME

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Deferred income on government grants		
Current portion	**–**	267
Non-current portion	**–**	934
	–	1,201

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
As at 1 January	**1,201**	1,718
Amortisation	**(1,201)**	(517)
As at 31 December	**–**	1,201

23 TRADE PAYABLES

As at 31 December 2016 and 2017, the ageing analysis of the trade payables based on invoice dates is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	**12,884**	11,111
3 months to 6 months	**161**	170
6 months to 1 year	**80**	35
Over 1 year	**24**	49
	13,149	11,365

23 TRADE PAYABLES *(CONTINUED)*

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**10,503**	7,842
KRW	**464**	1,663
USD	**1,628**	1,464
CAD	**418**	195
GBP	**86**	162
EUR	**10**	21
SGD	**40**	18
	13,149	11,365

Trade payables are non-interest bearing and are generally on terms of 30 to 60 days.

24 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Payables for purchase of property, plant and equipment	**33,004**	8,245
Salary and staff welfare payables	**12,312**	11,290
Payables for value-added tax and other taxes	**1,913**	2,086
Advances from customers	**137,745**	108,492
Payables for acquisition of a subsidiary *(Note 35)*	**–**	1,623
Payables for professional service fee	**1,387**	1,283
Other payables	**5,880**	6,015
	192,241	139,034

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25 BORROWING

	As at 31 December 2017		
	Current	**Non-current**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Secured bank loans *(i)*	**2,550**	**3,474**	**6,024**
Unsecured bank loans	**–**	**611**	**611**
	2,550	**4,085**	**6,635**

Note (i): As at 31 December 2017, bank loans of KRW96,180,000 (equivalent to RMB588,000) were secured by property, plant and equipment with cost of KRW179,551,000 (equivalent to RMB1,097,000) (Note 6). Bank loans of KRW 415,000,000 (equivalent to RMB2,535,000) were guaranteed by the non-controlling shareholder of Bionics. (Note 37). Bank loans of KRW 475,000,000 (equivalent to RMB2,901,000) were guaranteed by Korea Technology Finance Corporation, a non-profit institution.

The maturity of borrowings is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Portion of loans due for repayment within 1 year:	**2,550**	–
Loans due for repayment after 1 year:		
Between 1 and 2 years	**168**	–
Between 2 and 5 years	**3,917**	–
	6,635	–

As at 31 December 2017, the carrying amounts of the borrowings are all denominated in KRW. The interest rates of the borrowings is in a range of 2.780%~6.358%.

The carrying values of the borrowings approximate their fair values, as the market interest rates are relatively stable.

26 OTHER INCOME – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Government grants	**790**	303
Amortisations of deferred income *(Note 22)*	**1,201**	517
	1,991	820

27 OTHER (LOSSES)/GAINS– NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment – net *(Note 34)*	**(103)**	(77)
Exchange (losses)/gains- net	**(466)**	434
Others	**119**	213
	(450)	570

28 EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Employee benefit expenses *(Note 29)*	**117,420**	85,363
Raw materials used	**155,669**	113,369
Changes in inventories of finished goods and work in progress	**(7,530)**	(3,202)
Depreciation and amortisation charges *(Notes 6, 7 and 8)*	**25,199**	19,504
Provision for/(reversal of) impairment of trade and bills receivables *(Note 12)*	**513**	(2,960)
(Reversal of)/provision for impairment of inventories *(Note 11)*	**(812)**	244
Transportation expenses	**18,009**	13,870
Utilities	**4,941**	3,960
Professional service fees	**2,676**	2,905
Research and development expenses	**30,764**	17,585
Taxes and surcharges	**4,416**	3,774
Travel expenses	**3,493**	2,473
Repair expenses	**3,490**	2,565
Operating leases	**4,318**	2,660
Office expenses	**7,088**	7,145
Auditor's remuneration	**2,481**	1,900
Vehicle expense	**4,028**	3,609
Other expenses	**18,468**	13,717
Total cost of sales, selling and distribution costs and administrative expenses	**394,631**	288,481

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29 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages and salaries	**98,542**	70,442
Social security costs	**12,580**	9,585
Staff welfare	**5,826**	4,562
Fair value of share-based payment	**472**	774
	117,420	85,363

