H&H Group
inspiring wellness

Health and Happiness (H&H) International Holdings Limited
健合 (H&H) 國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）

(Stock Code 股份代號: 1112)

Annual Report
年度報告
2017

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. Luo Fei *(Chairman and Chief Executive Officer)*

Non-executive Directors

Dr. Zhang Wenhui
Mr. Wu Xiong*
Mr. Luo Yun
Mr. Chen Fufang*

Independent Non-executive Directors

Dr. Ngai Wai Fung
Mr. Tan Wee Seng
Professor Xiao Baichun

BOARD COMMITTEE

Audit Committee

Dr. Ngai Wai Fung *(Chairman)*
Mr. Tan Wee Seng
Mr. Luo Yun

Nomination Committee

Mr. Luo Fei *(Chairman)*
Dr. Ngai Wai Fung
Mr. Tan Wee Seng

Remuneration Committee

Mr. Tan Wee Seng *(Chairman)*
Dr. Ngai Wai Fung
Mr. Luo Fei

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee *FCS, FCIS*
Ms. Yang Wenyun

AUTHORISED REPRESENTATIVES

Mr. Luo Fei
Ms. Wong Tak Yee

REGISTERED OFFICE

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

HEAD OFFICE

Suites 4007-09, 40th Floor, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 4007-09, 40th Floor, One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

COMPANY'S WEBSITE

www.hh.global

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, Grand Cayman
KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

* Mr. Wu Xiong and Mr. Chen Fufang have resigned as non-executive Directors of the Company with effect from 26 March 2018. Mrs. Laetitia Marie Edmee Jehanne ALBERTINI EP. GARNIER and Mr. Wang Yidong have been appointed as executive Directors of the Company with effect from 26 March 2018.

FINANCIAL HIGHLIGHTS

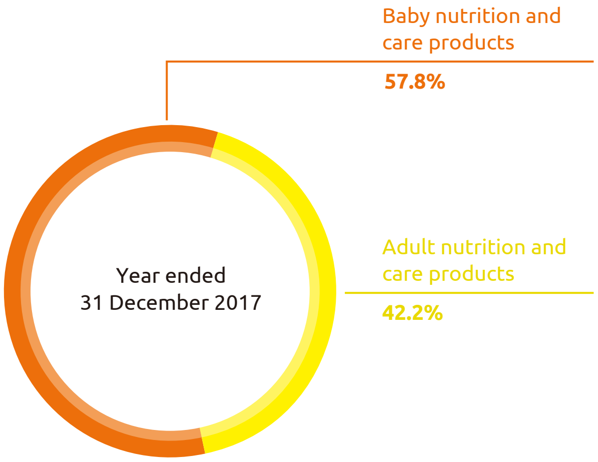
	Year ended 31 December		
	2017	2016	% of Change
	RMB'000	RMB'000	
Revenue	**8,095,345**	6,505,616	24.4%
Gross profit	**5,265,614**	4,059,067	29.7%
Adjusted EBITDA*	**2,245,467**	1,804,716	24.4%
Adjusted net profit for the year**	**1,208,431**	884,013	36.7%
Net cash flows from operating activities	**1,950,814**	1,543,193	26.4%
Basic earnings per share	**RMB1.48**	RMB1.52	(2.6)%

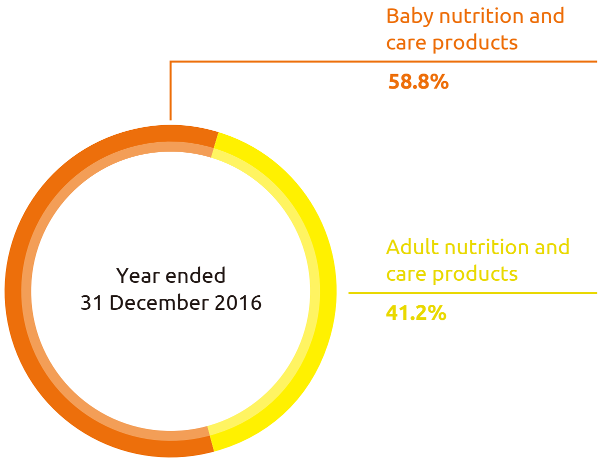
* EBITDA refers to earnings before interest, income tax expense, depreciation and amortization. EBITDA for the year ended 31 December 2017 amounted to RMB2,060.4 million (2016: RMB2,043.1 million). Adjusted EBITDA = EBITDA – net foreign exchange gains + net fair value losses/(gains) on derivative financial instruments + fair value loss of financial liabilities associated with put options + one-time expense paid to the original shareholders of Swisse on some tax refund + one-time restructuring costs on early childhood education business + non-recurring integration costs

** Net profit for the year ended 31 December 2017 amounted to RMB928.5 million (2016: RMB1,052.0 million). Adjusted net profit = Adjusted EBITDA – depreciation and amortization – finance costs + interest income – income tax expense + one-time accelerated amortization of intangible assets of PGT royalty agreement due to the distribution rights buy back + non-recurring loss on redemption/repurchase of convertible bonds + bank charges relating to the financing for the acquisition of the remaining 17% minority interest in Swisse in 2017 / re-financing in 2016

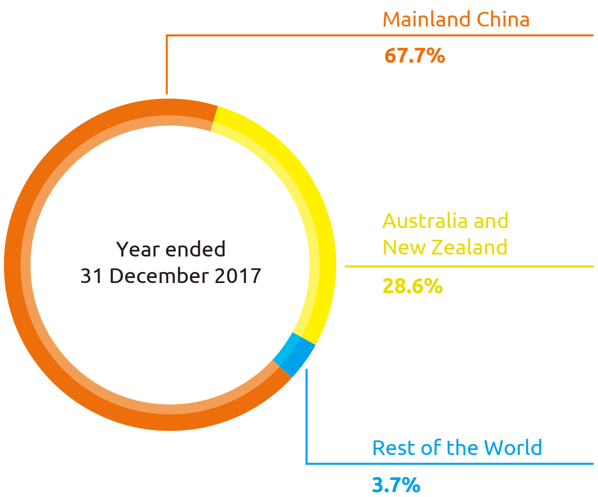
FINANCIAL HIGHLIGHTS

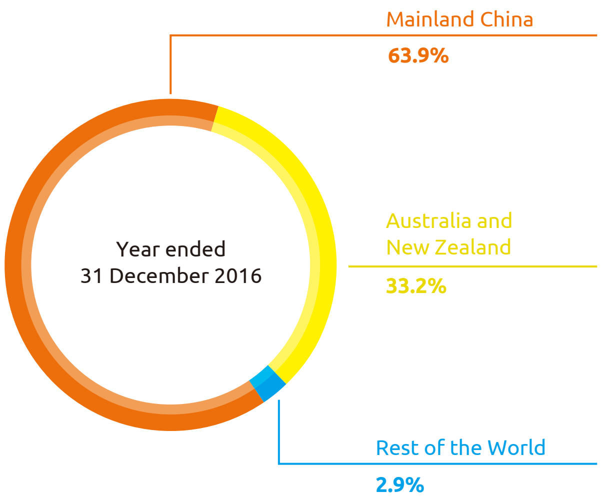
REVENUE BY BUSINESS SEGMENTS





REVENUE BY GEOGRAPHY





CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), I am pleased to present our annual report for the year ended 31 December 2017.

BUSINESS REVIEW

2017 was the year in which the Group commenced its full integration. During the year, we successfully concluded several key achievements under our new brand identity, while maintaining sustainable growth under a new Group name, further establishing our position as an all-round premium nutrition and wellness provider, with two equally strategic segments: baby nutrition and care ("**BNC**") and adult nutrition and care ("**ANC**").

In the first half of the year, the Group completed the acquisition of the remaining 17% minority interest in Swisse Wellness Group Pty Ltd ("**Swisse**"). Subsequent to the minority buyout, the Group accelerated its integration by bringing all of its businesses together under its new mission and vision. The Group later terminated Swisse's partnership with PGT Healthcare LLP ("**PGT**"), making it the sole owner of the Swisse brand and of the distribution rights for its expansion into new global markets. The Group's integration further consolidated the Group's various premium nutrition and wellness businesses under four major brands: Biostime™, Swisse™, Healthy Times™ and Dodie™. These four aspirational brands with superior products have already established market positions in Australia, New Zealand, China, France and the United States, and are quickly gaining recognition in other international markets.

While the Group focused on integration during the year under review, it still managed to achieve strong revenue and earnings growth throughout the year, thanks to favourable industry dynamics, a clearer regulatory environment, as well as effective strategic and operational initiatives. The Group's total revenue reached RMB8,095.3 million for the year ended 31 December 2017, an improvement of 24.4% compared to the previous year. Meanwhile, the BNC and ANC segments accounted for approximately 57.8% and 42.2% of total revenue respectively, which were similar levels of growth contribution compared to the previous year. Adjusted EBITDA for the year under review was RMB2,245.5 million, an increase of 24.4% compared to the previous year. Adjusted net profit also increased by 36.7% to RMB1,208.4 million in 2017.

During the period under review, the infant milk formula ("**IMF**") market in China started to recover from the challenges seen in previous years, while the Group benefited from the increasingly clearer regulatory environment and consumption trade-up within the Chinese IMF market, despite the market remaining highly competitive. In addition to these external factors, the Group's business growth was further reinforced by the efforts of its team with enhanced capabilities, its innovative sales and marketing strategies, its improved operational efficiency, as well as its strengthened distribution network.

Consequently, revenue derived from the BNC business in 2017 increased by 22.5%, compared to the previous year, as the result of the robust growth of both the Group's IMF products and probiotics supplements. The Group saw strong sales momentum for its super premium and premium IMF series, which grew 18.5% compared to the previous year, thanks to overall market growth, consumption trade-up and strong branding initiatives. The recent appointment of Chinese actor, Liu Ye (劉燁) and French movie star, Juliette Binoche as ambassadors for Biostime™ IMF and probiotics products further strengthened the brand's positioning in the premium and super premium segments, a market that will continue to expand alongside the implementation of new IMF registration rules in China on 1 January 2018. The Group also successfully registered five series with the China Food and Drug Administration ("**CFDA**"), including three existing series renamed α-star, β-star, and π-star series under the Biostime™ brand, the organic series under the Healthy Times™ brand, as well as the Manle series under the Adimil™ brand.

According to Nielsen, an independent market research company, the IMF market share of Biostime™ — the Group's flagship BNC brand — increased slightly, while the Healthy Times™ organic series started to contribute to overall market share. The market share of the Group's mid-tier Adimil™ branded IMF products weakened compared to the previous year. Consequently, the Group's share of the overall IMF market in China remained stable at 5.5% for the twelve months ended 31 December 2017.

Meanwhile, the sales momentum of the Group's probiotics products segment remained strong throughout the year of 2017. The revenue derived from this segment reached RMB781.7 million, an increase of 54.7% compared to the previous year, as a result of rising demand due to heightened awareness in China of the benefits of probiotics, effective marketing initiatives, as well as the introduction of high-profile brand ambassadors for the first time. The Group also launched a premium Dodie™ diaper range in China in September 2017, which has been well received by consumers who prefer premium products that are attracted to this French household name.

CHAIRMAN'S STATEMENT

In 2017, the ANC segment, operated under the Swisse™ brand, saw strong sales momentum in all of its core markets, which was primarily attributed to surging consumer demand driven by increasing health awareness globally, the clearer Cross border E-commerce ("**CBEC**") regulatory environment in China, as well as strong branding initiatives and successful product launches. The revenue derived from the ANC segment amounted to A$659.4 million and increased by 21.5% in 2017 compared to the previous year on a currency-adjusted basis. According to research statistics by IRI, an independent market research company, Swisse continued to retain its leading position in the Australian vitamin, herbal, and mineral supplements ("**VHMS**") market, with 16.1% market share for the twelve months ended 31 December 2017.

The Group has also become well recognised for its 'Premium, Proven and Aspirational' ("**PPA**") model. In line with its well-established premium position in the VHMS market, the Group increased the price points of its ANC products in the China online and Australian markets at the beginning of 2017. The Group stepped up its investments in branding and marketing initiatives, including entering into a partnership agreement with the Scuderia Ferrari F1® Team and through the use of new and existing brand ambassadors – movie superstars Fan Bingbing (范冰冰) and Nicole Kidman. These marketing investments greatly supported Swisse's growth in existing markets and its expansion into new markets by boosting its brand awareness worldwide. Furthermore, Swisse's normal trade in China was launched on 8 April 2017, leveraging the Group's new and existing nationwide retail network, starting with certain hero products such as Hair, Skin and Nails (HSN) and Cranberry Concentrate in liquid and effervescent forms. To accelerate both its CBEC and normal trade businesses in China, the Group invested significantly in its partnerships with major e-commerce platforms, including Tmall.com, NetEase Kaola.com, JD.com and VIP.com to develop innovative marketing campaigns and sponsorship activities, such as the 'Singles Day' campaign, which successfully enhanced brand awareness and drove consumer demand in this market.

The Group also developed new strategic partnerships with vertical e-commerce platforms and social network-based online retailers in China, such as xiaohongshu.com and AliHealth on the Tmall platform, among others, throughout the year. In addition to leveraging existing distribution channels in the offline market, the Group has also broadened its Swisse sales network to baby specialty stores such as Kidswant, personal healthcare stores such as Watsons and Mannings, as well as high-end supermarkets such as Sam's Club and Ole'. The Group expects to expand into new sales channels in China, including cosmetic stores such as Fionacos (Yan Li), while also further exploring other opportunities for sales growth and for growing its brand presence.

PROSPECTS

With a mission to make people healthier and happier, the Group will continue to prioritise the integration of its four brands under its new mission and vision to further enhance their growth potential and extract more synergies and operational efficiencies, particularly in supply chain, distribution, research and innovation, finance, customer relationship management ("**CRM**"), corporate culture and personnel capability.

Looking forward, the Group will continue to expand its international footprint via its regional hubs in Europe, Asia, Oceania and North America, as well as through new initiatives in R&D, brand building and marketing. The opening of the first office of the Biostime Institute for Nutrition and Care ("**BINC**") in Geneva will also offer sustainable scientific support to underpin the premium quality of the Group's products. Furthermore, the Group will continue to implement the PPA model as its core business strategy, which will include innovative marketing campaigns and celebrity endorsements that positively convey the image of its brands on a local and global scale. These steps will ensure that the Group continues to grow its international business, the visibility of its brands and its leadership in premium nutrition and wellness.

Baby Nutrition and Care

The visibility of the China's IMF market has improved significantly following the commencement of the CFDA's new registration rules on 1 January 2018. The Group has already launched its approved series with new packaging and upgraded formula in March 2018 and will continue to ramp up its investments in brand and marketing activities to drive sales growth in the Chinese market. In order to meet consumer demand for IMF products at different price points, the Group has submitted registrations for two other series in December 2017, featuring the Terroir series under the Biostime™ brand and the Adimil series under the Adimil™ brand. The Group anticipates that these series will meet the requirements set by the authorities and likely be approved around the middle of 2018. The Group expects to submit its registration for the Supreme Care series under the Biostime™ brand in the second half of 2018.

CHAIRMAN'S STATEMENT

With inspiring brands and integrated global resources, the Group will continue to broaden its offline presence globally, building on the earlier launch of the Healthy Times™ brand in the United States and the Biostime™ branded organic IMF series in France, in order to capture opportunities in the fast-growing baby organic formula and baby care accessories markets. These new product portfolios will expand the Group's presence and accelerate its exposure in international markets.

Adult Nutrition and Care

In 2018, the Group plans to launch a wide range of innovative products under the Swisse brand, further extending its business into other territories while building on sustained leadership in Chinese market. The Group has also commenced filing and registration for its functional food products to offer a more complete range of food supplements in China, coupled with the conventional food specifically sold through normal trade. The Group has submitted filing applications for its fast-tracked supplements, such as the Calcium + Vitamin D hero product.

To accelerate its business expansion and to broaden its consumer base, the Group will leverage its global resources to accelerate Swisse's exposure in existing markets while also maintaining its current market share. All business transfers related to the buyout of distribution rights from PGT in a number of key markets, including Mainland China, the Netherlands, the United Kingdom, Singapore, Italy and Hong Kong China, are scheduled to complete by June 2018.

In the Group's core market of China in particular, the termination of the partnership with PGT will allow the Group to leverage its already well-capitalised distribution network in China and fully capture the future upside of the business. The Group is committed to investing actively in Swisse's CBEC and normal trade businesses in China by further stepping up its investment in marketing initiatives to support active sales and improve consumer awareness. It will also leverage its expanding sales resources to grow Swisse's offline presence in China's fast-growing VHMS market, while progressively introducing a more complete range of food supplements in this market.

Capital Structure

In 2017, the Group generated strong and healthy cash flow based on its business model, thus significantly improving its leverage ratio and optimising its capital structure. In 2018, the Group expects to generate strong cash flow from its current business operations and as a result of improved capital efficiency.

CHALLENGES

In 2018, the Group expects the regulatory environment in China — including the new IMF registration rules, CBEC regulations, and new filing and registration procedures for healthcare products — to become even clearer. China's new IMF registration rules came into effect on 1 January 2018 and IMF players who have not registered with the CFDA are no longer eligible to sell more IMF products in China's normal trade market after their existing stocks are sold. Under the new registration requirements, all registered IMF players are required to change the labels and packaging of their approved IMF products. With major IMF players stepping up their investment in branding and marketing initiatives, the Group expects that the overall IMF market will remain competitive.

Within the ANC product segment, the effective date of new CBEC regulations in China, which was first announced on 8 April 2016, has been further postponed to the end of 2018, as stated by the State Council in September 2017. In December 2017, the Ministry of Commerce expanded the number of trial cities under the new CBEC business policy framework from 10 to 15. Currently, all commodities imported via CBEC are considered personal goods and not subject to trading goods registration requirements until further notice. With China's CBEC platform continuing to grow strongly in 2017, the Group anticipates that the Chinese government intends to maintain smooth CBEC transactions and promote the sound development of CBEC platforms beyond the current grace period. Nevertheless, the Group is committed to proactively positioning itself to be able to respond to the ever-changing environment through channel diversification that meets the demand of different consumer groups.

In response to the enactment of new filing and registration procedures for imported health food products under normal trade in China, which are complex and time-consuming, the Group has commenced the filing and registration for its functional food products to offer a more complete range of food supplements in the country. The Group expects that the sales contribution from Swisse's normal trade business in China will increase over time as it ramps up its investment in branding and marketing initiatives, as well as additional product rollouts.

SOCIAL RESPONSIBILITY

The Group is committed to making people healthier and happier — and not just simply by providing quality and proven products and delivering its business value. While creating value for its shareholders, the Group is also striving to be an organisation that incorporates its social and environmental responsibilities into its every day decision-making.

In 2018, H&H Group will focus more on better understanding of its environmental and social impact, and developing key strategic initiatives for improving its sustainability, Group-wide. It is committed to the six foundation pillars of the Group: people, brand heritage, science and innovation, quality, wellness, and citizenship.

Swisse continues to hold carbon neutral status certified by the Australian Government's National Carbon Offset Standard. It celebrated International Day of Forests by planting 1,000 native trees with Carbon Neutral, helping to develop the lungs of the future. The Celebrate Life Foundation, which was founded by Swisse in 2014, contributed 14 grants to community organisations that align with the three pillars of wellness: Mindfulness, Movement and Nutrition.

CHAIRMAN'S STATEMENT

For the BNC segment, 2017 was the 10-year anniversary of the 'Biostime China Foundation for Mother & Child' ("**the BC Foundation**"), which was established in 2007 in cooperation with the Chinese Red Cross Foundation. The Group is committed to donating RMB0.10 to the BC Foundation for each product unit sold. Since its inception, the BC Foundation has raised a total of approximately RMB32.4 million through online and offline charity campaigns, and has supported more than 1,584 children and mothers who suffer from serious illnesses. In recognition of the Group's contribution to the improvement of social wellbeing, the Group was awarded the 'Annual Responsibility Brand' award at the China Charity Festival 2017.

With each brand possessing its own legacy of philanthropy, the Group intends to integrate all of the sustainability and CSR platforms across its organisation, echoing its mission and vision — helping people celebrate life every day.

ACKNOWLEDGEMENTS

In 2017, the Group successfully implemented its integration initiatives and laid down solid groundwork for its global business expansion in the coming years. This would not have been achieved without the devoted effort and enormous support from its employees, consumers, business partners, creditors and investors across all markets. I would like to express my sincere gratitude to all these people and I look forward to building long-term partnerships towards a prosperous future with an ultimate vision to make people's life healthier and happier.

Luo Fei
Chairman

Hong Kong, 25 March 2018

RESULTS OF OPERATION

Revenue

For the year ended 31 December 2017, the Group's revenue increased by 24.4% to RMB8,095.3 million as compared with 2016. Thanks to the favorable industry dynamics, clearer regulatory environment as well as effective strategic and operational initiatives taken, both baby nutrition and care as well as adult nutrition and care segments saw solid growth in 2017.

	Year ended 31 December				
				% to revenue	
	2017	2016	Change	**2017**	2016
	RMB'000	RMB'000			
Baby nutrition and care products	**4,681,467**	3,823,090	22.5%	**57.8%**	58.8%
– Infant formulas	**3,717,214**	3,203,601	16.0%	**45.9%**	49.3%
– Probiotic supplements	**781,741**	505,386	54.7%	**9.7%**	7.8%
– Other pediatric products	**182,512**	114,103	60.0%	**2.2%**	1.7%
Adult nutrition and care products	**3,413,878**	2,682,526	27.3%	**42.2%**	41.2%
Total	**8,095,345**	6,505,616	24.4%	**100.0%**	100.0%

Infant formulas

Revenue from IMF amounted to RMB3,717.2 million for the year ended 31 December 2017, representing an increase of RMB513.6 million, or 16.0%, as compared with the last year. The growth was mainly attributable to the strong sales momentum of Biostime™ branded super premium and premium series IMF products, as well as the incremental sales from the Healthy Times™ branded organic IMF, which was launched in December 2016 and have been well-received by customers since then. The increase was partially offset by a decline in revenue attributable to the mid-tier Adimil™ branded IMF products.

Probiotic Supplements

During the year under review, the Group recorded revenue from probiotic supplements of RMB781.7 million, a strong growth of 54.7% compared to RMB505.4 million in 2016. The increase was attributable to the rising consumer demand as a result of heightened awareness in China of the health benefits of probiotics, the launch of effective marketing initiatives, as well as the introduction of high profile brand ambassadors for the first time during the year.

Other pediatric products

Revenue from other pediatric products segment increased by 60.0% to RMB182.5 million for the year ended 31 December 2017 from RMB114.1 million in last year. The growth was contributed by the incremental sales from Dodie™ branded baby care products, which started contributing to the Group's revenue from 1 January 2017, after the Group acquired all the equity interest in AB Pharma S.A.S and its subsidiaries at the end of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION (CONTINUED)

Revenue (continued)

Adult nutrition and care products

On currency adjusted basis, revenue from the adult nutrition and care products segment amounted to A$659.4 million for the year ended 31 December 2017, representing an increase of 21.5% compared to revenue of A$542.5 million in 2016. The Group saw strong sales momentum in both Australian and Chinese markets, primarily driven by surging health awareness globally, innovative marketing campaigns and celebrity endorsement, as well as the clearer CBEC regulation environment in China.

In April 2017, Swisse officially kicked off normal trade sales in China, further expanding the Chinese business beyond CBEC, which was launched in 2016. Active sales in China from both CBEC and normal trade accounted for 28.5% of the total revenue from the adult nutrition and care products segment in 2017.

Gross profit and gross profit margin

In 2017, the Group recorded gross profit of RMB5,265.6 million, an increase of 29.7% compared with the prior year. The Group's gross profit margin increased from 62.4% in 2016 to 65.0% in 2017.

The gross profit of the baby nutrition and care segment increased by 26.8% to RMB3,191.8 million in 2017 compared with the last year, with the gross profit margin increased from 65.8% to 68.2%. The higher gross profit margin was mainly attributable to: (i) an improved product mix towards higher proportion of sales from the higher-margin Biostime™ branded infant formulas and probiotic supplements; and (ii) the optimization of inventory management and a reduction of slow-moving stocks.

On a currency-adjusted basis, the gross profit for the adult nutrition and care segment increased by 28.4% to A$400.5 million in 2017, compared with A$311.9 million in 2016. The gross profit margin of the adult nutrition and care segment increased from 57.5% in 2016 to 60.7% in 2017, which was mainly driven by the increase of sales price, the reduction of discounts and bonus stocks to customers, as well as the enhancement of inventory management efficiencies.

Other income and gains

Other income and gains amounted to RMB143.5 million for the year ended 31 December 2017. Other income and gains primarily consisted of interest income of RMB38.3 million, foreign exchange gains of RMB53.9 million, fair value gains from the early redemption option embedded in the senior notes and forward currency contract of RMB32.4 million, government subsidiaries of RMB18.4 million and others. During the year under review, other income and gains decreased by RMB180.2 million as compared to the last year. The decrease was mainly led by the combining effect of: i) a decrease in fair value gains on financial derivatives of RMB128.0 million; and ii) a decrease of RMB45.2 million in foreign exchange gains as compared to the last year.

RESULTS OF OPERATION (CONTINUED)

Selling and distribution costs

Selling and distribution costs amounted to RMB2,711.7 million in 2017, an increase by RMB760.0 million, or 38.9% as compared to 2016.

Pursuant to the collaboration agreement between Swisse and PGT entered into in November 2013 and subsequently amended in March 2015 (the "**Collaboration Agreement**"), Swisse granted to PGT the exclusive right to market and distribute Swisse's products across most of the world, except for the markets of Australia, New Zealand, North America and China, in exchange for royalty payments from PGT to Swisse. The Group recognized the expected royalty payments from PGT as an intangible asset of A$17.9 million at the acquisition date of Swisse in 2015 which was subject to amortization on the straight-line basis over its estimated useful life of 8 years. On 13 November 2017, the Group entered into an Asset Transfer and Termination Agreement with PGT, buying back the distribution rights in those markets granted to PGT under the Collaboration Agreement, at an aggregate consideration of US$103.5 million with transaction costs and contingent payment included. At the same time, the Group waived the right of receiving any royalty payments from PGT. As such, a one-time accelerated amortization expense of RMB66.5 million regarding the remaining carrying value of this intangible asset was recognized during 2017.

Excluding the above mentioned one-off non-cash expense, selling and distribution costs during the year ended 31 December 2017 grew by RMB693.5 million to RMB2,645.2 million as compared to the prior year, and it as a percentage of the Group's revenue increased by 2.7 percentage points to 32.7% during the year under review from 2016.

The growth in selling and distribution costs was mainly attributable to the increased investments in advertising and marketing activities, such as introduction of new brand ambassadors, launch of sponsorship programs and customer education activities. Expenses for advertising and marketing activities rose by RMB236.1 million from RMB607.8 million in 2016 to RMB843.9 million for the year under review. These expenses were budgeted and incurred according to the Group's new strategic plan, and the Group considered the expenses incurred critical during the year before the new Chinese IMF registration rules become effective. The expenses were also necessary for the market expansion following the launch of Swisse normal trade sales, Healthy Times™ branded organic IMF and Dodie™ branded diapers in China as well as brand awareness enhancement worldwide.

Administrative expenses

Administrative expenses increased by 36.1% from RMB357.2 million for the year ended 31 December 2016 to RMB486.0 million for the year ended 31 December 2017. The increase in administrative expenses was mainly due to the additional employee expenses incurred as the Group enhanced its operational capability to support global expansion, as well as incremental expenses related to the Group's integration projects.

Administrative expenses as a percentage of the Group's revenue was 6.0% in 2017, increasing by 0.5 percentage point as compared to 5.5% in 2016.

RESULTS OF OPERATION (CONTINUED)

Other expenses

Other expenses for 2017 increased to RMB356.3 million from RMB144.0 million in 2016. Other expenses mainly included R&D expenses of RMB98.6 million and non-cash or non-recurring expenses of: (i) non-cash fair value losses on the Group's derivative financial instruments of RMB176.7 million; (ii) a one-time expense paid to the original shareholders of Swisse on some tax refund of RMB34.8 million; (iii) one-time restructuring costs related to the Group's early childhood education business of RMB30.0 million, in which RMB25.7 million was non-cash by nature.

EBITDA, adjusted EBITDA and related margins

Adjusted EBITDA increased by RMB440.8 million, or 24.4%, from RMB1,804.7 million in 2016 to RMB2,245.5 million in 2017. Adjusted EBITDA margin for 2017 was 27.7%, remaining stable as compared to that of 2016.

EBITDA for the year ended 31 December 2017 amounted to RMB2,060.4 million, slightly increased by 0.8% from RMB2,043.1 million for the year ended 31 December 2016, which was a high base including a large amount of non-cash foreign exchange gain and net fair value gains on financial derivative instruments. EBITDA margin was 25.5% during the year under review.

The adjusted EBITDA was arrived at by reconciling the non-cash or non-recurring items from EBITDA as set out below:

	Year ended 31 December	
	2017	2016
	RMB million	RMB million
EBITDA	**2,060.4**	2,043.1
Reconciled by:		
(1) Net foreign exchange gains	**(53.9)**	(99.1)
(2) Net fair value losses/(gains) on the derivative financial instruments	**144.3**	(160.5)
(3) Fair value loss of financial liabilities associated with put options	**–**	21.2
(4) One-time expense paid to the original shareholders of Swisse on some tax refund	**34.8**	–
(5) One-time restructuring costs related to early childhood education business	**30.0**	–
(6) Non-recurring integration costs	**29.9**	–
Adjusted EBITDA	**2,245.5**	1,804.7

RESULTS OF OPERATION (CONTINUED)

Finance costs

During the year ended 31 December 2017, the Group incurred finance costs of RMB492.2 million, including interest for bank loans of RMB166.3 million, interest for senior notes and convertible bonds of RMB297.6 million, bank charges relating to the financing for the acquisition of the remaining 17% minority interest in Swisse (the "**17% Acquisition**") of RMB15.2 million, and loss on the early redemption of the remaining part of the convertible bonds of RMB13.1 million.

Income tax expense

Income tax expense increased from RMB404.6 million in 2016 to RMB440.2 million in 2017.

The effective tax rate increased from 27.8% in 2016 to 32.2% in 2017. The increase in effective tax rate mainly resulted from the combining effect of: (i) the lower base in 2016 after the one-time utilization of carried forward tax losses in some of the US subsidiaries, and (ii) the non-deductibility of certain expenses for tax purpose in 2017, such as finance costs associated with the senior notes, fair value losses on the derivative financial instruments, loss on the early redemption of the remaining part of convertible bonds and others.

Net profit and adjusted net profit

The adjusted net profit was arrived at by reconciling the non-cash or non-recurring items from net profit as set out below:

	Year ended 31 December	
	2017	2016
	RMB million	RMB million
Net profit	**928.5**	1,052.0
Reconciled by:		
(1) Net foreign exchange gains	**(53.9)**	(99.1)
(2) Net fair value losses/(gains) on the derivative financial instruments	**144.3**	(160.5)
(3) Fair value loss of financial liabilities associated with put options	**–**	21.2
(4) One-time expense paid to the original shareholders of Swisse on some tax refund	**34.8**	–
(5) One-time restructuring costs related to early childhood education business	**30.0**	–
(6) Non-recurring integration costs	**29.9**	–
(7) One-time accelerated amortization of intangible assets of PGT royalty agreement due to the distribution rights buy back	**66.5**	–
(8) Loss on redemption/repurchase of the convertible bonds	**13.1**	18.0
(9) Bank charges relating to the financing for the 17% Acquisition in 2017/ re-financing in 2016	**15.2**	52.4
Adjusted net profit	**1,208.4**	884.0

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended 31 December 2017, the Group recorded net cash generated from operating activities of RMB1,950.8 million, resulting from pre-tax cash from operations of RMB2,405.4 million, minus income tax paid of RMB454.6 million.

Investing activities

For the year ended 31 December 2017, net cash flows used in investing activities amounted to RMB264.2 million, primarily resulting from the payment for the distribution rights buy back from PGT at RMB497.0 million, partially off-set by the decrease in time deposits of RMB214.0 million and others.

Financing activities

For the year ended 31 December 2017, net cash flows used in financing activities amounted to RMB848.6 million. The cash outflows were primarily related to a payment in relation to the 17% Acquisition of RMB1,108.7 million, redemption of the convertible bonds of RMB1,240.9 million, repayment of bank loans of RMB426.2 million and interest for bank loans and senior notes of RMB443.9 million. The cash inflows were primarily related to net proceeds from the issuance of senior notes of RMB1,413.5 million and the release of pledged deposits of RMB987.7 million in an escrow account.

Cash and bank balances

As of 31 December 2017, cash and cash equivalents as stated in the consolidated statement of financial position amounted to RMB2,090.3 million.

Interest-bearing bank loans, senior notes and convertible bonds

As of 31 December 2017, the Group's outstanding interest-bearing bank loans amounted to RMB2,352.8 million, including RMB508.5 million payable within one year and RMB1,844.3 million payable after one year.

In January 2017, the Company issued US$200.0 million 7.25% senior notes, due in 2021. The net proceeds from this issuance, together with the Group's cash on hand, were used to fund the 17% Acquisition. Taking the US$400.0 million senior notes issued in June 2016 into account, as of 31 December 2017, the total carrying amount of the senior notes was RMB3,930.7 million.

In February 2017, the Company, at the option of the bondholders, redeemed the remaining part of the bondholders' convertibles.

As of 31 December 2017, net leverage ratio was 1.9, calculated by dividing the net debt[(Note)] by adjusted EBITDA. Gearing ratio was 44.5%, calculated by dividing the sum of the carrying amount of senior notes and interest bearing bank loans by total assets.

Note: Net debt = interest bearing bank loan + senior notes – cash and bank balances – time deposits – pledged deposits.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Working capital

Advance payment is normally required for the sale of baby nutrition and care products, except for limited circumstances. The Group usually allows credit sales for adult nutrition and care products, with credit terms ranging from 30 to 60 days from the end of month. The Group's suppliers generally grant a credit period of between 30 and 90 days.

The Group seeks to maintain strict controls over outstanding receivables and creditors to minimize credit risk. The average turnover days for trade and bills receivables decreased by 5 days from 32 days for the year ended 31 December 2016 to 27 days for the year ended 31 December 2017. The average turnover days of trade payables were 74 days for the year ended 31 December 2017, representing a decrease of 10 days from 84 days as compared to that of 2016.

The Group endeavored to maintain its inventory at a healthy level to avoid excess inventory and deep discounting. The inventory turnover days were 114 days for the year ended 31 December 2017, representing a decrease of 6 days from 120 days in 2016.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to the Group's business and some are from external sources. The major risks faced by the Group are set out in the Chairman's Statement in the section headed "**CHALLENGES**".

SIGNIFICANT BUSINESS DEVELOPMENT AFTER THE END OF THE REPORTING DATE

Pursuant to the Asset Transfer and Termination Agreement with PGT, in January 2018, the Group made the final installment payment of US$28.0 million to PGT. Subsequently, the distribution right of marketing and selling Swisse products in Hong Kong smoothly transferred from PGT to the Group on 28 February 2018. On 1 March 2018, the Group started its active sales of Swisse products in Hong Kong, being the first transitional territory effectively transferred.

After CFDA's new IMF registration rules came into effect on 1 January 2018, the Group started to launch its CFDA approved series with upgraded formula in March, enabling it to secure its leading position in the Chinese IMF market.

MANAGEMENT DISCUSSION AND ANALYSIS

ADDITIONAL DISCLOSURES

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and has instituted guidelines to staff on compliance with laws and regulations. The Group's business has extended to selected countries in Europe, Asia and North America and our operations accordingly shall comply with the relevant laws and regulations in these jurisdictions. During the year ended 31 December 2017 and up to the date of this report, the Group has complied with all the relevant laws and regulations in the jurisdictions where it operated.

Environmental Policies

The Group does not mainly engage in production activities and therefore its operations do not generally result in pollution issues. The Group strives to strengthen its environmental protection efforts on conserving resources and managing waste from its business activities.

The materials which the Group purchases are carefully considered, so the Group is not only offsetting our emissions, but funding programs that have many benefits for the community. The Group nourishes the environment through our carbon offsetting programs in Australia and Carbon Neutral status, verified through the Australian Government's National Carbon Offset Standard.

Relationship with Employees

The Group values its employees and recognizes the importance of personal development of its employees. The Group strives to motivate employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides regular training sessions for its employees for their continuous professional development in areas such as managerial skills, communication skills, sales and quality control.

Relationship with Customers

The Mama100 membership program offers extensive membership services to the Group's customers. There are service hotlines for its members to obtain updated information such as parenting tips and products information. Through this program, the Group is able to get feedback from the customers and better understanding of consumer needs and demands.

Relationship with Suppliers

The Group has developed long-standing and good relationships with its global suppliers. The Group also participates in joint research and development projects with certain suppliers to further explore and improve the products to be offered. The Group works together with its suppliers to ensure that we share our commitment to product quality.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Luo Fei (羅飛), aged 54, is an executive Director and Chief Executive Officer of the Company. Mr. Luo was appointed as an executive Director on 30 April 2010, and is also a director of various of subsidiaries of the Company. The major subsidiaries are BiosTime, Inc. (Guangzhou) ("**Biostime Guangzhou**"), Health and Happiness (H&H) Hong Kong Limited ("**Health and Happiness Hong Kong**", formerly known as Biostime Hong Kong Limited) and Swisse Wellness Group Pty Ltd.. Mr. Luo is also a director of Guangzhou Mama100 E-commerce Co., Limited (廣州市媽媽一百電子商務有限公司) ("**Mama100 E-commerce**"), a company controlled by the Group through a series of structure contracts. He is also the supervisor of the Company's subsidiary Biostime (Guangzhou) Health Products Limited ("**Biostime Health**"). Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals (China) Limited ("**Biostime Pharmaceuticals**") with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the Securities and Futures Ordinance (the "**SFO**"). For further details, please refer to page 64 of this Annual Report. Mr. Luo is primarily responsible for the Company's overall strategies, planning and business development. Mr. Luo has approximately 20 years of experience in the biotechnology industry. From June 1989 to October 1990, Mr. Luo was employed by Kanghai Enterprise Development Company of Guangzhou Economic and Technological Development Zone (廣州經濟技術開發區康海企業發展公司) as an assistant engineer. In February 1993, Mr. Luo established Guangzhou Baixing Bioengineering Co., Ltd. (廣州百星生物工程有限公司) and acted as its legal representative and general manager. In December 1994, Mr. Luo established Guangzhou Biohope Co., Ltd. ("**Guangzhou Biohope**"), a company engaged in the import and distribution of raw materials for personal care products and household cleaning products, and acted as Guangzhou Biohope's legal representative from December 1994 to June 2010, and has been a director of Guangzhou Biohope since December 1994. In August 1999, Mr. Luo established Biostime Guangzhou and has served as its general manager since then. Mr. Luo is also the vice-chairman of the Mommy Baby Products Association of Guangdong Province (廣東孕嬰童用品協會) and chairman of the management committee of the Biostime China Foundation for Mothers and Children. Mr. Luo received a bachelor's degree in microbiological engineering in July 1985 and a master's degree in industrial fermentation in June 1988 from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院). Mr. Luo has also completed the China Europe International Business School (中歐國際工商學院) EMBA program and was awarded a master's degree in business administration in September 2008.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (CONTINUED)

Mrs. Laetitia Marie Edmee Jehanne ALBERTINI EP. GARNIER (安玉婷), aged 37, is an executive Director of the Company. She was appointed as an executive Director on 26 March 2018. She joined the Group in July 2010. She is currently the Chief Strategy Officer of the Group. Before that, she was the General Manager of the Group Strategy and International Business Department. She is mainly responsible for Group strategy, acquisitions and investments, Group integration and management of Group international operations and business development. Since October 2016, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI EP. GARNIER also has assumed the role of Managing Director of Swisse China. She is also a director of various of subsidiaries of the Company. The major subsidiaries are Biostime Healthy Australia Pty Ltd., Swisse Wellness Group Pty Ltd. and Swisse China Limited. From December 2003 to August 2010, she worked for the French Trade Commission in South China and was mainly responsible for providing lobbying and support to French companies partnering, exporting and investing in China, especially in the field of consumer goods and health sectors. Prior to that, she also has interned with the United States Senate in Washington D.C. from January to June 2001, the Banque Populaire Group in Paris from July to September 2001 and the LVMH Group in Paris from September 2002 to March 2003. In July 2003, she obtained a master's degree in business administration and corporate strategy from the Institute of Political Studies in Paris.

Mr. Wang Yidong (王亦東), aged 44, is an executive Director of the Company. Mr. Wang was appointed as an executive Director on 26 March 2018. He joined the Group in May 2016. Mr. Wang is the Chief Financial Officer of the Group and is in charge of the overall financial management, accounting and investor relations affairs of the Group. He has near 20 years of experience in financial management, accounting and corporate finance. Prior to joining the Group, Mr. Wang was the Corporate Vice President and Asia Pacific Chief Financial Officer of Henkel AG & Co. KGaA, a German consumer goods giant ("**Henkel**"), responsible for Henkel's financial management, business and operation controlling as well as M&A-related tasks in 14 countries of Asia Pacific. Before that, he worked at Henkel's headquarters in Germany as Global Director of Business Development and M&A for Adhesive business unit, and also worked as Henkel's Greater China Chief Financial Officer and Asia Pacific Treasurer in preceding years. Mr. Wang had also taken various management and banking roles with LG.Philips, JPMorgan Investment Bank and China's Ministry of Commerce in Hong Kong, New York and Beijing. He started his career with China's Ministry of Commerce and participated in the negotiations for China's entry into the World Trade Organization. Mr. Wang was awarded "China CFO of the Year" in 2011 by the national judging committee affiliated to China's Ministry of Finance. Mr. Wang holds a Master of Business Administration degree from New York University Stern School of Business and a Bachelor of Arts degree from China Foreign Affairs University. He is a member of the American Institute of Certified Public Accountants (the "**AICPA**") and a member of the Association of Chartered Certified Accountants (the "**ACCA**"). He is also a member of ACCA China Expert Forum.

NON-EXECUTIVE DIRECTOR

Dr. Zhang Wenhui (張文會), aged 53, is a non-executive Director of the Company. Dr. Zhang was re-designated to a non-executive Director on 25 June 2012. Dr. Zhang was previously an executive Director of the Company from 12 May 2010 to 24 June 2012. Dr. Zhang is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 64 of this Annual Report. Dr. Zhang has also been an independent director of Stoltze Specialty Processing, LLC in the United States since September 2012. Dr. Zhang has almost 18 years of experience in the biotechnology industry, through teaching in universities and working for several biotechnology companies. Dr. Zhang was a lecturer of bioengineering at South China University of Technology (華南理工大學) from August 1994 to August 1996. From December 2000 to August 2003, Dr. Zhang was employed as an assistant research professor in the department of chemical engineering in University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States. After that, Dr. Zhang was employed as a scientist in the process development department of Xoma (US) LLC in the United States from September 2003 to September 2005. Dr. Zhang joined the Group in October 2005 as the chief technology officer of Biostime Guangzhou and became a general manager of the technology center of Biostime Health in December 2010, where he was primarily responsible for the research and development, product quality control and technology support, and held this position until 24 June 2012. Dr. Zhang was also the chief technology officer and head of the Quality Assurance Department of the Company until 24 June 2012 and a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health and Dodie Baby Product Inc. (Guangzhou) ("Dodie Guangzhou", formerly know as BMcare Baby Products Inc. (Guangzhou)) until 2 September 2012. Dr. Zhang received a bachelor's degree in biochemical engineering from East China University of Science and Technology (華東理工大學), formerly known as East China College of Chemical Engineering (華東化工學院), in July 1985, and a master's degree in industry fermentation and a doctorate in fermentation engineering from South China University of Technology (華南理工大學) in July 1988 and September 1994, respectively. From October 1996 to September 1997, Dr. Zhang completed an international post graduate university course in microbiology at Osaka University (大阪大學). Dr. Zhang conducted research as a post-doctoral scientist in the department of food science and technology in the University of Nebraska-Lincoln (內布拉斯加大學林肯分校) in the United States from October 1997 to November 2000.

Mr. Wu Xiong (吳雄), aged 62, was a non-executive Director of the Company. Mr. Wu was appointed as a non-executive Director on 12 May 2010. Mr. Wu has resigned as a non-executive Director of the Company with effect from 26 March 2018. He is also a director of Mama100 E-commerce. Mr. Wu is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 64 of this Annual Report. Mr. Wu has been the legal representative and general manager of Hainan Fangsheng Industry Development Co., Ltd. (海南方盛實業發展有限公司) since December 2009 and is responsible for the overall management of its business operation. Mr. Wu worked in the Administration for Industry and Commerce of Haikou City (海口市工商行政管理局) between December 1980 and December 1997. From December 1997 to December 2000, Mr. Wu was employed by Haikou Market Properties Development Co., Ltd. (海口市市場物業發展有限公司). From December 2000 to December 2009, Mr. Wu was the legal representative and general manager of Hainan Junjie Automobile Sale Co., Ltd. (海南駿捷汽車銷售有限公司) and was responsible for its overall business operations. Mr. Wu was a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health and Dodie Guangzhou until 2 September 2012. Mr. Wu graduated from Haikou No.1 Middle School (海口市第一中學) in July 1975.

NON-EXECUTIVE DIRECTOR (CONTINUED)

Mr. Luo Yun (羅雲), aged 57, is a non-executive Director of the Company. Mr. Luo was appointed as a non-executive Director on 12 May 2010, and is also a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health, Dodie Guangzhou, Biostime (Guangzhou) Education Management Inc. ("**Biostime Education**") and Guangzhou Hapai Information Technology Co., Ltd. ("**Guangzhou Hapai**"). Mr. Luo is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 64 of this Annual Report. From 1980 to 1993, Mr. Luo was employed by Haikou Qiongshan Medical Co., Ltd. (海口瓊山醫藥公司). Mr. Luo was employed as a sales manager for Guangzhou Biohope from December 1994 to August 1999. From August 1999 to September 2009, Mr. Luo held various positions in Biostime Guangzhou including the sales director and the director in charge of the Mama100 membership center. From September 2009 to December 2011, Mr. Luo was the general manager and director of a company formerly known as Biostime Health and Nutrition (Guangzhou) Limited (now known as Leseil Health and Nutrition (Guangzhou) Limited), where he was responsible for the overall strategies and business development. Mr. Luo graduated from Continuing Education School of Jinan University (暨南大學成人教育學院) in July 1987 with a certificate of graduation in business and economic management. Mr. Luo has also completed the EMBA course at Fudan University (復旦大學) in Shanghai and was awarded an EMBA degree in July 2012. Mr. Luo is the elder brother of Mr. Luo Fei, the Chairman of the Board and one of the Company's executive Directors.