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 include 1 director (2016: 2 directors), whose emoluments are reflected in the analysis shown in Note 42. The emoluments payable to the five highest paid individuals during the year are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Basic salary, housing allowances, other allowances and benefit-in-kind	**2,836**	1,799
Bonuses	**–**	75
	2,836	1,874

The emoluments of the non-director highest paid employees fell within the following bands:

	Number of individuals	
	2017	2016
Nil to HK$1,000,000 (equivalent to approximately RMB838,000)	**4**	3

For the year ended 31 December 2017, no emoluments (2016: nil) were paid/payable by the Group to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

30 FINANCE INCOME – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance costs		
– Net foreign exchange losses	**(189)**	–
– Interest expense on borrowings	**(170)**	–
– Other finance costs	**(468)**	(712)
	(827)	(712)

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance income		
– Interest income on available-for-sale financial assets	**2,663**	4,680
– Net foreign exchange gains	**–**	1,829
– Interest income on bank deposits	**751**	954
– Other finance income	**184**	625
	3,598	8,088
Net finance income	**2,771**	7,376

31 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current income tax	**10,423**	9,627
Deferred income tax *(Note 21)*	**(569)**	1,924
Income tax expense	**9,854**	11,551

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31 INCOME TAX EXPENSE *(CONTINUED)*

(i) Cayman Islands profits tax

The Company is not subject to any taxation of Cayman Islands income tax.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profits.

(iii) PRC corporate income tax

The corporate income tax ("**CIT**") is calculated based on the statutory profit of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjustments on certain income and expense items, which are not assessable or deductible for income tax purposes.

Pursuant to the PRC Corporate Income Tax Law ("**the CIT Law**"), the CIT is unified at 25% for all type of entities, effective from 1 January 2008. Sangon Biotech had enjoyed a preferential CIT rate of 15% during a 3 years period from 2013 to 2015, as it was certified as High and New Technology Enterprises ("**HNTE**"). During the year 2016, Sangon Biotech had successfully renewed the HNTE qualification, and entitled to a preferential CIT rate of 15% from 2016 to 2018.

(iv) PRC withholding income tax

Pursuant to the CIT Law, a 10% withholding tax will be levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007.

(v) Canada profits tax

Canada profits tax has been provided for at the rate of 26.50% on the estimated assessable profits for the year ended 31 December 2017 (2016: 26.50%).

(vi) The United States profits tax

The United States profits tax has been provided for at the rate of 15% on the estimated assessable profits for the year ended 31 December 2017 (2016: 15%).

(vii) The United Kingdom profits tax

The United Kingdom profits tax has been provided for at the rate of 20% on the estimated assessable profits for the year ended 31 December 2017 (2016: 20%).

(viii) Singapore profits tax

Singapore profits tax has been provided for at the rate of 8.50% on the estimated assessable profits for the year ended 31 December 2017 (2016: 8.50%).

31 INCOME TAX EXPENSE *(CONTINUED)*

(ix) The Republic of Korea profits tax

The Republic of Korea profits tax has been provided for at the rate of 20% on the estimated assessable profits for the year ended 31 December 2017 (2016: 20%).

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	**71,127**	70,644
Tax calculated at applicable statutory tax rates in respective regions	**18,811**	18,107
Effect of preferential tax rates and tax exemption	**(8,420)**	(7,483)
Expenses not deductible for tax purposes	**120**	748
Tax losses for which no deferred income tax asset was recognised	**1,847**	212
Utilisation of previously unrecognised tax losses	**(957)**	(294)
Share of losses of an associate, which is not subject to tax	**145**	250
Super-deduction on research and development expenses	**(1,659)**	(1,351)
Re-measurement of deferred tax – change in the tax rate	**–**	1,362
Sundry items	**(33)**	–
Income tax expenses	**9,854**	11,551

The effective tax rates were 13.9% for the year ended 31 December 2017 (2016: 16.4%). The decrease in effective tax rate was mainly caused by the re-measurement of deferred tax during the year 2016 (Note 21).

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32 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average numbers of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company has only one category of dilutive potential ordinary shares, which is the share option plan mentioned in Note 20.

For the share option plan, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period when the options are outstanding) based on the monetary value of the subscription rights attached to outstanding options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the options.