Mr. Chen Fufang (陳富芳), aged 54, was a non-executive Director of the Company. Mr. Chen was appointed as a non-executive Director on 12 May 2010. Mr. Chen has resigned as a non-executive Director of the Company with effect from 26 March 2018. He is also a director of the Company's subsidiaries Biostime Guangzhou, Biostime Health, Dodie Guangzhou, Biostime Education, Guangzhou Hapai and Mama100 E-commerce. Mr. Chen is also a director of the Company's substantial shareholder Biostime Pharmaceuticals with discloseable interests in the shares of the Company under the Provisions of Divisions 2 & 3 of Part XV of the SFO. For further details, please refer to page 64 of this Annual Report. Mr. Chen has been a director and the general manager of Guangzhou Biohope since March 1999, and its legal representative since June 2010, where he oversees overall business operations and management. Prior to that, Mr. Chen worked for Guangdong Textile Industry Group Company (廣東省紡織工業總公司), a company engaged in the import and export of textile products and apparels, from 1988 to 1997, where he was recognized as chemical fiber assistant engineer (化纖助理工程師) and chemical fiber engineer (化纖工程師) in March 1988 and November 1992, respectively. Mr. Chen graduated from South China University of Technology (華南理工大學), formerly known as South China Institute of Technology (華南工學院), with a bachelor's degree in chemical fiber in July 1985 and a master's degree in chemical fiber in June 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Ngai Wai Fung (魏偉峰), aged 56, is an independent non-executive Director of the Company. Dr. Ngai was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Audit Committee of the Company. Dr. Ngai is the Chief Executive Officer of SW Corporate Services Group Limited, a specialty company secretarial corporate governance and compliance services provider to companies in pre-IPO and post-IPO stages. Prior to that, he was the director and head of listing services of an independent integrated corporate services provider. He has over 20 years of senior management experience including acting as the executive director, chief financial officer and company secretary, most of which are in the areas of finance, accounting, internal control and regulatory compliance, corporate governance and secretarial work for listed issuers including major red chips companies. He had led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities. Dr. Ngai was an independent non-executive director of Sany Heavy Equipment International Holdings Company Limited from November 2009 to December 2015, an independent non-executive director of China Coal Energy Company Limited from December 2010 to June 2017 and an independent non-executive director of China Railway Group Limited from June 2014 to June 2017. In addition, Dr. Ngai is currently an independent non-executive director or independent director of the below companies:

Company Name (English)	Company Name (Chinese)	Name of Stock Exchange	Stock Code	Appointment Date
BaWang International (Group) Holding Limited	霸王國際（集團）控股有限公司	Main Board	1338	December 2008
Bosideng International Holdings Limited	波司登國際控股有限公司	Main Board	3998	September 2007
Beijing Capital Grand Limited (formerly known as Beijing Capital Juda Limited)	首創鉅大有限公司	Main Board	1329	December 2013
LDK Solar Co., Ltd.	不適用	Listed on OTC Pink Limited Information	LDKYQ	July 2011
Powerlong Real Estate Holdings Limited	寶龍地產控股有限公司	Main Board	1238	June 2008
SITC International Holdings Company Limited	海豐國際控股有限公司	Main Board	1308	September 2010
Yangtze Optical Fibre and Cable Joint Stock Limited Company	長飛光纖光纜股份有限公司	Main Board	6869	September 2014
BBMG Corporation	北京金隅股份有限公司	Main Board	2009	November 2015
TravelSky Technology Limited	中國民航信息網絡股份有限公司	Main Board	696	January 2016
China HKBridge Holdings Limited (formerly known as Topsearch International (Holdings) Limited)	中國港橋控股有限公司（前稱為：至卓國際（控股）有限公司）	Main Board	2323	March 2016
SPI Energy Co., Ltd.	不適用	Listed on Nasdaq	SPI	May 2016
China Communications Construction Company Limited	中國交通建設股份有限公司	Main Board	1800	November 2017

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Dr. Ngai is a fellow of the Association of Chartered Certified Accountants in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Institute of Chartered Secretaries and Administrators, a fellow of the Hong Kong Institute of Chartered Secretaries (the "HKICS"), a fellow of Hong Kong Institute of Directors and a member of Hong Kong Securities and Investment Institute. Dr. Ngai obtained a doctoral degree in finance at Shanghai University of Finance and Economics (上海財經大學), a master's degree in corporate finance from Hong Kong Polytechnic University, a bachelor honor degree in laws from University of Wolverhampton in the United Kingdom and a master's degree in business administration from Andrews University of Michigan in the United States.

Dr. Ngai was the President of the HKICS (2014-2015). Dr. Ngai was appointed by the Chief Executive of The Hong Kong Special Administrative Region as a member of Working Group on Professional Services under the Economic Development Commission in 2013 and reappointed for further two years in 2017, a member of Qualification and Examination Board of the Hong Kong Institute of Certified Public Accountants, a member of the General Committee of the Chamber of Hong Kong Listed Companies and has been appointed as a Finance Expert Consultant by the Ministry of Finance of the PRC in 2016.

Dr. Ngai has extensive experience in accounting and financing as well as in corporate governance, which is relevant to the Company in matters relating to corporate governance practices such as internal control and internal audit.

Mr. Tan Wee Seng (陳偉成), aged 62, is an independent non-executive Director of the Company. Mr. Tan was appointed as an independent non-executive Director on 12 July 2010 and is the chairman of the Company's Remuneration Committee. Mr. Tan is also an independent non-executive director and chairman of audit committee of Xtep International Holdings Limited (Stock Code: 1368), an independent non-executive director and chairman of the audit committee of Sa Sa International Holdings Limited (Stock Code: 178), an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited (Stock Code: 884), an independent non-executive director and chairman of the audit committee of Sinopharm Group Company Limited (Stock Code: 1099), the shares of all of which are listed on the Main Board of the Stock Exchange. In addition, Mr. Tan is an independent director and with effect from 8 March 2016 chairman of audit committee of Renesola Ltd (Stock Code: SOL), the shares of which are listed on the NYSE. Mr. Tan is also a board member of Beijing City International School, an academic institution in Beijing. Mr. Tan has been appointed as an independent director and chairman of the audit committee of 7 Days Group Holdings Limited listed on the NYSE between November 2009 and July 2013 until it was privatized. He was the chairman of the special committee for the privatization of 7 Days Group Holdings Limited from October 2012 to July 2013. Mr. Tan has over 30 years of financial management, corporate finance, merger and acquisition, business management and strategy development experience. Mr. Tan has held various management and senior management positions in a number of multi-national corporations. Mr. Tan was previously the managing director of AFE Computer Services Limited, a Reuters subsidiary located in Hong Kong which was mainly engaged in domestic equity and financial information services; director of Infocast Pty Limited, a Reuters subsidiary in Australia; and the regional finance manager of Reuters East Asia. From 1999 to 2002, Mr. Tan was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. From 2003 to 2008, Mr. Tan was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Tan is a professional accountant and a fellow member of the Chartered Institute of Management Accountants in United Kingdom, and the Hong Kong Institute of Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS (CONTINUED)

Professor Xiao Baichun (蕭柏春), aged 70, is an independent non-executive Director of the Company. Professor Xiao was appointed as an independent non-executive Director on 12 July 2010. Professor Xiao is a professional and scholar in management science. Professor Xiao has strong academic background and extensive experience in business management, which is relevant to the business operations of the Company in matters relating to corporate governance practices. From September 1990, he was with Seton Hall University as an assistant professor and was promoted to associate professor with tenure in April 1994 and to professor in March 1999. He was also the chairman of computing and decision sciences department of Seton Hall University from 1995 to 1997. Since September 1998, he has been with Long Island University pursuing his teaching career and is now a senior professor. He has also been the chairman of the department of management of Long Island University since 2003. Professor Xiao was appointed by various universities in China as either a chair professor or a visiting professor. For example, he has been a faculty member of Peking University (北京大學) since 2004, a visiting professor of Chinese University of Hong Kong (香港中文大學) since 2004, a guest professor and a director of Chinese American Center for service and operation management in Southwest Jiaotong University (西南交通大學) from 2004 to 2010, a distinguished professor of EMBA program in Fudan University (復旦大學) since 2005 and a lifetime professor of the management school of Sichuan University (四川大學) since May 2000. As a testament to his achievement, Professor Xiao received various awards in his research area. He received "University Fellowship" from Wharton School, University of Pennsylvania in 1986 and 1987 and "Outstanding Scholarship Award" from Seton Hall University in 1998 and 1999. He also received from College of Management of Long Island University "Outstanding Scholarship Award" in 2006, and "Teaching Excellence Award" from Peking University (北京大學) in 2012. Professor Xiao was named as Fulbright Senior Scholar by US Fulbright Foundation in 2012. Professor Xiao currently serves as a member of the board of directors of Nanjing University (南京大學). Professor Xiao received a bachelor's degree in mathematics from Nanjing University (南京大學) in July 1982, a MBA degree from Catholic University of Leuven, Belgium in March 1985, and his Ph.D. from Wharton School, University of Pennsylvania in December 1990.

SENIOR MANAGEMENT

Dr. Patrice Malard, aged 64, joined the Group as our Chief Scientific Officer and General Manager of Biostime Pharma (a subsidiary of the Company in France) in October 2010 and was appointed as the Chief Technology Officer of the Company as well as the General Manager of the technology center of Biostime Health in June 2012. He is responsible for research and development, product quality control and regulatory compliance. He was the scientific consultant of Biostime Guangzhou from 1 March 2008 to 30 September 2010. Dr. Patrice Malard has approximately 30 years of experience in the nutrition products industry. From October 1981 to March 1990, he worked for Gist Brocades SA as a science director in the field of industrial enzymes. From April 1990 to June 1991, he was employed by CPIAA SA, an agro-consulting group, as a manager. From June 1991 to November 1994, he was the strategy and development director of the French subsidiary of Pioneer Hi-Bred in agro-seeds. He also has worked as a director of Silab Sarl in cosmetic ingredients and sales and Business development director of Lallemand SAS Human Nutrition division for the period from February 1999 to October 2007. He obtained his Ph.D. in molecular and cellular Biology from Lille University of Science and Technology in 1981.

SENIOR MANAGEMENT (CONTINUED)

Mr. Abel Benzakour, aged 54, joined the Group as our chief operating officer in April 2017. He is responsible for overall procurement, logistics, production, supply chain, as well as global information technology and business intelligence, global compliance and control. Mr. Abel Benzakour has approximately 30 years of experience in the Fashion industry, Chemical and textile manufacturing. From November 1990 to August 1991, he worked for Algotex S.A as a contracting manager in the field of the Fashion Industry. From August 1991 to February 1995, he was employed by Tecnox S.A member of Wittock Van Landeghem group, leader in technical military items, as a technical and production director and plant director. From February 1995 to December 2011, he worked for Levi Strauss & Co Europe. During this period, he served as various positions, including the head of sourcing & product developments, the senior director of product and technical development, the vice president of global product development and sourcing, manufacturing & operations. He also has worked as group chief supply chain officer and EVP for Vivarte group S.A, French leader in Fashion industry, with 20 brands & banners for the period from October 2012 to December 2015. From April 2016 till March 2017, he worked as Freelance consultant in the raw material optimization and raw material strategy for Gap inc., large American fashion group with four global brands. Mr. Abel Benzakour worked as consultant for Tunisian Federation of the industry, Tunisia 2020 breakthrough and the Trans Pacific Partnership projects. He obtained his Bachelor Degree in Experimental Sciences from University of Sciences in 1984 and graduated in Textile Chemical Engineering in 1987 from ESITT (Ecole Superieure Industrielle du Textile de Tournai – Belgium).

Mr. Zhu Dingping (朱定平), aged 42, joined the Group in February 2007 and has been the China Managing Director of Baby Nutrition and Care (the "**BNC**") of the Group since August 2017. Before that, Mr. Zhu was the general manager of project department of BNC and our senior sales director, he was mainly responsible for the overall sales affairs. Prior to joining the Group, he had over 10 years of experience in the pharmaceutical industry mainly obtained from working for companies in this industry. He was with Guangdong Minglin Pharmaceutical Co., Ltd. (廣東明林藥業有限公司) as a regional sales manager from August 1996 to December 2006. Mr. Zhu received a certificate of graduation in pharmaceutical science from China Pharmaceutical University (中國藥科大學) in July 2006 for completing the adult higher education courses. He also participated in several advanced trainings so as to improve his professional skills. For instance, in September 2004, he attended the executive training program jointly held by the Asia-Pacific Institute of Business of the Chinese University of Hong Kong (香港中文大學亞太研究所) and Nin Jion Medicine Mfy (HK) Ltd. (香港京都念慈庵總廠有限公司). He had also completed the Business Administration training courses of Lingnan (University) College, Sun Yat-Sen University (中山大學嶺南（大學）學院) and received the certificate of completion in February 2003. He obtained a certificate of pharmacist (藥師資格證) by the Professional Titles ReformWork Leading Group of Guangdong Drug Administration (廣東省藥品監督管理局職稱改革領導小組) in March 2003. He has completed the China Europe International Business School (中歐國際工商學院) CMO training course and received the certificate of completion in July 2014. He had completed the EMBA courses of Management School, Jinan University (暨南大學管理學院) and obtained a master's degree in December 2015. He is currently serve for the enterprise institute of Jinan University, act as a part time researcher.

Mr. Oliver Horn, aged 46, is the Managing Director of Swisse since January 2017. He is also a director of various of subsidiaries of the Company. The major subsidiary is Swisse Wellness Group Pty Ltd. He is proud family man, speaks five languages and is a passionate ambassador for a healthy and happy lifestyle. Mr. Oliver Horn has 20 years of expertise in the FMCG, beauty care and luxury goods sectors, and is experienced in global marketing and regional business management. Before joining Swisse, Mr. Oliver Horn was the Integration Director at Treasury Wine Estates, where he successfully led the integration of the Diageo wine business into the EMEA business. Preceding this, he was GM for Central Europe, Middle East & Africa and Latin America. Prior to Treasury Wine Estates, Mr. Oliver Horn was the Group Brand Manager and Direct Marketing Manager of L'Oreal Paris (UK), and a Corporate Accounts Manager at Deutsche Bank (Germany). Mr. Oliver Horn holds a Bachelor of Business Administration (with Honours) from Arnhem Business School.

SENIOR MANAGEMENT (CONTINUED)

Mr. Charles Ravel, aged 42, joined the Group in June 2017. He is currently the Managing Director of BNC International division of the Group. Mr. Charles Ravel is running the Group subsidiaries across Europe and Asia outside China. He is also in charge of Global Marketing for the brands housed under the BNC division. Mr. Charles Ravel spent most of his career in FMCG sector in the US (close to 10 years) and in Asia. His career started in the consumer division of Total S.A. from 2000 occupying different Marketing and Sales positions mainly in the US. During that time, he also led a post-acquisition brand switch in Eastern Europe and subsequently managed operations for Total Oil consumer division in the UK. Post JARDEN Corp. buy-out, he led Category Management & Business Development for the Baby Care Division in the US for several years. He was then appointed in 2012 to develop Baby Care out of Asia being based subsequently in Hong Kong and in Shanghai. He led Sourcing Operations, Business Development and ultimately the business units across Asia Pacific in NEWELL BRANDS from 2015 to 2017. While having a sales and marketing background, he has held positions on an international scale in a wide array of functions including Operations. Mr. Charles Ravel studied International Marketing at FHW Berlin in Germany after getting a Bachelor of Arts degree in Economics from Rennes Business School in France. He also holds an MBA from University of San Francisco obtained with BGS honors in 2005.

Mr. Zhang Qizhang (張琦章), aged 34, joined the Group in June 2014. He has been appointed the General Manager of the New Business Development Department of the Group in May 2017. He is also the acting Chief People Officer of the Group since June 2017. He was the director of Integrated Marketing Center of the Group from April 2015 to May 2017. Before that, he was the Director in charge of the marketing, Biostime Business Unit and assumed additional responsibility as Director of Corporate Innovation Marketing Center. Mr. Zhang obtained his bachelor's degree in public management in Renmin University of China (中國人民大學) in June 2007. After graduation, he was employed by Procter & Gamble (China) Co., Ltd. (寶潔(中國)有限公司) as a brand manager at the marketing department until May 2014.

Ms. Yang Wenyun (楊文筠), aged 34, joined the Group in August 2005 and has appointed as one of the joint company secretaries of the Company since 12 July 2010. Ms. Yang works as the Director of the Listing Affairs and Risk Management Department, mainly in charge of overall listed corporation affairs, risk management and internal audit of the Group. She is also the Supervisor of the Company's subsidiary Swisse Guangzhou. Ms. Yang started her professional career with the Group and has obtained substantial experience through corporate governance, risk management, administration, legal affairs, information security management, internal audit, public relations and human resources management over the past twelve years with the Group. From August 2005 to December 2008, she worked as an assistant of public affairs and was mainly responsible for the legal affairs and public relations of the Group. Concurrently, being an assistant to the general manager since November 2006, responsible for part of administrative affairs of the Group. From December 2008 to February 2010, she was promoted to be the legal manager of the Group and was responsible for the overall legal affairs and public relations. In February 2010, she assumed the responsibility of leading the risk control department. In January 2014, she was promoted from a senior manager to become the director of the department. From October 2015 to February 2017, Ms. Yang was concurrently responsible for human resources management as the director of Corporate Affairs and Human Resources Department. Ms. Yang obtained a bachelor's degree in law from Sun Yat-Sen University (中山大學) in June 2005.

JOINT COMPANY SECRETARIES

Ms. Wong Tak Yee (黃德儀), is a director, Corporate Services of Tricor Services Limited ("**Tricor**"), a global professional services provider specializing in integrated business, corporate and investor services. Ms. Wong has over 25 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Wong is a Chartered Secretary and a Fellow of both the HKICS and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Wong is a holder of the Practitioner's Endorsement from the HKICS. (Note: The Company has engaged Tricor as external service provider and appointed Ms. Wong as the Company's joint company secretary and authorised representative since 12 July 2010.)

Ms. Yang Wenyun (楊文筠). Her biography is set out in the Senior Management section of Biography of Directors and Senior Management of this Annual Report.

As disclosed in the Company's prospectus dated 3 December 2010, as Ms. Yang did not possess the qualifications required under the then Rule 8.17 of the Listing Rules, the Group had applied to the Stock Exchange for, and had been granted, a waiver from the listing date (17 December 2010). Upon expiration of such waiver on 17 December 2013, the Company had re-evaluated the relevant experience Ms. Yang had obtained during the above mentioned three-year period, and had demonstrated to the Stock Exchange that Ms. Yang is qualified to act as the company secretary of the Company under Rule 3.28 of the Listing Rules, which was agreed by the Stock Exchange on 17 March 2014.

CHANGES IN INFORMATION OF DIRECTOR

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the date of the 2017 Interim Report of the Company are set out below:

Name of Director	Details of changes
Dr. Ngai Wai Fung	Appointed as an independent non-executive director of China Communications Construction Company Limited (Stock Code: 1800), a company listed on the Main Board of the Stock Exchange on 22 November 2017.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to present this Corporate Governance Report in the Annual Report.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, the Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). Throughout the year ended 31 December 2017, the Company has complied with all the code provisions as set out in the CG Code, save and except for code provision A.2.1, details of which are explained below.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2017.

The Company has also established written guidelines (the "**Employees Written Guidelines**") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the year ended 31 December 2017.

If the Company becomes aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

CORPORATE GOVERNANCE REPORT

THE BOARD

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the best interests of the Company. All Directors, including non-executive Directors and 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. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

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

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

For the year ended 31 December 2017, the Board comprised eight members, consisting of an executive Director, four non-executive Directors and three independent non-executive Directors. The Board has also established three Board committees, namely, the nomination committee (the "**Nomination Committee**"), the audit committee (the "**Audit Committee**") and the remuneration committee (the "**Remuneration Committee**"). Directors' biographical details are set out in the section headed "Biography of Directors and Senior Management" on pages 21 to 30 of this Annual Report. For the year ended 31 December 2017, the Board comprised the following members:

Executive Director:
Mr. Luo Fei *(Chairman, Chief Executive Officer, Chairman of the Nomination Committee and Member of the Remuneration Committee)*

Non-executive Directors:
Dr. Zhang Wenhui
Mr. Wu Xiong*
Mr. Luo Yun *(Member of the Audit Committee)*
Mr. Chen Fufang*

Independent non-executive Directors:
Dr. Ngai Wai Fung *(Chairman of the Audit Committee and Member of the Remuneration Committee and the Nomination Committee)*
Mr. Tan Wee Seng *(Chairman of the Remuneration Committee and Member of the Audit Committee and the Nomination Committee)*
Professor Xiao Baichun

* Mr. Wu Xiong and Mr. Chen Fufang have resigned as non-executive Directors of the Company with effect from 26 March 2018. Mrs. Laetitia Marie Edmee Jehanne ALBERTINI EP. GARNIER and Mr. Wang Yidong have been appointed as executive Directors of the Company with effect from 26 March 2018.

THE BOARD (CONTINUED)

Board Composition (continued)

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Mr. Luo Fei, the Chairman, the Chief Executive Officer and the executive Director of the Company, is the younger brother of Mr. Luo Yun, a non-executive Director of the Company. Save as disclosed, there are no financial, business, family or other material/relevant relationships among members of the Board.

Delegation by the Board

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive Directors make various contributions to the effective direction of the Company.

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of 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.

All Directors have full and timely access to all relevant information as well as the advice and services of the joint company secretaries, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making a request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board has delegated to the three Board committees the responsibility for overseeing particular aspects of the Company's affairs. All Board committees are established with defined written terms of reference which have been posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request. The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of the Annual Report. The Board committees should report to the Board on their decisions or recommendations made.

The Board has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

THE BOARD (CONTINUED)

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

Mr. Luo Fei, the Chairman of the Company, was also appointed as the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Joint Company Secretaries

The joint company secretaries of the Company are Ms. Wong Tak Yee of Tricor Services Limited, an external service provider, and Ms. Yang Wenyun who is also the primary contact person of the Company. Details of the biographies of the joint company secretaries are set out in the section headed "Biography of Directors and Senior Management" on pages 21 to 30 of the Annual Report.

Each of the joint company secretaries has undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2017.

Board Practices of Meetings

The Board meets regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications.

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and Board committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 7 days before each Board meeting or Board committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management attends all regular Board meetings and where necessary, other Board and Board committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The joint company secretaries are responsible for taking and keeping minutes of all Board meetings and Board committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's Articles of Association (the "**Articles of Association**") contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

The Board has four scheduled meetings a year at quarterly intervals and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance.

THE BOARD (CONTINUED)

Board Practices of Meetings (continued)

During the year ended 31 December 2017, the Board held 17 meetings. During the meetings of the Board held in 2017, the Board reviewed the operation and financial performance and reviewed and approved the annual results for the year ended 31 December 2016 and the interim results for the six months ended 30 June 2017.

Directors Attendances at Various Board and Board Committee Meetings and General Meetings during the Year Ended 31 December 2017

Name of Director	Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting	Extraordinary General Meeting
Executive Director						
Mr. Luo Fei (Note 1)	17/17	N/A	1/1	1/1	1/1	1/1
Non-executive Directors						
Dr. Zhang Wenhui	17/17	N/A	N/A	N/A	1/1	1/1
Mr. Wu Xiong	17/17	N/A	N/A	N/A	1/1	1/1
Mr. Luo Yun	17/17	2/2	N/A	N/A	1/1	1/1
Mr. Chen Fufang	17/17	N/A	N/A	N/A	1/1	1/1
Independent non-executive Directors						
Dr. Ngai Wai Fung (Note 2)	17/17	2/2	1/1	1/1	1/1	1/1
Mr. Tan Wee Seng (Note 3)	17/17	2/2	1/1	1/1	1/1	1/1
Professor Xiao Baichun	17/17	N/A	N/A	N/A	1/1	1/1
Date of Meeting *(DD/MM/YYYY)*	08/02/2017 01/03/2017 27/03/2017 19/04/2017 (Note 4) 11/05/2017 26/06/2017 07/07/2017 22/08/2017 24/08/2017 25/08/2017 12/09/2017 22/09/2017 09/10/2017 02/11/2017 05/12/2017 20/12/2017	27/03/2017 21/08/2017	27/03/2017	26/03/2017	12/05/2017	17/01/2017

Notes:

1: Chairman of the Board and the Nomination Committee
2: Chairman of the Audit Committee
3: Chairman of the Remuneration Committee
4: Two Board meetings were held on 19 April 2017.

None of the meetings set out above was attended by any alternate Director.

THE BOARD (CONTINUED)

Independence of Independent Non-executive Directors

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules.

In order to better encourage the independent non-executive Directors to exert their professional knowledge and expertise for the Company, each of them was granted share options by the Company on 16 December 2011 under the Share Option Scheme adopted by the Company. Details of such grant of share options are set out on page 54 of this Annual Report.

Term of Appointment of Non-executive Directors

Each of the non-executive Directors (including independent non-executive Directors) of the Company has entered into a letter of appointment with the Company for a specific term of three years, automatically renewable upon expiration, and is subject to retirement by rotation at an annual general meeting ("**AGM**") at least once every three years and being eligible, offer himself for re-election pursuant to the Company's Articles of Association.

Appointment, Re-election and Removal of Directors

The Company has established formal, considered and transparent procedures for the appointment of Directors.

The Company has adopted the procedures for shareholders to propose a person for election as a Director of the Company. These procedures are available and accessible on the Company's website at www.hh.global.

Each of the Directors of the Company has entered into a service contract or a letter of appointment with the Company for a specific term. Such term is subject to his re-election at an AGM upon retirement pursuant to relevant articles of the Articles of Association.

In accordance with the Company's Articles of Association adopted by the Company on 25 November 2010, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the following AGM of the Company and shall then be eligible for re-election. At each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an AGM at least once every three years and being eligible offer themselves for re-election.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

THE BOARD (CONTINUED)

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group.

The remuneration of each member of the senior management of the Group by band for the year ended 31 December 2017 is set out below:

Remuneration Bands	Number of Persons
HKD2,000,001 to HKD3,000,000	1
HKD4,000,001 to HKD5,000,000	1
HKD5,000,001 to HKD6,000,000	2
HKD7,000,001 to HKD8,000,000	3
HKD8,000,001 to HKD9,000,000	1
HKD9,000,001 to HKD10,000,000	1

Further particulars regarding Directors' and chief executive's remuneration and five highest paid employees as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in note 8 to the financial statements.

Continuous Professional Development

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the Directors. Continuing briefing and professional development for Directors are arranged where necessary. All Directors are encouraged to attend relevant training courses at the Company's expense.

THE BOARD (CONTINUED)

Continuous Professional Development (continued)

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

Directors	Type of Training Note
Executive Director	
Mr. Luo Fei	B
Non-executive Directors	
Dr. Zhang Wenhui	B
Mr. Wu Xiong	B
Mr. Luo Yun	B
Mr. Chen Fufang	B
Independent non-executive Directors	
Dr. Ngai Wai Fung	A, B
Mr. Tan Wee Seng	A, B
Professor Xiao Baichun	A, B

Note:

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops relating to directors' duties and responsibilities/corporate governance/updates on Listing Rules amendments etc.

B: Reading relevant news alerts, newspapers, journals, magazines, updates and relevant publications relating to the economy/general business/directors' duties and responsibilities etc.

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 20 March 2012 in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and relevant disclosures in the Corporate Governance Report of the Annual Report of the Company.

During the year ended 31 December 2017, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Company Code, Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and relevant disclosures in this Corporate Governance Report.

THE BOARD (CONTINUED)

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017 are set out in the Directors' Report on page 78 of the Annual Report.

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

Liability Insurance for Directors

The Company has subscribed appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities since August 2011, which is reviewed and renewed on an annual basis. The insurance coverage was renewed on 18 August 2017.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, namely, Mr. Luo Fei (Chairman of the Nomination Committee), Dr. Ngai Wai Fung and Mr. Tan Wee Seng, and the majority of them are independent non-executive Directors.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee takes into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy adopted on 20 August 2013, including but not limited to gender, race, language, cultural background, educational background, industry experience and functional experience. The Nomination Committee discusses and agrees on measurable objectives for achieving diversity on the Board, where necessary, and recommends them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee considers the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

NOMINATION COMMITTEE (CONTINUED)

The Nomination Committee held a meeting during the year ended 31 December 2017 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on the re-election of Directors, the attendance records are set out in the section headed “Directors Attendances at Various Board and Board Committee Meetings and General Meetings during the Year Ended 31 December 2017” on page 35 of this Annual Report. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board was maintained.

In accordance with Articles 84(1) and 84(2) of the Company’s Articles of Association, Dr. Zhang Wenhui, Mr. Luo Yun, the non-executive Directors, shall retire from office by rotation at the forthcoming AGM to be held on 11 May 2018 (the “**2018 AGM**”). In addition, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI EP. GARNIER and Mr. Wang Yidong, being executive Directors, appointed by the Board with effect from 26 March 2018, shall hold office until the 2018 AGM and be subject to re-election at such meeting pursuant to Article 83(3) of the Company’s Articles of Association. All the above Directors, being eligible, will offer themselves for re-election at the 2018 AGM.

The Company’s circular dated 10 April 2018 contains detailed information of the Directors standing for re-election.

AUDIT COMMITTEE

The Audit Committee comprises three members, namely, Dr. Ngai Wai Fung (Chairman of the Audit Committee), Mr. Luo Yun and Mr. Tan Wee Seng (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company’s existing external auditors.

The Company has adopted a whistleblowing policy for promoting high corporate governance standards and deterring wrongdoings. The policy aims at encouraging and enabling employees of the Group at all levels and as well as distributors and suppliers to report to the Audit Committee violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters of the Group.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, internal auditors or external auditors before submission to the Board;

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors;

- To review the adequacy and effectiveness of the Company’s financial reporting system, internal control and risk management systems and associated procedures; and

- To review the arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

AUDIT COMMITTEE (CONTINUED)

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2017 and the annual results for the year ended 31 December 2017, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 and the Annual Report for the year ended 31 December 2017, the financial reporting and compliance procedures, the report from management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

The Audit Committee held two meetings during the year ended 31 December 2017 and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and General Meetings during the Year Ended 31 December 2017" on page 35 of this Annual Report.

The Audit Committee also met the external auditors twice without the presence of the executive Directors in the year of 2017.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements of the Company is set out in the Independent Auditors' Report on pages 79 to 85 of the Annual Report.

Non-audit services by the external auditors are subject to the Audit Committee's approval and may be engaged only if they are more effective or economical than those available from other service providers and will not constitute adverse impact on the independence of the external auditors.

The Audit Committee has reviewed the independence and objectivity of the external auditors in 2017 and has been satisfied with the findings. The Audit Committee has recommended to the Board the re-appointment of Ernst & Young as the Company's external auditors at the 2018 AGM.

During the year under review, the remuneration paid/payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Services	**RMB'000**
Annual audit services	6,378
Non-audit services	
– Tax compliance and advisory services	905
– Assurance service relating to bond issuance	3,439
– Others*	367
Total	11,089

* "Others" were mainly for providing advice on matters in relation to financial due diligences and the development of the Environmental , Social and Governance Report.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely, Mr. Tan Wee Seng (Chairman of the Remuneration Committee), Mr. Luo Fei and Dr. Ngai Wai Fung, and the majority of them are independent non-executive Directors.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure for all Directors' and senior management's remuneration, and remuneration packages of the individual executive Directors and the senior management. The Remuneration Committee is also responsible for establishing a formal and transparent procedure for developing such remuneration policy and structure to ensure that no Director or any of his associates (as defined in the Listing Rules) will be involved in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department of the Company is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults with the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

During the year under review, the Remuneration Committee made recommendations to the Board to grant and award the shares of the Company to eligible persons pursuant to the Share Award Scheme adopted by the Board on 28 November 2011 and amended by the Board on 30 March 2012 and the 2013 Share Award Scheme adopted by the Board on 29 November 2013 and amended by the Board on 14 May 2015, in order to recognise the contributions by certain employees, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The Remuneration Committee held a meeting during the year ended 31 December 2017 and the attendance records are set out in the section headed "Directors Attendances at Various Board and Board Committee Meetings and General Meetings during the Year Ended 31 December 2017" on page 35 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. 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.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

The Company organizes corporate governance functions such as the risk management, internal control and internal auditing in the guidance of risk, focusing on key review and governance on scopes to which the Audit Committee and the management of the Group attach importance. The Group's risk management department and internal audit department are fully authorized in their day-to-day work and relevant projects to inspect all data and operation information of the Company and its subsidiaries. The Group's risk management department organizes, coordinates and directs on the risk management and internal control system construction of the companies under the Group and its subsidiaries from all regions over the world through issuing the risk management standards for the Group and establishing risk identification, risk assessment methods and operation procedures. The Group's risk management department regularly reports their work to the Audit Committee, the Executive Committee and the Chairman and Chief Executive Officer. The Group's internal audit department is independent of the operational management, and would independently assess the effectiveness of the operational management's execution of internal control design according to the annual audit plan, and determine rectification plans with relevant responsible departments in the companies under the Group and its subsidiaries in respect of the problems or insufficiency discovered, provide recommendations on improvement, track the implementation in order to ensure that the rectifications conform to our expectation of risks mitigation, and report regularly to the Audit Committee.

Currently, the Group is fully accelerating its globalized integration. It is necessary for the Group to swiftly catch up with the requirement of the global integration in respect of risk management and the internal control system. While fulfilling the governance requirements of listed companies under the CG Code, the Group should also be able to identify, monitor and timely respond to the significant risks encountered in the process of operation in a comprehensive, precise, quick and thorough manner, as well as to continue our self-enhancement in order to provide risk alert and protection for the rapid business development of the Group on a global basis.

Accordingly, our Company launched the Group's enterprise risk management and internal control system improvement project at the end of 2017. Starting from the fundamentals with an overall strategic viewpoint, we took a top-down approach in reviewing and establishing the roof top designs of risk management and internal control by way of system restructuring, and deployed the planning, instruction, implementation and assessment of the global risk management and internal control in a unified manner. For risk management, the adoption of the COSO ERM 2017 and ISO31000:2018 released by the global industry, which are the most advanced and innovative result of theory and practice, has formed the comprehensive risk management methodology for H&H Group's own business globalization practice. At the same time, input of resources has been increased and high-end and experienced talents in the industry are recruited, so as to implement and strengthen the professional ability allocation and resources allocation for risk management and internal control, seeking to complete the construction of the new risk framework and a comprehensive risk universe and the construction of the Group's risk management training system for our global business in 2018, so that the target of a substantial improvement on our risk management philosophy and consciousness, from our management to all other staff members, could be achieved, while completing the construction and implementation of an efficient cooperation mechanism among key business departments and the Group risk management department.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2017, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through AGMs and other general meetings. At the AGMs, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Board has adopted a shareholders' communication policy to set out the Company's procedures in providing the shareholders with prompt and equal access to information about the Company, in order to enable the shareholders to access the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company.

Voting at general meetings of the Company is conducted by way of poll in accordance with Article 66 of the Articles of Association. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

During the year ended 31 December 2017, the Group participated at 24 investment conferences and non-deal roadshows and approximately 700 individual and group meetings with shareholders, institutional investors and analysts. The investment conferences and non-deal roadshows attended by the Group during the year are summarized as follows:

Date	Event	Organizer	Location
January 2017	Citi Consumer Corporate Day	Citi	Hong Kong
January 2017	dbAccess China Conference	Deutsche Bank	Beijing
January 2017	Nomura Consumer and Gaming Corporate Day	Nomura	Hong Kong
March 2017	Hong Kong Non-Deal Roadshow	Citi	Hong Kong
April 2017	European Non-Deal Roadshow	Macquarie	London, Paris

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (CONTINUED)

Date	Event	Organizer	Location
April 2017	Daiwa China Corporate Day	Daiwa	Singapore
April 2017	US Non-Deal Roadshow	Citi	Boston, New York, San Francisco
April 2017	Shenzhen Non-Deal Roadshow	Industrial Securities	Shenzhen
May 2017	HSBC China Conference	HSBC	Shenzhen
June 2017	BAML Innovative China Forum	BAML	Shenzhen
June 2017	Daiwa Hong Kong China Investment Seminar	Daiwa	Tokyo
June 2017	UBS Asian Consumer Conference	UBS	Hong Kong
July 2017	dbAccess Consumer Day	Deutsche Bank	Hong Kong
August 2017	Hong Kong Non-Deal Roadshow	Citi	Hong Kong
August 2017	Singapore Non-Deal Roadshow	CLSA	Singapore
September 2017	UK Non-Deal Roadshow	Goldman Sachs	London, Edinburgh
September 2017	Goldman Sachs China Conference	Goldman Sachs	Shenzhen
September 2017	CLSA Investors' Forum	CLSA	Hong Kong
October 2017	Citi China Investor Conference	Citi	Macau
October 2017	Australia Non-Deal Roadshow	Macquarie	Melbourne, Sydney
November 2017	Jefferies Greater China Summit	Jefferies	Hong Kong
November 2017	HSBC China Conference	HSBC	New York
November 2017	Morgan Stanley Asia Pacific Summit	Morgan Stanley	Singapore
December 2017	Citi Global Consumer Global Conference	Citi	London

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS (CONTINUED)

In 2017, the Group has been awarded for the "Most Honored Company", "Best CEO", "Best CFO", "Best Investment Relations Professional" and "Best Investment Relations Program" among a total of 2,510 companies in Asia received votes in All-Asia Executive Team survey by Institutional Investor. The Group also received "Best Investment Relations in Corporate Transaction", "Best Investor Meeting" and "Best Presentation Collaterals" awards from Hong Kong Investor Relations Association.

The last shareholders' meeting was the AGM held on 12 May 2017 at Marina Room II, 2/F., The Excelsior, 281 Gloucester Road, Causeway Bay, Hong Kong for approval of, among other items, the general mandates to issue and repurchase shares of the Company, the re-election of retiring Directors and the change of company name. Particulars of the major items considered at the AGM are set out in the circular dated 7 April 2017. All the proposed ordinary resolutions and special resolution were passed by way of poll at the AGM.

The 2018 AGM will be held on 11 May 2018. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.hh.global, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted and available for public access. Investors may write directly to the Company or via email to ir@hh.global for any enquiries.

During the year under review, the Company has not made any changes to its Memorandum and Articles of Association. An updated version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

SHAREHOLDER RIGHTS

How Shareholders can Convene an Extraordinary General Meeting and Put Forward Proposals at Shareholders' Meetings

Pursuant to Article 58 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the joint company secretaries of the Company by mail at Suites 4007-09, 40th Floor, One Island East, Taikoo Place, 18 Westlands Road, Quarry Bay, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by Which Enquiries may be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the joint company secretaries by mail at Suites 4007-09, 40th Floor, One Island East, Taikoo Place, 18 Westlands Road, Quarry Bay, Hong Kong. The joint company secretaries forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, enquiries and customer complaints, to the Chief Executive Officer of the Company.

The Board hereby presents its report and the audited financial statements of the Group for the year ended 31 December 2017.

CHANGE OF COMPANY NAME

Pursuant to the special resolution passed at the annual general meeting of the Company held on 12 May 2017 and approved by the Registry of Companies in the Cayman Islands, the name of the Company was changed from "Biostime International Holdings Limited 合生元國際控股有限公司" to "Health and Happiness (H&H) International Holdings Limited 健合 (H&H) 國際控股有限公司" on 12 May 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company for intermediate holding companies and operating subsidiaries of the Group and is also engaged in acquisitions of businesses from time to time. The Group is engaged in providing high-end family nutrition and care products, striving to be a global leader in the areas of premium nutrition and wellness through superior products and aspirational brands. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2017 are set out in note 1 to the financial statements.

BUSINESS REVIEW

The business review of the Group as at 31 December 2017 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 6 to 12 and pages 13 to 20, respectively, of this Annual Report.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2017 are set out in the consolidated financial statements on pages 86 to 92 of the Annual Report. No interim dividend or final dividend in respect of the six months ended 30 June 2017 and the year ended 31 December 2017 was declared.

CLOSURE OF REGISTER OF MEMBERS

Entitlement to Attend and Vote at the 2018 AGM

The 2018 AGM will be held on Friday, 11 May 2018. The register of members of the Company will be closed from Tuesday, 8 May 2018 to Friday, 11 May 2018, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the entitlement to attend and vote at the 2018 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 7 May 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 12 to the financial statements.

DIRECTORS' REPORT

SHARE CAPITAL

Details of movements in the share capital of the Group during the year ended 31 December 2017 are set out in note 34 to the financial statements.

RESERVE

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out in note 50 and note 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves, including the share premium account and contributed surplus and retained profits, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"), amounted to approximately RM6,736.2 million. Details of the reserves of the Company as at 31 December 2017 are set out in note 50 to the financial statements.

CHARITABLE DONATIONS

The Group's donation to charity includes the donation of RMB0.1 to Biostime China Foundation for Mother and Child for each box or can of any of the Group's products sold. Biostime China Foundation for Mother and Child was established by the Group in 2007 in cooperation with the Chinese Red Cross Foundation. For each of the three years ended 31 December 2015, 2016 and 2017, the Group's donations to charity were RMB3.9 million, RMB2.5 million and RMB3.4 million, respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 186 of this Annual Report. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total revenue for the year. None of the Directors or their close associates or any of the substantial shareholders of the Company had any interest in any of the five largest customers of the Group.

For the year ended 31 December 2017, the largest supplier of the Group is Cooperative Isigny Sainte-Mère ("**ISM**"). ISM is a renowned French dairy company with advanced production technology and world presence, established in Normandy, a region with abundant natural resources (recognized milk source used in Isigny AOP products), in 1932.

Purchases by the Group from ISM accounted for 30.3% of the total purchases of the Group for the year, while the purchases made from the five largest suppliers accounted for 61.4% of the total purchases of the Group for the year. None of the Directors or their close associates or any of the substantial shareholders of the Company had any interest in any of the five largest suppliers of the Group.

DIRECTORS

The Directors of the Company during the year ended 31 December 2017 and up to the date of this Annual Report were as follows:

Executive Director

Mr. Luo Fei

Non-executive Directors

Dr. Zhang Wenhui
Mr. Wu Xiong*
Mr. Luo Yun
Mr. Chen Fufang*

Independent non-executive Directors

Dr. Ngai Wai Fung
Mr. Tan Wee Seng
Professor Xiao Baichun

* Mr. Wu Xiong and Mr. Chen Fufang have resigned as non-executive Director of the Company with effect from 26 March 2018. Mrs. Laetitia Marie Edmee Jehanne ALBERTINI EP. GARNIER and Mr. Wang Yidong have been appointed as executive Directors of the Company with effect from 26 March 2018.

In accordance with Articles 84(1) and 84(2) of the Company's Articles of Association (the "**Articles**"), Dr. Zhang Wenhui and Mr. Luo Yun shall retire from office by rotation and being eligible, offer themselves for re-election at the 2018 AGM. In addition, Mrs. Laetitia Marie Edmee Jehanne ALBERTINI EP. GARNIER and Mr. Wang Yidong shall hold office until the 2018 AGM and be subject to re-election at such meeting pursuant to Article 83(3) of the Articles.

DIRECTORS' SERVICE CONTRACTS

Mr. Luo Fei, an executive Director, had entered into a service contract with the Company for an initial fixed term of three years from 17 December 2010 to 16 December 2013, and automatically renewed for a term of three years commencing on 17 December 2013 and on 17 December 2016 respectively, until terminated by not less than three months' notice in writing served by either party on the other, or in accordance with the terms set out in the service contracts. An executive Director is entitled to a director's fee, and is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all executive Directors in respect of any financial year of the Company may not exceed 5% of audited consolidated net profit (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of Directors regarding the increment of annual salary and the amount of the performance-based bonus payable to him/her.

On 7 November 2013, three of the non-executive Directors, namely Mr. Wu Xiong, Mr. Luo Yun and Mr. Chen Fufang, respectively entered into a letter of appointment with the Company for a term of three years commencing on 17 December 2013, and automatically renewed for a term of three years commencing on 17 December 2016, until terminated by not less than one month's notice in writing served by either party on the other. Dr. Zhang Wenhui had entered into a letter of appointment with the Company as a non-executive Director for an initial term of three years from 25 June 2012 to 24 June 2015, and automatically renewed for a term of three years commencing on 25 June 2015, until terminated by not less than one month's notice in writing served by either party on the other. Each of the non-executive Directors is entitled to a director's fee pursuant to their respective letters of appointment and/or supplementary agreements with the Company dated 29 November 2012.

DIRECTORS' SERVICE CONTRACTS (CONTINUED)

Each of the independent non-executive Directors had entered into a letter of appointment for a term of three years from 17 December 2012 to 16 December 2015, and automatically renewed for a term of three years commencing on 17 December 2015, until terminated by not less than one month's notice in writing served by the independent non-executive Directors on the Company or in accordance with the provisions set out in the respective letters of appointment. Each of the independent non-executive Directors is entitled to a director's fee.

None of the Directors who are proposed for re-election at the 2018 AGM has a service contract which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISIONS

The Articles of the Company provide that the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty. Such provisions were in force during the financial year ended 31 December 2017 and remained in force as of the date of this Annual Report. The Company has also arranged appropriate directors and officers liability insurance in respect of legal action against Directors.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the Directors during the year ended 31 December 2017 are set out in note 8 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 30 of the Annual Report.

EMOLUMENT POLICY

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the salary trends in the regions in which the Group operates, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted the Pre-IPO Share Option Scheme, the Share Option Scheme, the 2011 Share Award Scheme and the 2013 Share Award Scheme (each as defined below) for its employees.

None of the Directors waived any emoluments during the year ended 31 December 2017.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent in accordance with Rule 3.13.

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

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

Name of Director	Capacity/ Nature of interest	Long/Short position	Shares or underlying shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company *(Note 7)*
Luo Fei	Beneficial owner	Long position	372,744 *(Note 1)*	0.059%
	Beneficial owner	Long position	1,030,346 *(Note 2)*	0.162%
	Beneficial owner	Long position	398,359 *(Note 3)*	0.063%
	Beneficiary of a trust	Long position	450,000,000 *(Note 4)*	70.639%
Luo Yun	Beneficiary of a trust	Long position	450,000,000 *(Note 4)*	70.639%
Ngai Wai Fung	Beneficial owner	Long position	210,000 *(Note 5)*	0.033%
Tan Wee Seng	Beneficial owner	Long position	210,000 *(Note 5)*	0.033%
Xiao Baichun	Beneficial owner	Long position	210,000 *(Note 6)*	0.033%

Note 1: These are the shares subject to the exercise of the Pre-IPO Share Options granted by the Company under the Pre-IPO Share Option Scheme on 16 July 2010. Details of the Company's Pre-IPO Share Option Scheme are set out in the section headed "Share Option Schemes – Pre-IPO Share Option Scheme" below.

Note 2: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 414,093 share options granted on 29 December 2015 and 616,253 share options granted on 24 August 2017. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" below.

Note 3: These are the awarded shares (the "**Awarded Shares**") granted by the Company under the 2011 Share Award Scheme, including 97,000 Awarded Shares granted on 30 March 2012, 55,000 Awarded Shares granted on 3 July 2012, 30,500 Awarded Shares granted on 25 March 2013, 138,031 Awarded Shares granted on 31 December 2015 and 77,828 Awarded Shares granted on 23 December 2016. Details of the Company's Share Award Scheme are set out in the section headed "Share Award Scheme" below.

Note 4: As at 31 December 2017, Biostime Pharmaceuticals (China) Limited was owned as to 51.84% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 65.00% by Flying Company Limited and 35.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of the family trusts set up by Mr. Luo Fei as the settlor ("**Mr. Luo Fei's Family Trust**") and Mr. Luo Yun as the settlor ("**Mr. Luo Yun's Family Trust**"), through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY (CONTINUED)

Note 5: These are the shares subject to the exercise of the Share Options granted by the Company under the Share Option Scheme, including 60,000 share options granted on 16 December 2011 and 150,000 share options granted on 19 April 2017. Details of the Company's Share Option Scheme are set out in the section headed "Share Option Schemes – Share Option Scheme" below.

Note 6: Professor Xiao's interests are consisted of (i) 60,000 shares issued by options granted under the Share Option Scheme on 16 December 2011, which were exercised on 1 September 2017; and (ii) 150,000 shares to be issued subject to options granted under the Share Option Scheme on 19 April 2017.

Note 7: As at 31 December 2017, the total number of the issued shares of the Company was 637,042,042.

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

PRE-EMPTIVE RIGHTS

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

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

References are made to the announcements issued by the Company on 23 and 24 January 2017. On 23 January 2017, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of US$200,000,000. The senior notes bear interest from and including 21 December 2016 at a rate of 7.25% per annum, payable semi-annually in arrears. The senior notes are listed on the Singapore Exchange Securities Trading Limited.

On 20 February 2017, at the option of the bondholders, the Company redeemed its then remaining part of the convertible bonds due 2019, which are listed on the Stock Exchange (stock code: 6024), with an aggregate principal amount of HK$1,286,000,000 for an aggregate redemption price of HK$1,400,968,400 in accordance with the terms of such convertible bonds.

On 22 September 2017, based on the Company's instructions, the trustee of the Share Award Scheme adopted by the Company on 28 November 2011 has purchased a total of 250,500 ordinary shares of the Company on the Stock Exchange at a total consideration of HK$8,782,704.36.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

SHARE OPTION SCHEMES

The Company has adopted two share option schemes, pursuant to which the Company is entitled to grant options prior to and after the listing of the Company on the Main Board of the Stock Exchange. The details of both share option schemes are as follows:

Share Option Scheme

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include the Company's Directors (including independent non-executive Directors), other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholders in the Company's subsidiaries. The Share Option Scheme became effective on 25 November 2010 and, unless otherwise cancelled or amended, will remain in force for ten years from that date. As at 31 December 2017, the remaining life of the Share Option Scheme was approximately 2 years and 11 months.

The maximum number of shares which may be issued upon exercise of all outstanding share options (the "**Share Options**") granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the total number of shares in issue of the Company from time to time.

The maximum number of shares which may be issued upon exercise of all Share Options to be granted under the Share Option Scheme and any other schemes of the Group shall not, in aggregate, exceed 10% of the total number of shares in issue of the Company as at the date of listing of the Company on the Main Board of the Stock Exchange (the "**Listing Date**"). The maximum number of shares issued and to be issued upon exercise of the Share Options granted to any eligible participant in the Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. Any further grant of Share Options in excess of this limit is subject to shareholders' approval in a general meeting.