	Year ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company (RMB'000)	**64,446**	60,183
Weighted average number of ordinary shares in issue ('000)	**544,414**	542,654
Adjustments for share option plan	**4,290**	858
Weighted average number of ordinary shares for diluted earnings per share ('000)	**548,704**	543,512
Basic earnings per share (RMB per share)	**0.118**	0.111
Diluted earnings per share (RMB per share)	**0.117**	0.111

33 DIVIDENDS

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Proposed final dividend of HK$0.014 (2016: HK$0.012) per ordinary share	**6,127**	5,909

The dividends paid in 2017 was HK$6,606,000 (HK$0.012 per share), equivalent to RMB5,909,000. A dividend in respect of the year ended 31 December 2017 of HK$0.014 per share, amounting to a total dividend of HK$7,637,226.70, which equivalent to RMB6,127,300, is to be proposed to be paid out of share premium account at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

34 CASH GENERATED FROM OPERATING ACTIVITIES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	**71,127**	70,644
Adjustments for:		
– Depreciation *(Note 6)*	**23,741**	18,035
– Amortisation *(Notes 7 and 8)*	**1,458**	1,469
– Amortisation of deferred income *(Notes 26)*	**(1,201)**	(517)
– Losses on disposal of property, plant and equipment *(Note 27)*	**103**	77
– Interest income on available-for-sale financial assets *(Note 30)*	**(2,663)**	(4,680)
–Net foreign exchange losses *(Note 30)*	**189**	(1,829)
– Share of losses of associates	**957**	1,667
– Reversal of impairment of receivables and inventory – net *(Notes 11 and 12)*	**(299)**	(2,716)
– Share-based payment *(Note 29)*	**472**	774
Change in working capital:		
– Increase in inventories	**(6,560)**	(2,654)
– Increase in trade and bills receivables	**(21,649)**	(7,339)
– Decrease/(increase) in prepayments, deposits and other receivables	**5,641**	(4,473)
– Decrease/(increase) in other non-current assets	**471**	(1,374)
– Increase in trade payables	**1,784**	2,709
– Increase in accruals and other payables	**28,824**	25,360
Cash generated from operations	**102,395**	95,153

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net book amount of property, plant and equipment disposed *(Note 6)*	**567**	86
Net book amount of non-current assets held for sale *(Notes 16)*	**7,894**	–
Losses on disposal of property, plant and equipment *(Note 27)*	**(103)**	(77)
Proceeds from disposal of property, plant and equipment	**8,358**	9

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35 BUSINESS COMBINATION

In 2016, pursuant to the equity transfer agreement signed between BBI Asia and Mr. Bae. BBI Asia acquired 100% equity interest shares in Bionics from Mr. Bae.

The equity transfer was completed on 25 October 2016 (the "**acquisition date**") with a cash consideration of USD2,400,000 (equivalent to RMB16,234,000) and since then Bionics became a subsidiary of the Group.

Details of purchase consideration are as follows:

	RMB'000
Purchase consideration:	
Cash paid up to 31 December 2016	14,611
Add: Accruals and other payables *(Note 24)*	1,623
	16,234
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	10,943
Intangible assets (other than goodwill)	12
Prepayments, deposits and other receivables – current portion	592
Prepayments, deposits and other receivables – non-current portion	42
Inventories	1,065
Trade and bills receivables	3,308
Cash and cash equivalents	4,536
Deferred income tax liabilities	(948)
Borrowings – current portion	(6,617)
Trade payables	(1,403)
Accruals and other payables	(1,572)
Total identifiable net assets	9,958
Add: Goodwill *(Note 8)*	6,276
Total purchase consideration	16,234
Purchase consideration paid	(14,611)
Cash of the subsidiary on the acquisition date	4,536
Net cash outflow for the acquisition	(10,075)

35 BUSINESS COMBINATION *(CONTINUED)*

Acquisition-related costs of RMB243,000 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2016.

The revenue included in the consolidated statement of comprehensive income since the acquisition date contributed by Bionics Co., Ltd. business was RMB3,761,000. Bionics Co., Ltd. business also contributed a net loss of RMB2,881,000 over the same period.