Share Options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their close associates, are subject to approval in advance by the independent non-executive Directors (excluding the independent non-executive Directors who or whose close associates are the grantees of a Share Option). In addition, any grant of Share Options to a substantial shareholder or an independent non-executive Director of the Company, or to any of their close associates, would result in the securities issued and to be issued upon exercise of all Share Options already granted and to be granted (including Share Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: a) representing in aggregate over 0.1% of the relevant class of securities in issue; and b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million, such further grant of Share Options must be approved by shareholders of the Company (voting by way of a poll).

The offer of a grant of Share Options may be accepted within 28 days from the date of offer, upon payment of a consideration of HK$1 by the grantee. The exercise period of the Share Options granted will be determined by the Board in its absolute discretion, save no Share Option may be exercised more than ten years after it has been granted on the date of acceptance of such Share Option. Subject to such terms and conditions as the Board may determine, there is no minimum period for which a Share Option must be held before it can be exercised.

The exercise price of Share Options is determined by the Board, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the Share Options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

The Share Options under the Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the year ended 31 December 2017, a total of 17,469,873 Share Options to subscribe for 17,469,873 ordinary shares of HK$0.01 each in the share capital of the Company were granted to grantees (the "**Grantees**") under the Share Option Scheme, of which, 1,927,499 Share Options were granted on 19 April 2017 ("**Date of Grant 1**") at an exercise price of HK$25.75 per share, 446,120 Share Options were granted on 7 July 2017 ("**Date of Grant 2**") at an exercise price of HK$22.15 per share, 14,318,647 Share Options were granted on 24 August 2017 ("**Date of Grant 3**") at an exercise price of HK$29.25 per share, and 777,607 Share Options were granted on 5 December 2017 ("**Date of Grant 4**") at an exercise price of HK$47.10 per share. The closing prices of the shares of the company immediately before Date of Grant 1, Date of Grant 2, Date of Grant 3 and Date of Grant 4 were HK$25.5, HK$21.10, HK$26.75 and HK$46.95, respectively.

Particulars and movements of Share Options under the Share Option Scheme during the year ended 31 December 2017 by category of Grantees were as follows:

			Number of Share Options					
Category of Grantees	Date of grant (DD/MM/YYYY)	Exercise price per Share	Outstanding as at 1 January 2017	Granted during the year ended 31 December 2017	Exercised during the year ended 31 December 2017	Lapsed during the year ended 31 December 2017	Cancelled during the year ended 31 December 2017	Outstanding as at 31 December 2017
Directors								
Dr. Ngai Wai Fung	16/12/2011	HK$12.12	60,000	–	–	–	–	60,000
	19/04/2017	HK$25.75	–	150,000	–	–	–	150,000
Mr. Tan Wee Seng	16/12/2011	HK$12.12	60,000	–	–	–	–	60,000
	19/04/2017	HK$25.75	–	150,000	–	–	–	150,000
Prof. Xiao Baichun	16/12/2011	HK$12.12	60,000	–	(60,000)(1)	–	–	–
	19/04/2017	HK$25.75	–	150,000	–	–	–	150,000
Mr. Luo Fei	29/12/2015	HK$15.58	414,093	–	–	–	–	414,093
	24/08/2017	HK$29.25	–	616,253	–	–	–	616,253
Sub-total			594,093	1,066,253	(60,000)	–	–	1,600,346
Other employees	09/06/2011	HK$15.312	66,468	–	(44,414)(2)	–	–	22,054
	29/11/2011	HK$11.52	86,377	–	(47,286)(3)	–	–	39,091
	01/06/2012	HK$19.64	88,541	–	(45,677)(4)	(602)	–	42,262
	07/12/2012	HK$24.70	194,661	–	(78,264)(5)	(8,662)	–	107,735
	29/12/2015	HK$15.58	13,433,958	–	(4,816,258)(6)	(1,327,542)	(478,558)	6,811,600
	03/05/2016	HK$21.05	483,735	–	(52,595)(7)	(65,452)	(165,989)	199,699
	30/09/2016	HK$20.92	490,590	–	(57,494)(8)	(25,245)	(71,741)	336,110
	23/12/2016	HK$23.30	540,804	–	(6,000)(9)	(85,039)	(195,262)	254,503
	19/04/2017	HK$25.75	–	1,477,499	–	(432,214)	–	1,045,285
	07/07/2017	HK$22.15	–	446,120	–	(168,368)	–	277,752
	24/08/2017	HK$29.25	–	13,702,394	–	(1,246,575)	–	12,455,819
	05/12/2017	HK$47.10	–	777,607	–	(3,110)	–	774,497
Total			**15,979,227**	**17,469,873**	**(5,207,988)**	**(3,362,809)**	**(911,550)**	**23,966,753**

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Note 1: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$28.00.

Note 2: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$33.72.

Note 3: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$33.36.

Note 4: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$31.90.

Note 5: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$36.58.

Note 6: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$28.26.

Note 7: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$29.25.

Note 8: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$37.87.

Note 9: The weighted average closing price of these shares immediately before the dates on which the relevant Share Options were exercised is HK$36.72.

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

All Share Options granted since the adoption of the Share Option Scheme until 7 December 2012 have vested in accordance with the timetable below with a 6-year exercise period (for this purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a "**Vesting Date**"):

Vesting Date	Percentage of Share Options to vest
Any time after the third anniversary of 17 December 2010	30% of the total number of Share Options granted
Any time after the fourth anniversary of 17 December 2010	30% of the total number of Share Options granted
Any time after the fifth anniversary of 17 December 2010	40% of the total number of Share Options granted

Among the 18,868,509 Shares Options granted on 29 December 2015, 2,732,019 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2017	30% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	40% of the total number of Share Options granted

Among the 18,868,509 Shares Options granted on 29 December 2015, 16,136,490 Share Options (including Share Options granted to Mr. Luo Fei) shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
30 December 2016	50% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	20% of the total number of Share Options granted

Among the 483,735 Shares Options granted on 3 May 2016, 302,578 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2017	30% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	40% of the total number of Share Options granted

Among the 483,735 Shares Options granted on 3 May 2016, 181,157 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
30 December 2016	50% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	20% of the total number of Share Options granted

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Among the 554,009 Shares Options granted on 30 September 2016, 102,487 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2017	30% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	40% of the total number of Share Options granted

Among the 554,009 Shares Options granted on 30 September 2016, 349,466 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
30 December 2016	50% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	20% of the total number of Share Options granted

Among the 554,009 Shares Options granted on 30 September 2016, 102,056 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	50% of the total number of Share Options granted
1 April 2019	50% of the total number of Share Options granted

Among the 540,804 Shares Options granted on 23 December 2016, 127,759 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2017	30% of the total number of Share Options granted
1 April 2018	30% of the total number of Share Options granted
1 April 2019	40% of the total number of Share Options granted

Among the 540,804 Shares Options granted on 23 December 2016, 413,045 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	50% of the total number of Share Options granted
1 April 2019	50% of the total number of Share Options granted

Among the 1,927,499 Shares Options granted on 19 April 2017, 1,477,499 Share Options granted to eligible persons who are not Directors shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	50% of the total number of Share Options granted
1 April 2019	50% of the total number of Share Options granted

SHARE OPTION SCHEMES (CONTINUED)

Share Option Scheme (continued)

Among the 1,927,499 Shares Options granted on 19 April 2017, 450,000 Share Options granted to certain Directors shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	One-third of the total number of Share Options granted
1 April 2019	One-third of the total number of Share Options granted
1 April 2020	One-third of the total number of Share Options granted

All 446,120 Shares Options granted on 7 July 2017 shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2018	50% of the total number of Share Options granted
1 April 2019	50% of the total number of Share Options granted

All 14,318,647 Shares Options granted on 24 August 2017 (including Share Options granted to Mr. Luo Fei) shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2021	100% of the total number of Share Options granted

Among the 777,607 Shares Options granted on 5 December 2017, 125,359 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2019	100% of the total number of Share Options granted

Among the 777,607 Shares Options granted on 5 December 2017, 652,248 Share Options shall vest in accordance with the timetable below with a 6-year exercise period:

Vesting Date	Percentage of Share Options to vest
1 April 2021	100% of the total number of Share Options granted

Save as disclosed above, none of the Grantees is a Director, chief executive or substantial shareholder of the Company, or their respective close associates (as defined in the Listing Rules).

911,550 Share Options granted under the Share Option Scheme were cancelled during the year ended 31 December 2017.

As at 31 December 2017, the total number of shares available for issue under the Share Option Scheme was 41,417,942, representing approximately 6.50% of the Company's issued share capital as at the date of this Annual Report.

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme

The purpose of the pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") is to give the Directors, senior management, employees and business partners of the Company an opportunity to have a personal stake in the Company and help motivate the Directors, senior management, employees and business partners to optimize their performance and efficiency to the Group and/or to reward them for their past contributions, and also to retain or otherwise maintain on-going relationships with those whose contributions are important to the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by a written resolution of the sole shareholder of the Company dated 12 July 2010, are substantially the same as the terms of the Share Option Scheme except that:

(a) the subscription price per share for all options granted under the Pre-IPO Share Option Scheme (the "**Pre-IPO Share Options**") is HK$2.53;

(b) the total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 11,150,249 shares, and no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date;

(c) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

Period within which option can be exercised	Maximum percentage of entitlement
Any time after the third anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the fourth anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the fifth anniversary of the Listing Date	40% of the total numbers of options granted

(d) there is a 6-year exercise period for each option granted under the Pre-IPO Share Option Scheme.

A total of 11,150,249 Pre-IPO Share Options were granted to 329 participants by the Company on 16 July 2010 under the Pre-IPO Share Option Scheme, including 3 Directors and 14 members of the senior management of the Group, at a consideration of HK$1.00 paid by each grantee. During the year ended 31 December 2017, 4 employees were no longer eligible for the Pre-IPO Share Options due to their failure to meet performance target or retirement, and as a result, a total of 3,305 Pre-IPO Share Options lapsed. Particulars and movements of the Pre-IPO Share Options under the Pre-IPO Share Option Scheme during the year ended 31 December 2017 by category of grantees are set out below:

	Number of Pre-IPO Share Options			
Category of grantees	**Outstanding as at 1 January 2017**	**Exercised during the year ended 31 December 2017**	**Lapsed during the year ended 31 December 2017**	**Outstanding as at 31 December 2017**
Director				
Mr. Luo Fei	372,744	–	–	372,744
Sub-total	372,744	–	–	372,744
Others				
Senior management members	334,794	(85,406)	–	249,388
Other employees	155,577	(94,644)	(3,305)	57,628
Business partners	60,000	–	–	60,000
Sub-total	550,371	(180,050)	(3,305)	367,016
Total	**923,115**	**(180,050)**	**(3,305)**	**739,760**

DIRECTORS' REPORT

SHARE OPTION SCHEMES (CONTINUED)

Pre-IPO Share Option Scheme (continued)

No Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were cancelled during the year ended 31 December 2017.

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 740,160, representing approximately 0.12% of the Company's issued share capital as at the date of this Annual Report.

SHARE AWARD SCHEME

A share award scheme (the "**2011 Share Award Scheme**") of the Company was adopted by the Board on 28 November 2011 (the "**Adoption Date**") and amended by the Board on 30 March 2012. The purpose of the 2011 Share Award Scheme is to recognize the contributions of certain Directors, senior management and employees of the Company and its subsidiaries and to retain and motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

Subject to the terms of the 2011 Share Award Scheme and the Listing Rules, the Board may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such number of shares as it may determine. Shares will be acquired by the independent trustee of the 2011 Share Award Scheme on the market out of the funds contributed by the Company and be held in trust for the relevant participants in accordance with the provisions of the 2011 Share Award Scheme. The vesting period shall, in any event, be no longer than ten years.

The Board shall not make any further award which would result in the number of shares awarded by the Board under the 2011 Share Award Scheme representing in excess of 10% of the issued share capital of the Company as at the Adoption Date. In any event, the unvested shares held by the trustee at any time shall be less than 5% of the issued share capital of the Company. The maximum number of shares which may be awarded to a participant under the 2011 Share Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Subject to any early termination as may be determined by the Board, the 2011 Share Award Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date.

Details of the 2011 Share Award Scheme are set out in the Company's announcements dated 28 November 2011 and 30 March 2012.

During the year ended 31 December 2017, the Board resolved to pay HK$5,000,000 to the trustee of the 2011 Share Award Scheme, so that the trustee would then purchase and grant relevant shares to certain grantees under the 2011 Share Award Scheme.

During the year ended 31 December 2017, based on the Company's instructions, the trustee of the 2011 Share Award Scheme has purchased a total of 250,500 ordinary shares of the Company on the Stock Exchange at a total consideration of HK$8,782,704.36.

On 19 April 2017, the Board resolved to grant a total of 111,018 awarded shares to 1 employee by way of allocation of a combination of (1) shares of the Company previously awarded under the 2011 Share Award Scheme which did not vest and had lapsed and which were then held by the trustee pursuant to the 2011 Share Award Scheme and (2) shares previously purchased by the trustee and held by the trustee pursuant to the 2011 Share Award Scheme.

SHARE AWARD SCHEME (CONTINUED)

On 22 September 2017, the Board resolved to grant a total of 329,646 awarded shares to 6 employees by way of allocation of a combination of (1) shares of the Company previously awarded under the 2011 Share Award Scheme which did not vest and had lapsed and (2) which were then held by the trustee pursuant to the 2011 Share Award Scheme.

Summary of particulars of the shares awarded under the 2011 Share Award Scheme (the "**Awarded Shares**") during the year ended 31 December 2017 is as follows:

				Number of Awarded Shares		
Date of grant	Number of Awarded Shares granted	Approximate percentage of the Company's share capital as at the Adoption Date	Vesting date	Vested as at 31 December 2017	Forfeited/ lapsed as at 31 December 2017	Outstanding (held by the trustee for the grantees) as at 31 December 2017
23 December 2016	7,713 *(Note 1)*	0.001%	1 April 2017	(7,713)	–	–
23 December 2016	320,335 *(Note 2)*	0.053%	1 April 2018	–	(70,313)	250,022
19 April 2017	111,108 *(Note 3)*	0.018%	1 April 2018	–	–	111,108
22 September 2017	329,646 *(Note 4)*	0.055%	1 April 2019	–	–	329,646
Total	**768,802**	**0.127%**		**(7,713)**	**(70,313)**	**690,776**

Note 1: These Awarded Shares were granted to a participant who was a director of a subsidiary of the Company.

Note 2: Among these Awarded Shares granted, 77,828 Awarded Shares were granted to Mr. Luo Fei and 242,507 Awarded Shares were granted to 5 participants who were directors of subsidiaries of the Company.

Note 3: These Awarded Shares were granted to a participant who was a director of certain subsidiaries of the Company.

Note 4: These Awarded Shares were granted to participants who were directors of certain subsidiaries of the Company.

Further details in relation to the 2011 Share Award Scheme are set out in note 36 to the financial statements of this Annual Report.

2013 SHARE AWARD SCHEME

The Board also adopted a 2013 share award scheme (the "**2013 Share Award Scheme**") on 29 November 2013, which was further amended on 14 May 2015. It is implemented in parallel with the 2011 Share Award Scheme. The purposes of the 2013 Share Award Scheme are to recognize the contributions by certain employees of the Group, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The Board may from time to time at its absolute discretion select any employee who is eligible to participate in the 2013 Share Award Scheme (the "**Selected Participant**") or a group of Selected Participants for participation in the 2013 Share Award Scheme. Subject to the limit on the size of the 2013 Share Award Scheme as set out below, the Board shall (a) determine a number of awarded shares which it wishes to be the subject of an award under the 2013 Share Award Scheme, or (b) instruct the trustee to allocate Returned Shares (as defined below) as awarded shares to any Selected Participant(s).

For the purpose of satisfying awards granted under the 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the Board by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders' approval is obtained in a general meeting of the Company.

Subsequent to the grant of awards, the Board shall pay (or cause to be paid) sufficient funds to the trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the funds from the Company, the trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the trustee and the Board from time to time but in any event no later than 40 business days before the vesting of the relevant awarded shares.

Such awarded shares shall then be held by the trustee for the Selected Participants in accordance with the provisions of the 2013 Share Award Scheme prior to vesting. The trustee shall not exercise any voting right attached in respect of any awarded shares held in trust by it under the 2013 Share Award Scheme (including but not limited to the awarded shares and any bonus shares and script shares derived from them).

Where awarded shares (the "**Returned Shares**"), which are referable to a Selected Participant, do not vest in accordance with the specified procedures, then the trustee shall hold such Returned Shares and any income deriving from it exclusively for the benefit of all or one or more of the Selected Participants in such manners and under such conditions in accordance with the instructions from the Board.

The Board shall not make any further award which would result in the number of shares awarded by the Board under the 2013 Share Award Scheme representing in excess of 1.5% of the issued share capital of the Company as at the adoption date of the same. No sum of money shall be set aside and no awarded shares shall be subscribed pursuant to the 2013 Share Award Scheme, nor any amounts paid to the trustee for the purpose of making such a subscription, if, as a result of such subscription, the number of awarded shares administered under the 2013 Share Award Scheme would represent in excess of 1% of the issued share capital of the Company as at the adoption date of the same, provided that awarded shares which have been transferred to Selected Participants upon vesting shall be left out of account when ascertaining such amount and provided further that the Board may resolve to increase such limit at its sole discretion.

The maximum number of awarded shares which may be subject to award(s) to a single Selected Participant at any one time shall not in aggregate exceed 1% of the issued share capital of the Company as at the adoption date of the 2013 Share Award Scheme.

Subject to any early termination as may be determined by the Board, the 2013 Share Award Scheme shall be valid and effective for a term of five years commencing on the adoption date of the same.

2013 SHARE AWARD SCHEME (CONTINUED)

Details of the 2013 Share Award Scheme are set out in the Company's announcement dated 29 November 2013.

On 19 April 2017, the Board resolved to grant awards comprising a total of 81,992 awarded shares (the "**2017 Batch 1 Awarded Shares**") to 6 Selected Participants by way of allotment of new shares.

On 7 July 2017, the Board resolved to grant awards comprising a total of 48,637 awarded shares (the "**2017 Batch 2 Awarded Shares**") to 2 Selected Participants by way of allotment of new shares.

On 25 August 2017, the Board resolved to grant awards comprising a total of 1,198,604 awarded shares (the "**2017 Batch 3 Awarded Shares**") to 59 Selected Participants by way of allotment of new shares.

On 5 December 2017, the Board resolved to grant awards comprising a total of 26,949 awarded shares (the "**2017 Batch 4 Awarded Shares**") to 2 Selected Participants by way of allocation of 26,949 Returned Shares. Summary of particulars of the 2017 Batch 1 Awarded Shares, 2017 Batch 2 Awarded Shares, 2017 Batch 3 Awarded Shares, 2017 Batch 4 Awarded Shares granted during the year ended 31 December 2017 and other outstanding awarded shares previously granted are set out below:

				Number of awarded shares		
Date of grant	Number of Awarded Shares granted	Approximate percentage of the Company's share capital as at the adoption date of the 2013 Share Award Scheme	Vesting date	Vested as at 31 December 2017	Forfeited as at 31 December 2017	Outstanding (held by the trustee for the Selected Employees) as at 31 December 2017
1 July 2015	68,300	0.011%	30 June 2017	–	(68,300)	–
29 December 2015	585,947	0.097%	1 April 2017	(511,877)	(74,070)	–
3 May 2016	82,522	0.014%	1 April 2017	(82,522)	–	–
30 September 2016	14,641	0.002%	1 April 2017	(14,641)	–	–
23 December 2016	17,839	0.003%	1 April 2017	(17,839)	–	–
23 December 2016	1,202,140	0.200%	1 April 2018	–	(307,212)	894,928
19 April 2017	81,992	0.014%	1 April 2018	–	(22,190)	59,802
7 July 2017	48,637	0.008%	1 April 2018	–	(21,080)	27,557
25 August 2017	1,198,604	0.199%	1 April 2019	–	(166,694)	1,031,910
5 December 2017	26,949	0.004%	1 April 2019	–	–	26,949
Total	**3,327,571**	**0.552%**		**(626,879)**	**(659,546)**	**2,041,146**

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed under the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company" above, at no time during the year was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the Company, as at 31 December 2017, the following persons, other than any Director or the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests and short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/ Nature of interest	Long/Short position	Number of shares	Approximate percentage of shareholding (Note 2)
Biostime Pharmaceuticals (China) Limited *(Note 1)*	Beneficial owner	Long position	450,000,000	70.639%
Flying Company Limited *(Note 1)*	Interest in a controlled corporation	Long position	450,000,000	70.639%
Sailing Group Limited *(Note 1)*	Interest in a controlled corporation	Long position	450,000,000	70.639%
Coliving Limited *(Note 1)*	Interest in a controlled corporation	Long position	450,000,000	70.639%
UBS Trustees (BVI) Limited *(Note 1)*	Trustee	Long position	450,000,000	70.639%

Note 1: As at 31 December 2017, Biostime Pharmaceuticals (China) Limited was owned as to 51.84% by Coliving Limited, and therefore, Biostime Pharmaceuticals (China) Limited was deemed to be controlled by Coliving Limited.

Coliving Limited is owned as to 65.00% by Flying Company Limited and 35.00% by Sailing Group Limited, and therefore, Coliving Limited is deemed to be controlled by each of Flying Company Limited and Sailing Group Limited.

UBS Trustees (BVI) Limited, the trustee of each of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust, through its nominee UBS Nominees Limited, holds the entire issued share capital of Flying Company Limited and Sailing Group Limited as the respective trust assets under Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust. The beneficiaries of Mr. Luo Fei's Family Trust and Mr. Luo Yun's Family Trust are Mr. Luo Fei and his family members, and Mr. Luo Yun and his family members, respectively. Mr. Luo Fei and Mr. Luo Yun are Directors of the Company.

Note 2: As at 31 December 2017, the total number of the issued shares of the Company was 637,042,042.

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

TRANSACTIONS, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" below, no transaction, arrangement or contract of significance to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted at the end of the year or at any time during the year under review, and no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the year under review.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders of the Company has confirmed to the Company of his/its compliance with the non-compete undertakings provided to the Company under the Deed of Non-Competition (as defined in the prospectus of the Company dated 3 December 2010 (the "**Prospectus**")). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders during the year ended 31 December 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2017 and up to the date of the Annual Report, none of the Directors had any direct or indirect interest in a business which competed or might compete with the business of the Group as required to be disclosed under Rule 8.10 of the Listing Rules.

CONNECTED TRANSACTIONS

During the year ended 31 December 2017, below transactions of the Group constituted connected transactions (including continuing connected transactions) under Chapter 14A of the Listing Rules.

1. Acquisition of Equity Interests in Biostime Healthy Australia Holdings Pty Ltd

On 15 December 2016, the Company (as purchaser) and the Target Minority Shareholders (as sellers) entered into the Share Sale Agreement, pursuant to which each of the Target Minority Shareholders conditionally agreed to sell, and the Company conditionally agreed to acquire, by itself or through its subsidiary, a total of approximately 17% equity interest in Biostime Healthy Australia Holdings Pty Ltd. ("**Biostime Australia Holdings**") (the "**17% Acquisition**") for a consideration of A$311.3 million (equivalent to approximately HK$1,808.7 million). Completion of the 17% Acquisition was subject to the fulfilment of certain conditions. Upon completion of the 17% Acquisition, the Company's equity interest in Biostime Australia Holdings increased from approximately 83% to 100%, and the financial information of Biostime Australia Holdings and its subsidiaries (the "**Target Group**") will continue to be consolidated into the accounts of the Group. All the conditions have been fulfilled and the completion of the 17% Acquisition took place on 7 February 2017.

Reasons and benefits for the 17% Acquisition

The 17% Acquisition had enabled the Group to obtain full ownership of and full control over the Target Group, which has optimised integration with the Group and the Target Group's contribution to the Group's growth potential.

CONNECTED TRANSACTIONS (CONTINUED)

1. Acquisition of Equity Interests in Biostime Healthy Australia Holdings Pty Ltd (continued)

Listing Rules Implications

As one of the applicable percentage ratios (as calculated under Rule 14.07 of the Listing Rules) in respect of the 17% Acquisition, when aggregated with the Acquisition pursuant to Rule 14.22 of the Listing Rules, exceeds 100%, the 17% Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at 15 December 2016, Radek Sali was a director of the Company and therefore a connected person of the Company. Accordingly, the acquisitions of the equity interests in Biostime Australia Holdings, as part of the 17% Acquisition, from the associates of Radek Sali which are amongst the Target Minority Shareholders (namely, Kednel Pty Ltd (as trustee for the Sali Investment Trust) and Super Radek Pty Ltd (as trustee for the Super Radek Superannuation Fund)) (the "**Acquisitions from Radek Sali**") constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

As the 17% Acquisition is conducted on normal commercial terms and each of the applicable percentage ratios (as calculated under Rule 14.07 of the Listing Rules) in respect of the Acquisitions from Radek Sali is more than 0.1% but less than 5%, pursuant to Rule 14A.76(2) of the Listing Rules, the Acquisitions from Radek Sali are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Furthermore, as at 15 December 2016, each of Stephen Ring (with Adem Karafili being his alternate director) and Ulrich Algreen Irgens is a director of certain subsidiaries of the Company and therefore a connected person of the Company at the subsidiary level. Accordingly, the acquisitions of the equity interests in Biostime Australia Holdings, as part of the 17% Acquisition, from Fiske Pty Ltd (as trustee for the Ring Family Trust, and thus an associate of Stephen Ring), Ankara Holdings Pty Ltd (as trustee for the Ankara Family Trust, and thus an associate of Adem Karafili) and Ulrich Algreen Irgens (the "**Acquisitions from Directors at Subsidiary Level**") constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that each of Stephen Ring, Adem Karafili and Ulrich Algreen Irgens is a connected person at the subsidiary level only, pursuant to Rule 14A.101 of the Listing Rules, the Acquisitions from Directors at Subsidiary Level are exempt from the circular, independent financial advice and shareholders' approval requirements, as (i) the Board has approved the 17% Acquisition; and (ii) the independent non-executive Directors have confirmed that the terms of the 17% Acquisition are fair and reasonable, and the 17% Acquisition is conducted on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

Further details in relation to the 17% Acquisition are set out in the Company's announcements dated 15 December 2016 and 7 February 2017.

CONNECTED TRANSACTIONS (CONTINUED)

2. Renewed Framework Purchase Agreement

On 1 January 2016, BMcare Baby Products Inc. (Guangzhou)* (廣州葆艾嬰幼兒護理用品有限公司, now known as Dodie Body Products Inc. (Guangzhou), ("**Dodie Guangzhou**") the Company's directly wholly-owned subsidiary, renewed the then existing framework purchase agreement (the "**Renewed Framework Purchase Agreement**") with Guangzhou Biohope* (廣州市百好博有限公司), a connected person of the Company, in relation to the purchase of certain raw materials from Guangzhou Biohope for the production of a series of baby care products by Dodie Guangzhou for a term of 3 years. As the transactions contemplated under the Renewed Framework Purchase Agreement are conducted on normal commercial terms or better, and all the percentage ratios (other than the profits ratio) as defined in Chapter 14 of the Listing Rules are less than 5% and the total consideration is less than HK$3,000,000, the transactions contemplated under the Renewed Framework Purchase Agreement are fully exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

3. Structure Contracts and Platform Service Agreement

Background

The Group generally sells its products to regional distributors and such distributors further distribute the products through different types of retail sales channels, including but not limited to specialty stores owned and operated by third parties.

In contemplation of developing a uniform e-commerce platform to be utilized by the specialty stores for the sale of the Group's products, on 8 November 2013, Guangzhou Mama100 E-commerce Co., Limited* (廣州市媽媽一百電子商務有限公司, "**Mama100 E-commerce**") was established in the PRC with limited liability with a registered capital of RMB10,000,000, and is owned as to 57.7% by Mr. Luo Fei, 26% by Mr. Wu Xiong, 11.9% by Mr. Chen Fufang and 4.4% by Ms. Kong Qingjuan (the "**Mama100 Shareholders**").

Prior to 10 April 2015, under the relevant rules and regulations in the PRC, foreign investors were not allowed to hold more than 50% of the equity interest of a company providing value-added telecommunications services including e-commerce. Mama100 E-commerce was established for the purpose of enabling the Group to operate its e-commerce platform. Mama100 E-commerce has obtained the Internet Content Provider License (增值電信業務許可證) as an "Internet Content Provider" ("**ICP**") and is allowed to conduct e-commerce businesses. Therefore, on 27 June 2014, the Group entered into legal arrangement with Mama100 E-commerce through a series of contracts (collectively, the "**2014 Structure Contracts**") in order to conduct the e-commerce business as contemplated under the 2014 Structure Contracts through Mama100 E-commerce.

Since 19 June 2015, new rules and regulations have been promulgated by the PRC government under which foreign invested enterprise established under the laws of the PRC where foreign investors hold more than 50% of the equity interests could apply the Electronic Data Interchange Permit (增值電信業務經營許可證(在線數據處理與交易業務)) from the relevant PRC authority and is allowed to engage in e-commerce business. However, as the relevant policy is not yet clear and there is no specific implementation guidance as to the regulation of foreign investors in the value-added telecommunication business in the PRC, the e-commerce business still could not be transferred to the Group for operation.

CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

Background (continued)

Accordingly, on 30 December 2016, the Group entered into an exclusive management and consultancy service agreement (the "**Exclusive Management and Consultancy Service Agreement**"), an equity interests pledge agreement (the "**Equity Interests Pledge Agreement**"), an exclusive call option agreement (the "**Exclusive Call Option Agreement**"), a business management agreement (the "**Business Management Agreement**") (including the power of attorneys (the "**Power of Attorneys**") and undertakings (the "**Undertakings**")), a trademark license agreement (the "**Trademark License Agreement**"), and certain ancillary agreements (collectively, the "**Structure Contracts**"), as a renewal of the relevant transactions under the 2014 Structure Contracts, in order to continue to conduct the e-commerce business through Mama100 E-commerce.

Pursuant to the Structure Contracts:

(i) the Group is able to exercise control over Mama100 E-commerce;

(ii) the Group has the right to govern the management of Mama100 E-commerce;

(iii) the Group has the right to deal with the assets of Mama100 E-commerce;

(iv) the Group would have the right to acquire the entire equity interest in Mama100 E-commerce (as and when the PRC relevant rules and regulations allow it to do so);

(v) the Company is able to consolidate the financial results of Mama100 E-commerce into the Group's results; and

(vi) none of the shareholders of Mama100 E-commerce, namely, Mr. Luo Fei, Mr. Wu Xiong, Mr. Chen Fufang and Ms. Kong Qingjuan, obtains or receives any financial or commercial benefits from his/her respective interest in Mama100 E-commerce under the Structure Contracts despite holding direct or indirect equity interests in Mama100 E-commerce.

In association with the Structure Contracts, the Group also entered into a platform service agreement (the "**Platform Service Agreement**") on 30 December 2016 a term of three years commencing on 1 January 2017 and ending on 31 December 2019.

The Structure Contracts

The Company entered into each of the Structure Contracts on 30 December 2016 for a term commencing on 1 January 2017 and ending on 31 December 2019. Under the applicable Structure Contracts, the Company has the right to renew such Structure Contracts before the expiration of the relevant Structure Contracts unilaterally under the existing terms or at terms to be further agreed between the relevant parties.

CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Major provisions of the key Structure Contracts

(1) Exclusive Management and Consultancy Service Agreement

Pursuant to the Exclusive Management and Consultancy Service Agreement entered into by and among Guangzhou Hapai Information Technology Co., Ltd.* (廣州市合愛信息技術有限公司, "**Guangzhou Hapai**"), an indirect wholly-owned subsidiary of the Company, and Mama100 E-commerce, Guangzhou Hapai has the exclusive right to provide management and consultancy services to Mama100 E-commerce. Guangzhou Hapai is also entitled to deal with the assets of Mama100 E-commerce. Such services include but are not limited to technical service, network support, business consulting and other services as required by Mama100 E-commerce and allowed under the PRC law. The Exclusive Management and Consultancy Service Agreement also entitles Guangzhou Hapai to charge Mama100 E-commerce quarterly for service fees at a range of 90% to 100% of the total amount of net profit of Mama100 E-commerce for the corresponding period in accordance with the volume of the services provided because it is commercially agreed by both parties that the net profit of Mama100 E-commerce is generated as a result of the management and consultancy services provided by Guangzhou Hapai, and therefore not less than 90% of the total amount of net profit of Mama100 E-commerce should be paid to Guangzhou Hapai. The reason for leaving a maximum of 10% of the total amount of net profit in the reserve of Mama100 E-commerce is to meet the general working capital of Mama100 E-commerce for daily operation.

(2) Equity Interests Pledge Agreement

Pursuant to the Equity Interests Pledge Agreement entered into by and among Guangzhou Hapai and the Mama100 Shareholders, the Mama100 Shareholders agreed to pledge the entire equity interests in Mama100 E-commerce to Guangzhou Hapai as security for the performance of the obligations under the relevant Structure Contracts.

(3) Exclusive Call Option Agreement

Pursuant to the Exclusive Call Option Agreement entered into by and among Guangzhou Hapai, Mama100 E-commerce and the Mama100 Shareholders, Guangzhou Hapai is irrevocably entitled to, as and when permitted by applicable PRC laws and regulations, acquire the entire equity interests in Mama100 E-commerce held by the Mama100 Shareholders for a consideration in the amount of RMB10,000, or when appraisal is required under PRC law, 1% of the appraisal price or at the lowest price permitted by the then applicable PRC laws and regulations.

CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Major provisions of the key Structure Contracts (continued)

(4) Business Management Agreement

Pursuant to the Business Management Agreement entered into by and among Guangzhou Hapai, Mama100 E-commerce and the Mama100 Shareholders, among other things:

(i) the Mama100 Shareholders will procure Mama100 E-commerce not to enter into any transaction which may materially affect its assets, business operation, human resources, right and obligations, unless upon prior written consent from Guangzhou Hapai or any third party designated by Guangzhou Hapai;

(ii) Mama100 E-commerce and the Mama100 Shareholders agree to strictly implement relevant proposals from Guangzhou Hapai from time to time in relation to Mama100 E-commerce's recruitment and dismissal of employee, business management, financial management and so on; and

(iii) each of the Mama100 Shareholders agrees to, upon receiving any dividend or any other earnings or income from Mama100 E-commerce as its shareholder, immediately and unconditionally pay or transfer at nil consideration of all such earnings or income to Guangzhou Hapai.

(5) Power of Attorneys and Undertakings

Pursuant to the Power of Attorney executed by each of the Mama100 Shareholders in relation to the Business Management Agreement, each Mama100 Shareholder irrevocably authorized Guangzhou Hapai to, among other things:

(i) attend shareholder meetings of Mama100 E-commerce on his/her behalf;

(ii) exercise all his/her rights of shareholders and voting rights in Mama100 E-commerce, including but not limited to selling, transferring, pledging or otherwise dealing in all or any of the equity interests in Mama100 E-commerce; and

(iii) appoint the directors, general manager, chief financial officer and other management level personnel of Mama100 E-commerce.

Pursuant to the respective Undertaking executed by each of the Mama100 Shareholders, each Mama100 Shareholder irrevocably undertakes, among other things, that:

(i) any successor to him/her shall hold the respective equity interest in Mama100 E-commerce subject to the conditions, requirements and obligations under the Undertaking and the Structure Contracts;

(ii) his/her respective equity interest in Mama100 E-commerce does not form part of the community property, and his/her decisions in relation to Mama100 E-commerce shall not be affected by his/her spouse;

CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Major provisions of the key Structure Contracts (continued)

(5) Power of Attorneys and Undertakings (continued)

(iii) he/she will neither, directly or indirectly (either on his/her own or through any other individual or legal entity), participate or be engaged in any business which is or may be in competition with the business of Mama100 E-commerce or its associated company, or acquire or hold any such business, nor carry on any activities which may lead to any conflict of interest between himself/herself and Guangzhou Hapai;

(iv) in the event that he/she receives any asset in relation to the liquidation of Mama100 E-commerce, he/she agrees to transfer at nil consideration or at the lowest consideration as permitted by the then applicable laws and regulations to Guangzhou Hapai such asset; and

(v) in the event that he/she receives any amount from Guangzhou Hapai or any third party in relation to the exercise of the call option under the Exclusive Call Option Agreement, he/she agrees to unconditionally return all such amount to Guangzhou Hapaii or any third party designated by Guangzhou Hapai.

Pursuant to the respective Undertaking executed by each of the spouses of the Mama100 Shareholders, the spouse of each Mama100 Shareholder irrevocably undertakes, among other things, that:

(i) the respective equity interest in Mama100 E-commerce held by his/her spouse does not form part of the community property; and

(ii) any income arising in relation to such equity interest in Mama100 E-commerce shall be solely owned and disposed by his/her spouse and he/she will neither claim any rights to such income, nor participate in the management of the business operation of Mama100 E-commerce.

(6) Trademark License Agreement

Pursuant to the Trademark License Agreement entered into by and between Mama100 Hong Kong Limited ("**Mama100 Hong Kong**"), an indirect wholly-owned subsidiary of the Company and Mama100 E-commerce, Mama100 Hong Kong licenses certain registered trademarks to Mama100 E-commerce at nil consideration.

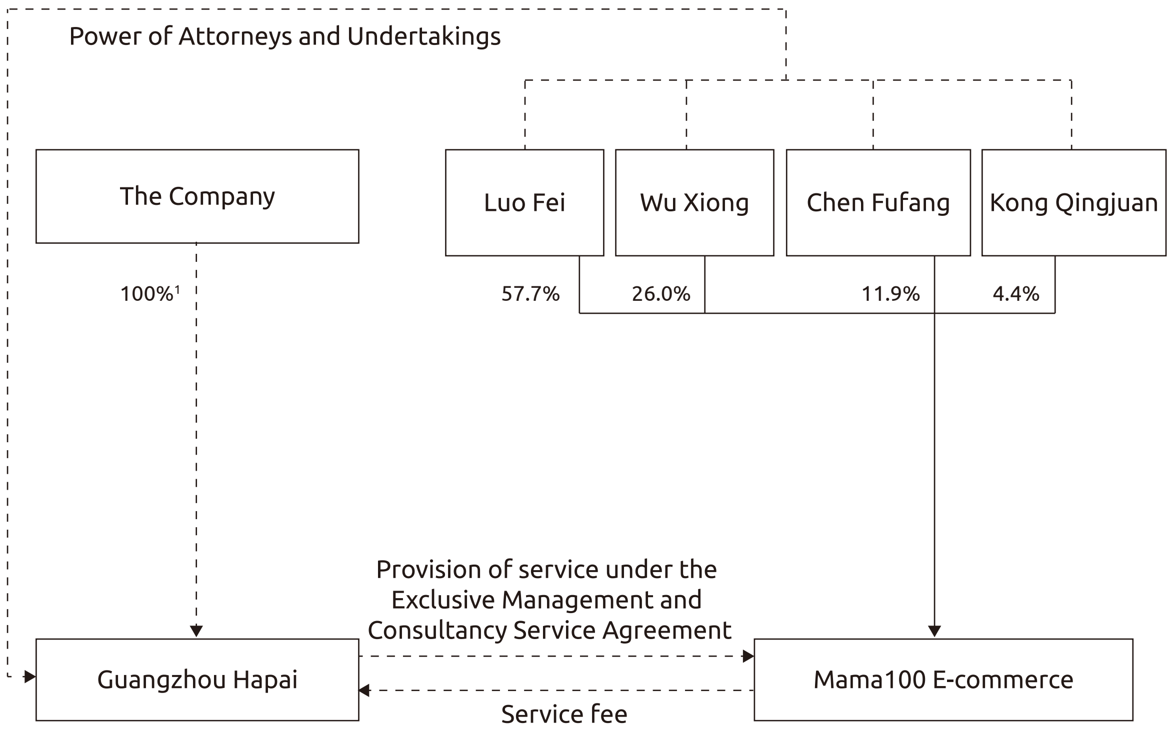
CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Corporate Structure

The following chart illustrates the relationship between the Company, Guangzhou Hapai, Mama100 E-commerce and its shareholders in relation to the Structure Contracts.



Note:

1. Guangzhou Hapai is indirect wholly-owned by the Company.

CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Dispute resolution

Pursuant to the Structure Contracts, any dispute arising from the validity, interpretation and performance of the Structure Contracts between the parties thereto should first be resolved through negotiation, failing which any party may submit the said dispute to the Guangzhou Arbitration Commission with a view to resolving the dispute through arbitration in accordance with the arbitration rules thereof. The arbitral tribunal may award remedies over the shares or land assets of Mama100 E-Commerce, injunctive relief (such as stipulating certain conducts of business or compelling transfer of assets) or order the winding up of Mama100 E-Commerce (the "**Arbitral Award Provisions**").

The Structure Contracts also provide that pending formation of the arbitral tribunal or in appropriate cases, the courts of Hong Kong, the Company's place of incorporation (the Cayman Islands), Mama100 E-commerce's place of establishment (the PRC), the jurisdiction where the principal assets of the Company and Mama100 E-commerce are located (the PRC) have the power to grant interim remedies in support of the arbitration (the "**Interim Remedies Provisions**").

However, as advised by the legal advisor of the Company as to the laws of the PRC, King & Wood Mallesons, according to the PRC laws and regulations, the arbitral tribunal normally would not grant such kind of remedies or injunctive relief or winding up order of such PRC operational entities as Mama100 E-commerce under the PRC laws and regulations. For instance, the arbitral tribunal has no authority to grant such injunctive relief, nor will it be able to order the winding up of the PRC operational entities pursuant to existing PRC laws and regulations. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in China.

Risks involved in the Structure Contracts

As the primary beneficiary of Mama100 E-commerce, the Group is exposed to the business risks and financial risks faced by Mama100 E-commerce. There is no assurance that Mama100 E-commerce will generate any profit which can be paid to the Group through the Exclusive Management and Consultancy Service Agreement and Business Management Agreement. Any profit or loss of Mama100 E-commerce (net of intra-group transactions) will be reflected in the consolidated financial results of the Group.

The exercise of the Exclusive Call Option Agreement is subject to applicable laws and regulations of the PRC. There is no assurance that the acquisition of the entire equity interests in Mama100 E-commerce held by the Mama100 Shareholders under the Exclusive Call Option Agreement will be permitted in the future, or whether such acquisition will incur any costs and expenses to the Group in addition to the consideration stipulated under the Exclusive Call Option Agreement. Due to these limitations, the transfer of ownership in Mama100 E-commerce pursuant to the exercise of the call option under the Exclusive Call Option Agreement may still be subject to substantial costs.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

The Structure Contracts (continued)

Risks involved in the Structure Contracts (continued)

The Group's PRC legal advisor, King & Wood Mallesons, is of the opinion that as at the date of this Annual Report, the execution, delivery and performance of the Structure Contracts by each of the parties thereto, is in compliance with (i) the provisions under the articles of association of such party and (ii) any applicable PRC laws and regulations. However, as advised by King & Wood Mallesons, the interpretation and implementation of the laws and regulations concerning the foreign investment in the PRC, and their application to and effect on the legality, binding effect and enforceability of contracts, are subject to the discretion of competent PRC legislative, administrative and judicial authorities. In particular, there is no assurance that PRC legislative, administrative or judicial authorities will not adopt a different or contrary interpretation or view against view of the Company and its legal advisor in respect of the legality, binding effect and enforceability of the Structure Contracts, and may determine that the contracts do not comply with applicable regulations.

Further, the Structure Contracts may not provide control over Mama100 E-commerce as effective as direct ownership; the registered shareholders of Mama100 E-commerce may have potential conflicts of interest with the Company; and the Structure Contracts may be subject to scrutiny of the tax authorities and additional tax may be imposed on the Group.

The Group believes that there are limited business insurance products available in the market, and to the best knowledge of the Directors, no insurance products specifically designed for protecting the risks relating to the Structure Contracts are available in the PRC market. Further, it is not compulsory for Mama100 E-commerce to maintain an insurance policy to cover risks relating to the Structure Contracts under the applicable PRC laws and regulations. Accordingly, the Group has not purchased any insurance to cover the above risks.

Internal control

The Company has put in place effective internal controls over Guangzhou Hapai and Mama100 E-commerce to safeguard its assets held through the Structure Contracts. As a wholly-owned subsidiary of the Company, Guangzhou Hapai is subject to all the internal control process and procedures applicable to the Group.

The operations of Mama100 E-commerce are exclusively controlled by Guangzhou Hapai through the Structure Contracts and the Group has applied its internal control processes and procedures to Mama100 E-commerce. In particular, pursuant to the Structure Contracts, (i) Guangzhou Hapai has the right to appoint, and has appointed, the directors, general manager, chief financial officer and other senior management of Mama100 E-commerce and Guangzhou Hapai has the right to hire and terminate employees of Mama100 E-commerce; (ii) the shareholders of Mama100 E-commerce are not allowed to dispose of any assets without the prior written consent of Guangzhou Hapai.

CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

Platform Service Agreement

Pursuant to the Platform Service Agreement entered into by and between the Company and Mama100 E-commerce, Mama100 E-commerce provides the following services to the Company and its subsidiaries:

(i) sales of goods for the Group's general trading and cross-border e-commerce through the internet;

(ii) promotion of the Group's products in general trading and cross-border e-commerce through the internet;

(iii) online-to-offline order delivery services for the Group's retail member stores;

(iv) provision of internet platform for interaction among consumers.

In consideration of providing the above services, the Company will pay the following service fees to Mama100 E-commerce:

(i) expenses incurred by Mama100 E-commerce in providing sales and promotion services to the Group;

(ii) 1% settlement charge on sales of goods, representing the amount charged by the payment services utilized by Mama100 E-commerce;

(iii) service fees as a percentage of the products sold on the internet platform(s) provided by Mama100 E-commerce, which is expected to be approximately 1.3% on average.

Annual caps

The annual caps (the "**Annual Caps**") for the transactions (the "**Transactions**") under the Structure Contracts and the Platform Service Agreement for the three years ended 31 December 2017, 2018 and 2019 were as follows:

	2017 (in RMB)	**2018 (in RMB)**	**2019 (in RMB)**
Exclusive Management and Consultancy Service Agreement	600,000	1,330,000	2,020,000
Platform Service Agreement	12,480,000	16,810,000	22,250,000
Total (on an aggregated basis)	13,080,000	18,140,000	24,270,000

CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

Reasons and benefits for the Transactions

Mama100 E-commerce becomes the Company's subsidiary and the Group obtains financial and operational control of Mama100 E-commerce upon the execution of the Structure Contracts. Further, upon the execution of the Structure Contracts and the Platform Service Agreement, it allowed the Group to enhance the sales efficiency of the Group's products by specialty stores via the Internet at a low cost and accordingly substantially increase the sales volume of the Group's products to its distributors.

Through co-operation with Mama100 E-commerce pursuant to the terms of the Structure Contracts, the Group is able to explore the global e-commerce markets and make its distribution network more effective, thus strengthening the Group's market position in the premium pediatric nutritional and baby care product industry.

Listing Rules implications

Mama100 E-commerce is owned as to 57.7% by Mr. Luo Fei, 26% by Mr. Wu Xiong, 11.9% by Mr. Chen Fufang and 4.4% by Ms. Kong Qingjuan. Mr. Luo Fei is an executive Director and each of Mr. Wu Xiong and Mr. Chen Fufang is a non-executive Director. Ms. Kong Qingjuan was a former executive Director until her resignation on 21 January 2016. In addition, Mr. Luo Fei is also the Chief Executive Officer of the Company. Mama100 E-commerce, an associate of Mr. Luo Fei, is therefore a connected person of the Company for the purpose of the Listing Rules. Accordingly, each of the transactions under the Structure Contracts and the Platform Service Agreement constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Having considered that each of the Transactions has been entered into by the Group with the same party, namely, Mama100 E-commerce and/or the Mama100 Shareholders, and are for the same purpose of enabling the Group to conduct e-commerce activities for the Group's products, the Directors consider that each of the Transactions shall be aggregated pursuant to Rule14A.81 of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) in relation to the largest Annual Caps for the Transactions in aggregate is more than 0.1% but less than 5%, each of the Transactions fall within Rule 14A.76(2) of the Listing Rules and is subject to the reporting, announcement and annual review requirements but exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Annual review of the continuing connected transactions

The independent non-executive Directors have reviewed all the above-mentioned continuing connected transactions and confirmed that during the year ended 31 December 2017, these transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young has issued the unqualified letter containing their findings and conclusions in respect of all the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

CONNECTED TRANSACTIONS (CONTINUED)

3. Structure Contracts and Platform Service Agreement (continued)

Annual review of the continuing connected transactions (continued)

Details of the consideration paid in respect of all the continuing connected transactions during the year ended 31 December 2017 are set out as follows:

	Annual Caps for the year (in RMB)	Consideration paid during the year (in RMB)
Exclusive Management and Consultancy Service Agreement	600,000	Nil
Platform Service Agreement	12,480,000	7,198,306

AUDIT COMMITTEE

The audit committee of the Board (the "**Audit Committee**") comprises three members, namely, Dr. Ngai Wai Fung (Chairman of the Audit Committee), Mr. Luo Yun and Mr. Tan Wee Seng (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee oversees the audit process, internal control and risk management systems of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2017 and the annual results for the year ended 31 December 2017, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 and the annual report for the year ended 31 December 2017, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, scope of work and the re-appointment of the external auditors, connected transactions and arrangement for employees to raise concerns about possible improprieties. There is no disagreement between the Board and the Audit Committee regarding the re-appointment of the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Company Code**") on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the Company Code and the Model Code during the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended 31 December 2017.