Had Bionics Co., Ltd. business been consolidated from 1 January 2016, the Group's consolidated statement of comprehensive income would show pro-forma revenue of RMB363,197,000 and profit for the year of RMB54,882,000.

BBI Asia also entered in to an agreement with three individuals ("**the Cooperators**") on 27 September 2016. Pursuant to the agreement, upon the completion of BBI Asia's acquisition of Bionics, the Cooperators acquired 27% equity interest of Bionics through a contribution of certain assets and liabilities with a net worth of RMB2,886,000.

36 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at each balance sheet date but not yet incurred is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Property, plant and equipment	**17,545**	17,267

(b) Operating lease commitments

The Group's future aggregate minimum lease payments under these non-cancellable operating leases in respect of offices and staff quarters were as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
No later than 1 year	**1,519**	705
Later than 1 year and no later than 5 years	**630**	223
	2,149	928

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37 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On 22 February 2017, the Group acquired 35% of the shareholding of Sangon Peptide (Ningbo) Co., Ltd. ("**Ningbo Peptide**") from the non-controlling shareholders with a consideration of RMB2,101,000. The carrying amount of the 35% shareholding of Ningbo Peptide was RMB2,101,000 at the acquisition date.

38 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, has joint control over the party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

Save as disclosed elsewhere in this report, the following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year ended 31 December 2017.

(a) Name and relationship with related parties

(i) Controlling Party

Mr. Wang Qisong, Ms. Wang Luojia, Ms. Wang Jin*

(ii) Associates of the Group

Shanghai Youlong Biotech Co., Ltd.

Wuxi Fuyang Biotech Co., Ltd. (a subsidiary of Shanghai Youlong Biotech Co., Ltd.)

Tianjin Hengjia Biotech Development Co., Ltd.

Tianjin Hengjia Medical Examination Co., Ltd. (a subsidiary of a subsidiary of Shanghai Youlong Biotech Co., Ltd.)

(iii) Non-controlling shareholder

Mr. Ma Sanghyeok

* As Mr. Wang Qisong, Ms. Wang Luojia, and Ms. Wang Jin entered into an agreement for acting in concert, they are collectively regarded as the Controlling Party with a controlling shareholding of 59.51% of the Company through LJ Hope Ltd., LJ Peace Ltd., and LJ Venture Ltd.

38 RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(b) The following transactions were carried out with related parties during the year ended 31 December 2017:

(i) Sales of goods and services

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Tianjin Hengjia Medical Examination Co., Ltd.	**394**	–
Tianjin Hengjia Biotech Development Co., Ltd.	**235**	–
Wuxi Fuyang Biotech Co., Ltd.	**–**	30
	629	30

(ii) Rental and deposits paid to the related party

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Ms. Wang Luojia	**–**	3,600

(iii) Purchases of goods and services

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Shanghai Youlong Biotech Co., Ltd.	**391**	210

The above sale and purchase transactions with related parties were carried out based on mutually agreed prices between respective parties.

(iv) Accounts receivable

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Tianjin Hengjia Medical Examination Co., Ltd.	**114**	–
Tianjin Hengjia Biotech Development Co., Ltd.	**8**	–
	122	–

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38 RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(b) The following transactions were carried out with related parties during the year ended 31 December 2017: *(continued)*

(v) Accounts payable

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Shanghai Youlong Biotech Co., Ltd.	**1**	16

(vi) Prepayments, deposits and other receivables

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Ms. Wang Luojia	**3,000**	3,480

(vii) Guarantee provided by a related party

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Mr. Ma Sanghyeok *(Note 25)*	**2,535**	–

(c) Key management compensation

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries and other employee benefits	**3,534**	3,410

39 CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

40 PRINCIPAL SUBSIDIARIES

(a) The Group had direct or indirect interests in the following principal subsidiaries as at 31 December 2017:

Company name	Country/Place of incorporation/ operation	Paid in capital (000') as of 31 December 2017	Effective interests held %	Principal activities
Directly owned:				
BBI Asia Limited	Hong Kong	USD12,973	100	Investment holding
Indirectly owned:				
Sangon Biotech	PRC	RMB180,000	99.99	Manufacturing and sales of various life science products and provide life science related services
Bio Basic (Canada)	Canada	CAD 3,000	99.99	Manufacturing and sales of various life science products and provide life science related services
Bio Basic (US)	USA	USD2,000	99.99	Manufacturing and sales of various life science products and provide life science related services
BBI China	PRC	RMB52,420	100	Investment holding and management consulting
Bionics Co., Ltd. *(Note 35)*	The Republic of Korea	KRW 188,350	73	Manufacturing and sales of various life science products and provide life science related services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