DIRECTORS' REPORT

EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant event occurred after the end of the reporting period and up to the approval date of the financial statements.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 31 to 46 of this Annual Report.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by Ernst & Young who shall retire at the 2018 AGM. A resolution will be proposed at the 2018 AGM to re-appoint Ernst & Young as external auditor of the Company.

On behalf of the Board
Luo Fei
Chairman

Hong Kong, 25 March 2018

EY 安永

To the shareholders of Health and Happiness (H&H) International Holdings Limited
(Formerly known as "Biostime International Holdings Limited")
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Health and Happiness (H&H) International Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 86 to 185, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the 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 Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and intangible assets with indefinite lives	
As at 31 December 2017, the Group recorded goodwill and intangible assets with indefinite lives of RMB5,376,818,000 and RMB2,532,611,000 respectively, which represented 38% and 18% of the total assets of the Group. The Group is required to perform annual impairment testing for goodwill and intangible assets with indefinite lives. Management performed impairment tests on these assets by using discounted cash flow models as at 31 December 2017. This area was important to our audit due to significant judgement and estimates involved in the assessment of the recoverable amounts of these assets. This assessment required management to make assumptions to be used in the discounted cash flow models. The most critical assumptions were growth rates and discount rates. The disclosures about impairment testing of goodwill and intangible assets with indefinite lives are included in note 16 to the financial statements.	Our audit procedures included, among others, involving our valuation specialists to assist us in evaluating the methodologies, discount rates and long-term growth rates used by management, as appropriate, to estimate the recoverable amounts of goodwill and intangible assets with indefinite lives. We reviewed the assumptions used by management and assessed the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective cash-generating units to which the goodwill or the intangible assets with indefinite lives are assigned to and their business development plans. We assessed the growth rates in sales by comparing them to the industry trend. Furthermore, we focused on the sensitivity in the available headroom for the cash generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also focused on the adequacy of the relevant disclosures in the Group's financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Hedge accounting	
The Group has entered into a series of interest rate swaps, cross currency swaps and cross currency interest rate swaps to hedge the Group's exposure to interest rate and foreign currency risks relating to its bank borrowings denominated in United States dollars or to hedge the Company's exposure to foreign currency risks relating to the investments in foreign operations. For accounting purposes, the Group has applied cash flow hedge or hedges of a net investment. In order to apply these hedge accountings, the Group has to comply with a number of strict requirements in IFRSs, including: • Designate and document both the hedging relationship and its management objective and strategy for undertaking the hedge at the inception of the hedge; • Perform prospective and retrospective (quantitative) hedge effectiveness testing; and • Record any resulting effectiveness in other comprehensive income and ineffectiveness in profit or loss. The accounting standards governing the criteria and application of hedge accounting are complex, and require significant judgement in their applications. The disclosures about hedge accounting are included in note 27 to the financial statements.	During our audit, we involved our valuation specialists to assist us in assessing the fair value of the swaps. We also reviewed the Group's hedging policies in respect of its interest rate and foreign currency risk exposures. Furthermore, we evaluated the hedge documentation prepared by management and assessed the hedge effectiveness tests prepared by management with the help of our valuation specialists in reviewing the inputs and methodology used by management in the tests. We also considered the adequacy of the disclosures relating to the swaps in the financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Accounting for Assets Transfer and Termination Agreement	
During the year, the Group acquired the exclusive distribution rights to market and distribute Swisse branded products in certain regions from a commercial partner. The purchase price, including transaction costs and contingent payments, was estimated to be US\$103,500,000 (approximately RMB685,960,000). Management applied judgement in assessing whether this transaction needed to be accounted for as a business combination in accordance with IFRS 3 *Business Combinations* or as the acquisition of a group of individual assets in accordance with other IFRSs. Based on the substance of the agreement, management determined that this transaction was the acquisition of a group of assets and has identified the following intangible assets within this transaction: – Distribution rights – Customer relationships – Products registration The purchase consideration is allocated to the identified intangible assets acquired based on their relative fair values. Key judgements are involved to determine the nature of the transaction, the type of assets acquired, their associated fair values and useful lives. Hence, we determined this to be important to our audit. The disclosures are included in note 3 and note 15 to the financial statements.	We assessed the Group's accounting treatment of this transaction as an acquisition of assets by means of reviewing the terms of the agreement and the way the assets was transferred to the Group. We also assessed the recognition of the acquired assets as intangible assets by matching the criteria under IAS 38 *Intangible Assets*. We checked the allocation of the purchase consideration among the respective assets by reviewing management's calculation and the underlying assumptions. We also considered the adequacy of the disclosures relating to this transaction in the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 Lau Kin Yu.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

25 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	8,095,345	6,505,616
Cost of sales		(2,829,731)	(2,446,549)
Gross profit		5,265,614	4,059,067
Other income and gains	5	143,460	323,672
Selling and distribution costs		(2,711,707)	(1,951,748)
Administrative expenses		(486,019)	(357,187)
Other expenses		(356,339)	(143,985)
Finance costs	6	(492,173)	(468,287)
Share of profit/(loss) of an associate	20	5,902	(5,012)
PROFIT BEFORE TAX	7	1,368,738	1,456,520
Income tax expense	9	(440,240)	(404,558)
PROFIT FOR THE YEAR		928,498	1,051,962
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	27	(119,692)	62,313
Reclassification adjustments for gains/(losses) included in profit or loss		130,880	(61,320)
Income tax effect		8,741	(298)
Exchange realignment		(109)	210
		19,820	905
Hedge of net investments:			
Effective portion of changes in fair value of hedging instruments arising during the year	27	(171,865)	–
Exchange differences on translation of foreign operations		(80,864)	64,594
Exchange differences on net investment in a foreign operation		321,644	(23,449)
		68,915	41,145
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		88,735	42,050
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,017,233	1,094,012
Profit attributable to:			
Owners of the parent		932,846	954,396
Non-controlling interests		(4,348)	97,566
		928,498	1,051,962
Total comprehensive income attributable to:			
Owners of the parent		1,007,363	974,278
Non-controlling interests		9,870	119,734
		1,017,233	1,094,012
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
Basic		1.48	1.52
Diluted		1.46	1.50

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	12	503,587	531,197
Prepaid land lease payments	13	58,809	60,287
Goodwill	14	5,376,818	5,296,618
Intangible assets	15	3,564,964	3,013,432
Bonds receivable	17	136,361	127,701
Loans receivable	18	44,910	48,789
Deposits	19	14,965	5,662
Investment in an associate	20	41,095	35,193
Loan to an associate	20	–	40,000
Held-to-maturity investment		22,259	18,435
Deferred tax assets	32	296,907	352,973
Derivative financial instruments	27	79,529	246,751
Total non-current assets		10,140,204	9,777,038
CURRENT ASSETS			
Inventories	21	1,012,619	775,983
Trade and bills receivables	22	694,696	516,624
Prepayments, deposits and other receivables	23	117,394	610,004
Loan to an associate	20	40,000	–
Loans receivable	18	21,748	27,084
Derivative financial instruments	27	3,247	2,914
Pledged deposits	24	11,082	995,498
Cash and cash equivalents	24	2,090,280	1,506,203
Total current assets		3,991,066	4,434,310
CURRENT LIABILITIES			
Trade and bills payables	25	644,690	532,121
Other payables and accruals	26	1,563,339	864,872
Derivative financial instruments	27	5,968	3,074
Interest-bearing bank loans	28	508,467	549,387
Convertible bonds	29	–	1,223,619
Senior notes	30	284,235	201,171
Financial liabilities associated with put options	31	–	1,561,387
Tax payable		291,150	303,902
Total current liabilities		3,297,849	5,239,533
NET CURRENT ASSETS/(LIABILITIES)		693,217	(805,223)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
NET CURRENT ASSETS/(LIABILITIES)		693,217	(805,223)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,833,421	8,971,815
NON-CURRENT LIABILITIES			
Senior notes	30	3,646,428	2,542,703
Interest-bearing bank loans	28	1,844,277	2,242,791
Other payables and accruals	26	32,997	23,175
Derivative financial instruments	27	186,195	–
Deferred tax liabilities	32	910,432	967,042
Total non-current liabilities		6,620,329	5,775,711
Net assets		4,213,092	3,196,104
EQUITY			
Equity attributable to owners of the parent			
Issued capital	34	5,447	5,390
Equity component of convertible bonds	29	–	24,489
Other reserves	37	4,207,645	3,131,627
		4,213,092	3,161,506
Non-controlling interests		–	34,598
Total equity		4,213,092	3,196,104

Luo Fei
Director

Luo Yun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to owners of the parent																
	Notes	Issued capital RMB'000	Share premium account RMB'000	Equity component of convertible bonds RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Put option reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017		5,390	450,673	24,489	(19,271)	26,992	95	360,239	37,648	7,681	57,012	381,263	(1,529,893)	751	3,358,437	3,161,506	34,598	3,196,104
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	-	-	932,846	932,846	(4,348)	928,498
Other comprehensive income for the year:																		
Cash flow hedges, net of tax	27	-	-	-	-	-	-	-	-	-	-	-	-	7,513	-	7,513	12,307	19,820
Hedge of net investments	27	-	-	-	-	-	-	-	-	-	(171,865)	-	-	-	-	(171,865)	-	(171,865)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	(82,775)	-	-	-	-	(82,775)	1,911	(80,864)
Exchange difference on net investment in a foreign operation		-	-	-	-	-	-	-	-	-	321,644	-	-	-	-	321,644	-	321,644
Total comprehensive income for the year		-	-	-	-	-	-	-	-	-	67,004	-	-	7,513	932,846	1,007,363	9,870	1,017,233
Transfer to statutory reserve funds		-	-	-	-	-	-	22,412	-	-	-	-	-	-	(22,412)	-	-	-
Equity-settle share option arrangements	35	47	89,935	-	-	-	-	-	9,890	-	-	-	-	-	-	99,872	-	99,872
Shares issued for 2013 Share Award Scheme (as defined in note 36)	34	10	-	-	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares purchased for Share Award Scheme (as defined in note 36)	36	-	-	-	(7,415)	-	-	-	-	-	-	-	-	-	-	(7,415)	-	(7,415)
Equity-settled share award schemes	36	-	-	-	288	-	-	-	-	21,441	-	-	-	-	8,364	30,093	-	30,093
Redemption of convertible bonds	29	-	-	(9,932)	-	-	-	-	-	-	-	-	-	-	-	(9,932)	-	(9,932)
Transfer to retained profits upon repurchase of convertible bonds	29	-	-	(14,557)	-	-	-	-	-	-	-	-	-	-	14,557	-	-	-
Derecognition of Holdco Put Options (as defined in note 31)		-	-	-	-	-	-	-	-	-	-	28,274	1,529,893	-	-	1,558,167	-	1,558,167
Arising from the 17% Acquisition (as defined in note 1)	38(a)	-	-	-	-	-	-	-	-	-	-	(1,593,783)	-	-	-	(1,593,783)	(39,577)	(1,633,360)
Arising from the acquisition of other non-controlling interests	38(b)	-	-	-	-	-	-	-	-	-	-	(32,779)	-	-	-	(32,779)	2,237	(30,542)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,128)	(7,128)
At 31 December 2017		5,447	540,608*	-	(26,408)*	26,992*	95*	382,651*	47,538*	29,122*	124,016*	(1,217,025)*	-*	8,264*	4,291,792*	4,213,092	-	4,213,092

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to owners of the parent																
	Notes	Issued capital RMB'000	Share premium account RMB'000	Equity component of convertible bonds RMB'000	Shares held for the share award schemes RMB'000	Contributed surplus RMB'000	Capital surplus RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Put option reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016 (Restated)		5,387	443,825	66,978	(42,141)	26,992	95	358,226	6,914	899	37,881	–	–	–	2,388,096	3,293,152	309,091	3,602,243
Profit for the year		–	–	–	–	–	–	–	–	–	–	–	–	–	954,396	954,396	97,566	1,051,962
Other comprehensive income for the year:																		
Cash flow hedges, net of tax	27	–	–	–	–	–	–	–	–	–	–	–	–	751	–	751	154	905
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	–	42,580	–	–	–	–	42,580	22,014	64,594
Exchange difference on net investment in a foreign operation		–	–	–	–	–	–	–	–	–	(23,449)	–	–	–	–	(23,449)	–	(23,449)
Total comprehensive income for the year		–	–	–	–	–	–	–	–	–	19,131	–	–	751	954,396	974,278	119,734	1,094,012
Transfer to statutory reserve funds		–	–	–	–	–	–	2,013	–	–	–	–	–	–	(2,013)	–	–	–
Equity-settle share option arrangements	35	3	6,848	–	–	–	–	–	30,734	–	–	–	–	–	–	37,585	–	37,585
Equity-settled share award schemes	36	–	–	–	22,870	–	–	–	–	6,782	–	–	–	–	316	29,968	–	29,968
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(12,964)	(12,964)
Repurchase of convertible bonds	29	–	–	(24,847)	–	–	–	–	–	–	–	–	–	–	–	(24,847)	–	(24,847)
Transfer to retained profits upon repurchase of convertible bonds	29	–	–	(17,642)	–	–	–	–	–	–	–	–	–	–	17,642	–	–	–
Arising from the grant of the Holdco Put Option	31	–	–	–	–	–	–	–	–	–	–	–	(1,535,438)	–	–	(1,535,438)	–	(1,535,438)
Exercise of the Roll-up Call Option (as defined in note 31)		–	–	–	–	–	–	–	–	–	–	381,263#	5,545#	–	–	386,808	(381,263)	5,545
At 31 December 2016		5,390	450,673*	24,489	(19,271)*	26,992*	95*	360,239*	37,648*	7,681*	57,012*	381,263*	(1,529,893)*	751*	3,358,437*	3,161,506	34,598	3,196,104

* These reserve accounts comprise the consolidated other reserves of RMB4,207,645,000 (2016: RMB3,131,627,000) in the consolidated statement of financial position.

\# A change in the ownership interest in Biostime Healthy Australia Holdings Pty Limited, a then wholly-owned subsidiary of the Company, without a loss of control, has been accounted for as an equity transaction, details of which are contained in note 31 to these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,368,738**	1,456,520
Adjustments for:			
Bank interest income	5	**(26,634)**	(42,187)
Interest income from loans and bonds receivables	5	**(11,665)**	(11,476)
Finance costs	6	**492,173**	468,287
Share of (profit)/loss of an associate		**(5,902)**	5,012
Depreciation	7	**71,526**	75,306
Amortisation of intangible assets	7	**164,796**	95,182
Amortisation of prepaid land lease payments	7	**1,478**	1,478
Loss on disposal of items of property, plant and equipment	7	**2,081**	4,265
Impairment of intangible assets	7	**24,323**	–
Equity-settled share option expense	7	**27,879**	33,004
Equity-settled share award expense	7	**30,093**	29,968
Fair value losses/(gains) on derivative financial instruments, net	7	**144,272**	(160,416)
Changes in carrying amount of financial liabilities associated with put options	7	**–**	21,163
(Write back of impairment)/impairment of trade receivables	7	**(4,720)**	10,135
Write-down of inventories to net realisable value	7	**95,430**	194,012
		2,373,868	2,180,253
Increase in inventories		**(340,008)**	(103,079)
(Increase)/decrease in trade and bills receivables		**(184,971)**	121,871
(Increase)/decrease in prepayments, deposits and other receivables		**(44,646)**	20,845
(Increase)/decrease in rental deposits		**(1,101)**	964
Increase/(decrease) in trade and bills payables		**116,460**	(100,229)
Increase/(decrease) in other payables and accruals		**485,760**	(176,365)
Cash generated from operations		**2,405,362**	1,944,260
Corporate income tax paid		**(454,548)**	(401,067)
Net cash flows from operating activities		**1,950,814**	1,543,193
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(73,556)**	(83,743)
Proceeds from disposal of items of property, plant and equipment		**28,950**	8,229
Additions to intangible assets		**(510,479)**	(4,643)
Addition to held-to-maturity investment		**(2,569)**	–
Residual payment in relation to the Acquisition (as defined in note 1)		**–**	(131,956)
Deposit paid for the 17% Acquisition (as defined in note 1)		**–**	(509,755)
Acquisition of subsidiaries		**–**	(118,849)
Repayment of loans receivable		**20,880**	16,888
Loan advanced to an associate		**–**	(40,000)
Repayment of loan from an associate		**–**	40,000
Interest received		**58,555**	149,207
Decrease/(increase) in time deposits with original maturity of three months or more when acquired	24	**214,033**	(131,033)
Decrease in time deposits with maturity date after one year		**–**	70,159
Net cash flows used in investing activities		**(264,186)**	(735,496)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options	34	71,993	4,581
New bank loans		–	2,918,340
Repayment of bank loans	40	(426,203)	(5,104,664)
Purchase of shares for the share award		(7,415)	–
Payment for the 17% Acquisition		(1,108,670)	–
Payment for the acquisition of other non-controlling interests		(21,376)	–
Repurchase of convertible bonds		–	(1,649,465)
Redemption of convertible bonds	40	(1,240,880)	–
Issuance of senior notes, net of transaction costs	40	1,413,479	2,575,085
Decrease in pledged deposits for bank loans	24	–	1,927,000
Decrease/(increase) in pledged deposits for senior notes	24	987,674	(950,805)
Increase in restricted deposits for bills issue	24	(3,258)	(7,824)
Interest paid		(443,903)	(356,797)
Payment for the CCSs (as defined in note 27)	40	(62,921)	–
Dividends paid to non-controlling interests		(7,128)	(12,964)
Net cash flows used in financing activities		(848,608)	(657,513)
NET INCREASE IN CASH AND CASH EQUIVALENTS		838,020	150,184
Cash and cash equivalents at beginning of year		1,292,170	1,115,235
Effect of foreign exchange rate changes, net		(39,910)	26,751
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,090,280	1,292,170
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	2,090,280	1,292,170

1. CORPORATE AND GROUP INFORMATION

Health and Happiness (H&H) International Holdings Limited (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Pursuant to the special resolution passed at the annual general meeting of the Company held on 12 May 2017 and the approval from the Registry of Companies in the Cayman Islands, the name of the Company was changed from "Biostime International Holdings Limited 合生元國際控股有限公司" to "Health and Happiness (H&H) International Holdings Limited 健合 (H&H) 國際控股有限公司".

Prior to the acquisition of an approximate 83% equity interest in Swisse Wellness Group Pty Ltd. ("**Swisse**") and its subsidiaries on 30 September 2015 (the "**Acquisition**"), the Company and its subsidiaries (the "**Group**") was principally involved in the manufacture and sale of premium pediatric nutrition and baby care products. Upon the completion of the Acquisition, the Group has expanded its businesses into the production and sale of adult nutrition supplements and skincare products. The Acquisition has enabled the Group to reposition itself as an all-round premium family nutrition and care provider.

On 7 February 2017, the Group acquired the remaining 17% effective equity interest in Swisse via the acquisition of the same percentage equity interest in Biostime Healthy Australia Holdings Pty Ltd. ("**Biostime Australia Holdings**"), the intermediate holding company of Swisse, (the "**17% Acquisition**") at a cash consideration of 311,300,000 in Australian dollars ("**A$**") (equivalent to approximately 1,633,360,000 in Renminbi ("**RMB**")). Since then, Swisse became a wholly-owned subsidiary of the Group. Further details of the 17% Acquisition has been contained in note 31 to these financial statements.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Biostime Pharmaceuticals (China) Limited, a limited liability company incorporated in the British Virgin Islands.

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BiosTime, Inc. (Guangzhou) ("**Biostime Guangzhou**")*	The People's Republic of China ("**PRC**")/ Mainland China	US$73,010,000	100%	–	Research, development, processing of meat, fruit and vegetable powder and candy, sale of nutritional food, milk formulas and personal care products for infants and adults
Biostime (Guangzhou) Health Products Limited ("**Biostime Health**")*	PRC/Mainland China	US$34,100,000	100%	–	Research, development, manufacture and sale of health products and special nutritional foods
Dodie Baby Products Inc. (Guangzhou) ("**Dodie Guangzhou**")* (formerly known as BMcare Baby Products Inc. (Guangzhou))	PRC/Mainland China	US$1,000,000	100%	–	Wholesale, retail and import and export of personal care products for infants
Health and Happiness (H&H) Hong Kong Limited ("**H&H HK**") (formerly known as Biostime Hong Kong Limited)	Hong Kong	HK$126,534,300	–	100%	Investment holding, international investment, trading and sale
Health and Happiness (H&H) Singapore PTE. Limited	Singapore	SGD100	–	100%	Retail sale of health supplements
Biostime France	France	EUR100,000	–	100%	Overseas investments, financing and other business cooperations
Adimil (Changsha) Nutrition Products Limited ("**Changsha Adimil**")	PRC/Mainland China	RMB301,664,588	–	100%	Manufacture of infant formula products

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangzhou Hapai Information Technology Co., Ltd. ("**Guangzhou Hapai**")*	PRC/Mainland China	US$10,000,000	–	100%	Software and information technology services
Guangzhou Mama100 E-commerce Co., Limited ("**Mama100 E-commence**")**	PRC/Mainland China	RMB10,000,000	–	100%	Online sales, software and information technology services
Healthy Times. Inc. ("**Healthy Times**")	America	US$1,000	–	100%	Manufacture of organic baby foods and baby care products
Biostime Healthy Hong Kong Limited	Hong Kong	A$1	–	100%	Overseas investments, financing and other business cooperations
Biostime Healthy Australia Pty Ltd. ("**Biostime Australia**")	Australia	A$872,585,243	–	100%	Overseas investments, financing and other business cooperations
Biostime Pharma	France	EUR10,000	100%	–	Trading of infant food and nutritional products
Biostime (Guangzhou) Education Management Inc. ("**Biostime Education**")*	PRC/Mainland China	US$2,000,000	–	100%	Early childhood education advisory business and trading of related baby suppliers
Biostime Australia Holdings	Australia	A$1,132,637,623	–	100%	Overseas investments, financing and other business cooperations
Biostime Healthy Australia Investment Pty Ltd. ("**Biostime Australia Investment**")	Australia	A$1,132,965,184	–	100%	Investment holding, financing and other business cooperations

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Swisse	Australia	A$144,589,450	–	100%	Investment holding, financing and other business cooperations
Swisse Wellness Pty Ltd.	Australia	A$100	–	100%	Research, development, procurement and sale of vitamins, health supplements, skin care and sports nutrition products for adults
S W International Pty Ltd.	Australia	A$100	–	100%	Research, development, procurement and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness Pty Ltd. (NZ)	New Zealand	NZD10,100	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness (UK) Limited	United Kingdom	GBP1	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse China Limited	Hong Kong	HK$1	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
Swisse Wellness (Guangzhou) Limited*	PRC/Mainland China	RMB1,500,000	–	100%	Trading and sale of vitamins, health supplements, skin care and sports nutrition products for adults
S W Productions Holdings Pty Ltd. ("**SW Productions Holdings**")	Australia	A$1	–	100%	Packaging service

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital※	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
S W Translink Packaging Pty Ltd.	Australia	A$1	–	100%	Packaging service
Noisy Beast Pty Ltd. ("Noisy Beast")	Australia	A$5,000	–	100%	Digital media and advertising
Noisy Beast UK Limited	United Kingdom	GBP100	–	100%	Digital media and advertising
Noisy Beast (Guangzhou) Limited.*	PRC/Mainland China	A$200,000	–	100%	Digital media and advertising
AB Pharma SAS ("**AB Pharma**")	France	EUR7,350,372	–	100%	Marketing and distribution of baby products
Laboratoires Polivé SAS	France	EUR3,817,600	–	100%	Research of baby products

* Registered as a wholly-foreign-owned enterprise under the laws of the PRC.