		As at 31 December	
	Note	**2017 RMB'000**	2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**–**	1
Investments in subsidiaries		**320,799**	335,768
		320,799	335,769
Current assets			
Other receivables		**368**	278
Due from subsidiaries		**155,004**	159,561
Cash and cash equivalents		**46,543**	53,551
		201,915	213,390
Total assets		**522,714**	549,159
EQUITY			
Share capital		**4,315**	4,304
Share premium		**464,306**	463,062
Other reserves	*(a)*	**52,420**	79,494
Retained earnings	*(a)*	**312**	2,299
Total equity		**521,353**	549,159
Current liabilities			
Other payables		**1,361**	–
Total liabilities		**1,361**	–
Total equity and liabilities		**522,714**	549,159
Net current assets		**200,554**	213,390
Total assets less current liabilities		**521,353**	549,159

The balance sheet of the Company was Approved by the Board of Directors on 26 March 2018 and was signed on its behalf.

Director: *Director:*

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(CONTINUED)*

Note (a) Reserve movement of the Company

	Share-based payment reserve RMB'000	Currency translation reserve RMB'000	Total other reserves RMB'000	Retained earnings RMB'000
At 31 December 2015	13,106	30,837	43,943	8,494
Share-based payment	774	–	774	–
Currency translation differences	–	34,777	34,777	–
Loss for the year	–	–	–	(1,083)
Dividends	–	–	–	(5,112)
At 31 December 2016	13,880	65,614	79,494	2,299
Share-based payment	**472**	**–**	**472**	**–**
Currency translation differences	**–**	**(27,546)**	**(27,546)**	**–**
Profit for the year	**–**	**–**	**–**	**3,722**
Dividends	**–**	**–**	**–**	**(5,709)**
At 31 December 2017	**14,352**	**38,068**	**52,420**	**312**

42 BENEFIT AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director and the chief executives of the Company paid/payable by the Group for year ended 31 December 2017 are set out as follows:

Name of Directors	Fees RMB'000	Salary RMB'000	Fair value of share options granted RMB'000	Total RMB'000
Directors				
Mr. Wang Qisong	**–**	**216**	**–**	**216**
Ms. Wang Luojia (CEO)	**–**	**525**	**–**	**525**
Ms. Wang Jin	**–**	**313**	**–**	**313**
Mr. Hu Xubo	**–**	**–**	**–**	**–**
Mr. Xia Lijun	**120**	**–**	**–**	**120**
Mr. Liu Jianjun	**120**	**–**	**–**	**120**
Mr. Ho Kaichung	**120**	**–**	**–**	**120**
	360	**1,054**	**–**	**1,414**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42 BENEFIT AND INTERESTS OF DIRECTORS *(CONTINUED)*

(a) Directors' emoluments *(continued)*

The remuneration of each director and the chief executives of the Company paid/payable by the Group for year ended 31 December 2016 are set out as follows:

	Fees RMB'000	Salary RMB'000	Fair value of share options granted RMB'000	Total RMB'000
Directors				
Mr. Wang Qisong	–	216	–	216
Ms. Wang Luojia (CEO)	–	639	–	639
Ms. Wang Jin	–	302	–	302
Mr. Hu Xubo	–	–	–	–
Mr. Xia Lijun	120	–	–	120
Mr. Liu Jianjun	120	–	–	120
Mr. Ho Kaichung	120	–	–	120
	360	1,157	–	1,517

For the year ended 31 December 2017, no directors received emoluments (2016: nil) from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

(b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2016: Nil).

(c) Directors' termination payments or benefits

No payment was made or benefit provided to directors as compensation for the early termination of the appointment or in respect of termination of the services of directors during the year (2016: Nil).

(d) Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by any third party for making available the services of a person as a director of a company, or in any other capacity while as a director (2016: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2016: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

Other than the rental transaction disclosed in Note 38 with Ms. Wang Luojia, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.