** As a result of the contractual arrangements, the Group is exposed, or has rights, to variable returns from its involvement with Mama100 E-commerce and has the ability to affect those returns through its power over Mama100 E-commerce and is considered to control Mama100 E-commerce.

※ The currency abbreviations shown above stand for the relevant currencies listed below:

US$ stands for United States dollars;
HK$ stands for Hong Kong dollars;
EUR stands for Euros;
NZD stands for New Zealand dollars;
SGD stands for Singapore dollars; and
GBP stands for Great British pounds.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which include International Accounting Standards ("**IASs**") and Interpretations promulgated by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention except for derivative financial instruments which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received; (ii) the fair value of any investment retained; and (iii) any resulting surplus or deficit in the profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements:

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flow and non-cash changes. Disclosures of the changes in liabilities arising from financing activities is provided in note 40 to these financial statements.

Other than as explained above regarding the impact of amendments to IAS7, the adoption of the above revised standards has had no significant financial effect on these financial statements of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements:

IFRS 9	*Financial Instruments*[1]
IFRS 15	*Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contract*[3]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Other than as further explained below, the directors do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's consolidated financial statements and the disclosure.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed an assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

Upon adoption of IFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for management the financial assets.

The Group has assessed that a loan receivable with a conversion option of RMB2,745,000 as at 31 December 2017 would not pass the contractual cash flow characteristics test in IFRS 9 and will be reclassified as financial assets at fair value through other comprehensive income.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect any significant impact from these changes.

The Group will adopt the new standard on the required effective date without restating prior periods' information and will recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard.

The Group will adopt IFRS 15 from 1 January 2018 and plans to adopt the modified retrospective approach. During 2017, the Group has performed an assessment on the impact of the adoption of IFRS 15.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group is a provider of premium pediatric nutrition and baby care products and adult nutrition and care products. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

(a) Certain payments to customers which are currently treated as selling and distribution costs would be accounted for as deductions from revenue under the new standard. The impact, however, is assessed to be not material.

(b) The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, and the assumptions made to estimate the stand-alone selling price of each performance obligation.

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 43 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB165,564,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of the associate are included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investments in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investment in an associate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("**CGU**"s), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposal of and the portion of the CGU retained.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or CGU's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

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

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Plant and machinery	9% to 25%
Furniture, fixtures and office equipment	7.5% to 50%
Motor vehicles	18% to 25%
Leasehold improvements	7.5% to 38%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, leasehold improvements and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Distribution rights, trademark and brand name with indefinite useful lives are stated at cost less any impairment losses, and are not amortised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Each of the following intangible assets with finite useful life is stated at cost less any impairment losses and is amortised on the straight-line basis to write off the cost of each of these intangible assets over its respective estimated useful life of:

	Years
Licence	18
Customer relationships	5-14
Royalty agreement	8
Unpatented product formula	15
Products registration	14
Computer software	5

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, or as held-to-maturity investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group assesses as at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset and that loss event have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists individually for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, derivative financial instruments, financial liabilities associated with put options, convertible bonds, senior notes and interest-bearing bank loans.

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

When the Group extinguishes the convertible bonds before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the Group allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Group when the convertible bonds were issued. Gain or loss relating to the equity components is recognised in equity while gain or loss relating to the liability component is recognised in profit or loss.

Financial liabilities associated with put options

Put options are financial instruments granted by the Group whereby counterparties may have the rights to request the Group to purchase their equity interests in the Group's non-wholly owned subsidiaries for cash or other financial assets when certain conditions are met. If the Group does not have the unconditional right to avoid delivering cash or other financial assets under the put option, the Group has to recognise a financial liability at the present value of the estimated future cash outflows under the put option. The financial liability is initially recognised at fair value. Subsequently, if the Group revises its estimates of payments, the Group adjusts the carrying amount of the financial liability to reflect actual and revised estimated cash outflows. As at the end of each reporting period, the Group recalculates the carrying amount by computing the present value of revised estimated future cash outflows at the financial instrument's original effective interest rate and adjustments to its carrying amount is to be recognised as income or expenses in profit or loss. If the put option expires without being exercised, the carrying amount of the liability is reclassified as equity.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward contracts, interest rate swaps, cross currency swaps and cross currency interest rate swaps to manage its interest rate risk and foreign currency risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the profit or loss, except for the effective portions of cash flow hedges and hedges of net investments, respectively, which are recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Customer loyalty program

The Group operates a customer loyalty program which allows customers to earn points when they purchase products of the Group. The points can then be redeemed for free services or products, subject to a minimum number of points being obtained. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions. The amount allocated to the points earned by the customer loyalty program members is deferred until the points are redeemed when the Group fulfils its obligations to supply services or products or when the points expire.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred taxes assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payment

The Company operates two share option schemes and two share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. Further details of fair values are given in notes 35 and 36 to these financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment (continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options and shares held for the share award schemes are reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 10 to these financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company is the HK$ while the presentation currency of the Company for the financial statements is the RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as the Company's net investment in a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of the entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rate for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, as at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Monetary item designated as the Company's net investment in a foreign operation

An inter-company loan provided by the Company to a foreign operation has been designated as the Company's net investment in a foreign operation as the directors consider that the Company will not demand for repayment of this inter-company loan from the foreign operation in the foreseeable future.

If the inter-company loan is considered to be repaid in the foreseeable future and is not designated as the Company's net investment in a foreign operation, the foreign exchange difference included in other income and gains for the year would have been increased by RMB321,644,000 while the exchange differences on net investment in a foreign operation recognised in other comprehensive income would be reduced by the same amount.

Tax provisions

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes worldwide. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Classification between business combination and assets acquisition

During the year, the Group entered into an agreement to acquire the exclusive distribution rights to market and distribute Swisse branded products in certain regions from a commercial partner. Management carefully considered whether the transaction constituted a business combination as defined in IFRS 3 *Business Combinations*, but concluded that there were insufficient inputs, processes and outputs to qualify as a business. As a result, the Group has accounted for the transaction as assets acquisition. Further details of this transaction are given in note 15 to these financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 16 to these financial statements.

Impairment of intangible assets with indefinite useful lives

The Group determines whether intangible assets with indefinited useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the intangible assets with indefinite useful lives. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the intangible assets with indefinite useful lives and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 16 to these financial statements.

Provision for obsolete and slow-moving inventories

Management reviews the aged analysis of inventories of the Group as at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale or that will be sold below cost. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

As at 31 December 2017, the carrying amounts of inventories were approximately RMB1,012,619,000 (2016: RMB775,983,000 (restated)) after netting off the allowance for inventories of approximately RMB104,777,000 (2016: RMB213,763,000).

Deferred income

The amount of revenue attributable to the points earned by the members of the Group's customer loyalty program is estimated based on the fair value of the points awarded and the expected redemption rate. The expected redemption rate is estimated having considered the number of points that will be available for redemption in future after making appropriate allowance for points which are not expected to be redeemed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainties (continued)

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

Fair value of derivative financial instruments

Where fair value of derivative financial instruments cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement including considerations of inputs such as liquidity risk, credit spread and volatility. Changes in assumptions about these factors could affect the reported fair value of derivative financial instruments. The fair value of the Group's derivative financial instruments are disclosed in note 27 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and used to have three reportable operating segments, including the infant formulas segment, the adult nutrition and care products segment and the other pediatric products segment. During the year, in order to better allocate the resources of the Group and assess the performance of different operating segments, the following reportable operating segments, which are subject to risks and returns that are different from those of the other business segments, are adopted by the Group:

(a) the infant formulas segment comprises the production of infant formulas for children under seven years old and milk formulas for expectant and nursing mothers;

(b) the probiotic supplements segment comprises the production of probiotic supplements in the form of sachets, capsules and tablets for infants, children and expectant mothers;

(c) the adult nutrition and care products segment comprises the production of vitamins, health supplements, skin care and sports nutrition products for adults; and

(d) the other pediatric products segment comprises the production of dried baby food and nutrition supplements and baby care products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that interest income, other income and unallocated gains, share of results of an associate, finance costs as well as head office and corporate expenses are excluded from this measurement.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the year ended 31 December 2017:

	Infant formulas RMB'000	Probiotic supplements RMB'000	Adult nutrition and care products RMB'000	Other pediatric products RMB'000	Unallocated RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	3,717,214	781,741	3,413,878	182,512	–	8,095,345
Segment results	2,499,425	592,873	2,073,786	99,530	–	5,265,614
Reconciliations:						
Interest income						38,299
Other income and unallocated gains						105,161
Share of profit of an associate						5,902
Corporate and other unallocated expenses						(3,554,065)
Finance costs						(492,173)
Profit before tax						1,368,738
Other segment information:						
Depreciation and amortisation	168	1,226	166,992	9,441	59,973	237,800
(Write-back of impairment)/impairment of trade receivables	216	–	(6,142)	1,206	–	(4,720)
Write-down of inventories to net realisable value	70,217	176	18,492	6,545	–	95,430
Capital expenditure*	4,547	19,484	725,516	5,483	10,132	765,162

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segment information for the year ended 31 December 2016:

	Infant formulas RMB'000	Probiotic supplements RMB'000 (Restated)	Adult nutrition and care products RMB'000	Other pediatric products RMB'000 (Restated)	Unallocated RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	3,203,601	505,386	2,682,526	114,103	–	6,505,616
Segment results	2,105,436	383,773	1,542,142	27,716	–	4,059,067
Reconciliations:						
Interest income						53,663
Other income and unallocated gains						270,009
Share of loss of an associate						(5,012)
Corporate and other unallocated expenses						(2,452,920)
Finance costs						(468,287)
Profit before tax						1,456,520
Other segment information:						
Depreciation and amortisation	1,733	1,736	93,914	2,830	71,753	171,966
Impairment of trade receivables	–	–	9,857	278	–	10,135
Write-down of inventories to net realisable value	112,915	–	75,679	5,418	–	194,012
Capital expenditure*	5,847	8,996	53,062	40,134	6,515	114,554

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including those arising from the acquisition of subsidiaries.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2017 RMB'000	2016 RMB'000 (Restated)
Mainland China	5,482,301	4,155,455
Australia and New Zealand	2,312,634	2,159,091
Other locations*	300,410	191,070
	8,095,345	6,505,616

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2017 RMB'000	2016 RMB'000 (Restated)
Mainland China	583,829	621,752
Australia and New Zealand	3,468,705	2,883,280
Other locations*	130,886	140,739
	4,183,420	3,645,771

The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets and goodwill.

* Including the special administrative regions of the People's Republic of China (the "**PRC**").

Information about major customers

During both years, sales to the Group's five largest customers accounted for less than 30% of the Group's revenue. Sales to these customers are reported under the adult nutrition and care products segment.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns, rebates and trade discounts (net of value-added tax and goods and services tax) during the year.

An analysis of the revenue, other income and gains is as follows:

	2017 RMB'000	2016 RMB'000
Revenue		
Sale of goods	8,095,345	6,505,616
Other income and gains		
Bank interest income	26,634	42,187
Interest income from loans and bonds receivables	11,665	11,476
Service income	–	93
Foreign exchange gains	53,887	99,141
Fair value gains on derivative financial instruments	32,372	160,416
Government subsidies*	18,433	7,179
Others	469	3,180
	143,460	323,672

* There are no unfulfilled conditions or contingencies related to these government subsidies.

6. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank loans, senior notes and convertible bonds	463,896	397,842
Bank charges	15,216	52,442
Loss on redemption/repurchase of convertible bonds	13,061	18,003
	492,173	468,287

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**2,734,301**	2,252,537
Depreciation	12	**71,526**	75,306
Amortisation of intangible assets	15	**164,796**	95,182
Amortisation of prepaid land lease payments	13	**1,478**	1,478
Auditor's remuneration		**6,378**	5,832
Research and development costs**		**98,630**	77,247
Minimum lease payments under operating leases		**65,877**	53,174
Loss on disposal of items of property, plant and equipment		**2,081**	4,265
Employee benefit expenses (including directors' and chief executive's remuneration) (note 8(a)):			
Wages and salaries		**851,112**	670,886
Pension scheme contributions (defined contribution schemes)		**103,386**	102,405
Staff welfare and other expenses		**50,288**	18,435
Equity-settled share option expense	35	**27,879**	33,004
Equity-settled share award expense	36	**30,093**	29,968
		1,062,758	854,698
Foreign exchange differences, net*		**(53,887)**	(99,141)
Fair value losses/(gains) on derivative financial instruments, net		**144,272**	(160,416)
Changes in carrying amounts of financial liabilities associated with put options**	31	**–**	21,163
(Write-back of impairment)/impairment of trade receivables**	22	**(4,720)**	10,135
Write-down of inventories to net realisable value#		**95,430**	194,012
Loss on redemption/repurchase of convertible bonds	29	**13,061**	18,003
Impairment of intangible assets		**24,323**	–

* Included in "Other income and gains" in profit or loss

** Included in "Other expenses" in profit or loss

\# Included in "Cost of sales" in profit or loss

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 RMB'000	2016 RMB'000
Fees	1,680	1,534
Other emoluments:		
Salaries, allowances and benefits in kind	5,792	13,091
Performance-related bonuses	1,519	–
Equity-settled share option expense	932	1,694
Equity-settled share award expense	1,236	6,260
Pension scheme contributions	73	74
	9,552	21,119
	11,232	22,653

During the year and in prior year, share options and share awards were granted to certain directors and chief executive in respect of their services to the Group, further details of which are set out in notes 35 and 36 to these financial statements, respectively. The fair values of these options and share awards, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and chief executive's remuneration (continued)

The remuneration of each of the directors and the chief executive for the year ended 31 December 2017 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2017							
Executive director:							
Mr. Luo Fei *(Chief executive)*	–	5,792	1,519	932	1,236	73	9,552
	–	5,792	1,519	932	1,236	73	9,552
Non-executive directors:							
Mr. Luo Yun	120	–	–	–	–	–	120
Mr. Wu Xiong#	120	–	–	–	–	–	120
Mr. Chen Fufang#	120	–	–	–	–	–	120
Dr. Zhang Wenhui	120	–	–	–	–	–	120
	480	–	–	–	–	–	480
Independent non-executive directors:							
Mr. Ngai Wai Fung	400	–	–	–	–	–	400
Mr. Tan Wee Seng	400	–	–	–	–	–	400
Professor Xiao Baichun	400	–	–	–	–	–	400
	1,200	–	–	–	–	–	1,200
	1,680	5,792	1,519	932	1,236	73	11,232

Pursuant to board resolution on 25 March 2018, Mr. Wu Xiong and Mr. Chen Fufang have resigned as non-executive directors of the Company with effect from 26 March 2018.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(a) Directors' and chief executive's remuneration (continued)

The remuneration of each of the directors and the chief executive for the year ended 31 December 2016 is set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2016						
Executive directors:						
Mr. Luo Fei *(Chief executive)*	–	5,046	958	1,886	74	7,964
Mr. Sali Radek#	154	8,045	736	4,374	–	13,309
	154	13,091	1,694	6,260	74	21,273
Non-executive directors:						
Mr. Luo Yun	120	–	–	–	–	120
Mr. Wu Xiong	120	–	–	–	–	120
Mr. Chen Fufang	120	–	–	–	–	120
Dr. Zhang Wenhui	120	–	–	–	–	120
	480	–	–	–	–	480
Independent non-executive directors:						
Mr. Ngai Wai Fung	300	–	–	–	–	300
Mr. Tan Wee Seng	300	–	–	–	–	300
Professor Xiao Baichun	300	–	–	–	–	300
	900	–	–	–	–	900
	1,534	13,091	1,694	6,260	74	22,653

Mr. Sali Radek was appointed as an executive director of the Company on 21 January 2016. He has tendered his resignation as an executive director of the Company with effect from 31 December 2016.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

(b) Five highest paid employees

The five highest paid employees during the year included one (2016: two) directors, details of whose remuneration are set out in note 8(a) above. Details of the remuneration for the year of the remaining four (2016: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	12,464	8,538
Performance-related bonuses	7,370	6,335
Equity-settled share option expense	3,178	2,218
Equity-settled share award expense	6,107	4,261
Pension scheme contributions	92	100
	29,211	21,452

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2017	2016
HK$7,000,001 to HK$7,500,000	–	1
HK$7,500,001 to HK$8,000,000	2	1
HK$8,000,001 to HK$8,500,000	–	–
HK$8,500,001 to HK$9,000,000	1	–
HK$9,000,001 to HK$9,500,000	1	–
HK$9,500,001 to HK$10,000,000	–	1
	4	3

During the year and in prior years, share options and share awards were granted to the non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in notes 35 and 36 to these financial statements, respectively. The fair values of these share options and share awards, which have been recognised in profit or loss over the vesting period, were determined as at the dates of grant and the amounts included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

9. INCOME TAX

	2017 RMB'000	2016 RMB'000
Current		
Mainland China	**370,652**	322,235
Hong Kong	**5,086**	5,686
Australia		
– Charge for the year	**81,667**	175,461
– Overprovision in prior years	**(10,995)**	–
Elsewhere	**(8,327)**	16,759
Deferred (note 32)	**2,157**	(115,583)
Total tax charge for the year	**440,240**	404,558

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

PRC enterprise income tax ("EIT")

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the rate of 25% (2016: 25%) on the taxable profits for the year, based on the existing legislation, interpretations and practices in respect thereof.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Australia corporate income tax

Australia corporate income tax has been provided at the rate of 30% (2016: 30%) on the estimated assessable profits arising in Australia.

Tax consolidation legislation

Biostime Australia Holdings, Biostime Australia Investment, Swisse and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Biostime Australia Holdings, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Biostime Australia Holdings also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the controlled entities in the tax consolidated group.

9. INCOME TAX (CONTINUED)

Australia corporate income tax (continued)

Tax consolidation legislation (continued)

The entities have also entered into a tax funding arrangement under which the wholly-owned entities fully compensate Biostime Australia Holdings for any current tax payable assumed and are compensated by Biostime Australia Holdings for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Biostime Australia Holdings under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding arrangement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Income tax for other jurisdictions

The Group's tax provision in respect of other jurisdictions has been calculated at the applicable tax rates in accordance with the prevailing practices of the jurisdictions in which the Group operates.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the majority of the subsidiaries of the Company is domiciled to the tax expense at the effective tax rate is as follows:

	2017 RMB'000	2016 RMB'000
Profit before tax	1,368,738	1,456,520
Tax at the applicable PRC EIT rate	342,185	364,130
Overseas tax differential	31,259	63,454
Tax effects on preferential tax rates	–	(4,586)
Expenses not deductible for tax	108,479	72,171
Tax losses utilised from previous periods	(90,103)	(89,141)
Income not subject to tax	(36,527)	(107,516)
Tax losses not recognised	36,112	10,745
Adjustment in respect of current tax of previous periods	(10,995)	–
Effect of withholding tax at 5% (2016: 5%) on the distributable profits of the Group's subsidiaries in Mainland China	59,830	95,301
Tax charge at the Group's effective rate	440,240	404,558

10. DIVIDENDS

No interim or final dividend was proposed during the year ended 31 December 2017 (2016: Nil).

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 632,354,043 (2016: 626,939,496) in issue during the year.

The calculation of the diluted earnings per share amount for the year is based on the profit attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share option schemes and the share award schemes. As the conversion or exercise of the convertible bonds would have an antidilutive effect on earnings per share, the calculation of diluted earnings per share does not assume conversion or exercise of potential ordinary shares of the convertible bonds.

The calculations of the basic and diluted earnings per share are based on:

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	932,846	954,396

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	633,667,133	630,353,639
Weighted average number of shares held for the share award schemes	(1,313,090)	(3,414,143)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	632,354,043	626,939,496
Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares	7,101,930	9,116,398
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	639,455,973	636,055,894

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2017	275,568	244,287	119,948	21,740	75,350	22,951	759,844
Additions	–	36,935	9,865	159	3,564	21,754	72,277
Disposals	–	(28,639)	(3,309)	(561)	(2,603)	(25,782)	(60,894)
Exchange alignment	–	1,386	241	8	446	304	2,385
At 31 December 2017	275,568	253,969	126,745	21,346	76,757	19,227	773,612
Accumulated depreciation:							
At 1 January 2017	24,120	84,008	93,791	13,269	13,459	–	228,647
Depreciation provided during the year	13,342	29,262	12,680	2,262	13,980	–	71,526
Disposals	–	(27,319)	(2,828)	(345)	(535)	–	(31,027)
Exchange alignment	–	814	103	(1)	(37)	–	879
At 31 December 2017	37,462	86,765	103,746	15,185	26,867	–	270,025
Net carrying amount:							
At 31 December 2017	238,106	167,204	22,999	6,161	49,890	19,227	503,587

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2016	274,199	221,430	120,762	51,496	51,088	26,104	745,079
Acquisition of subsidiaries	–	15,032	1,736	504	1,603	347	19,222
Additions	1,369	9,657	5,855	355	14,630	28,965	60,831
Disposals	–	(5,630)	(10,570)	(30,645)	(19,296)	(252)	(66,393)
Transfers	–	1,776	1,681	–	26,531	(32,338)	(2,350)
Exchange alignment	–	2,022	484	30	794	125	3,455
At 31 December 2016	275,568	244,287	119,948	21,740	75,350	22,951	759,844
Accumulated depreciation:							
At 1 January 2016	16,159	56,579	78,567	30,468	16,311	–	198,084
Acquisition of subsidiaries	–	6,273	858	–	–	–	7,131
Depreciation provided during the year	13,309	23,794	18,142	3,898	16,163	–	75,306
Disposals	(5,348)	(4,456)	(4,000)	(21,133)	(19,089)	–	(54,026)
Exchange alignment	–	1,818	224	36	74	–	2,152
At 31 December 2016	24,120	84,008	93,791	13,269	13,459	–	228,647
Net carrying amount:							
At 31 December 2016	251,448	160,279	26,157	8,471	61,891	22,951	531,197

13. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	61,765	63,243
Recognised during the year (note 7)	(1,478)	(1,478)
Carrying amount at 31 December	60,287	61,765
Current portion included in prepayments, deposits and other receivables (note 23)	(1,478)	(1,478)
Non-current portion	58,809	60,287

14. GOODWILL

	2017 RMB'000	2016 RMB'000 (Restated)
Cost and carrying amount:		
At 1 January	5,296,618	4,937,296
Acquisition of subsidiaries	–	62,161
Exchange alignment	80,200	297,161
At 31 December	5,376,818	5,296,618

Impairment testing of goodwill

Details of the impairment testing of goodwill have been set out in note 16 to these financial statements.

15. INTANGIBLE ASSETS

	Trademark and brand name* RMB'000	Licence RMB'000	Customer relationships# RMB'000	Royalty agreement RMB'000	Unpatented product formula RMB'000	Distribution rights*# RMB'000	Products registration# RMB'000	Computer software and others RMB'000	Total RMB'000
Cost:									
At 1 January 2017 (Restated)	1,921,246	105,786	927,501	89,766	55,642	–	–	51,642	3,151,583
Additions	3,743	–	105,896	–	–	576,850	3,214	3,182	692,885
Disposals	–	–	–	–	–	–	–	(31,050)	(31,050)
Exchange alignment	28,669	29	14,736	1,380	855	2,103	12	177	47,961
At 31 December 2017	1,953,658	105,815	1,048,133	91,146	56,497	578,953	3,226	23,951	3,861,379
Accumulated amortisation:									
At 1 January 2017	–	18,500	83,776	14,026	4,637	–	–	17,212	138,151
Amortisation provided during the year	–	5,224	72,563	78,183	4,857	–	–	3,969	164,796
Disposals	–	–	–	–	–	–	–	(5,563)	(5,563)
Exchange alignment	–	23	(70)	(1,063)	(5)	–	–	146	(969)
At 31 December 2017	–	23,747	156,269	91,146	9,489	–	–	15,764	296,415
Net carrying amount:									
At 31 December 2017	1,953,658	82,068	891,864	–	47,008	578,953	3,226	8,187	3,564,964

	Trademark and brand name* RMB'000	Licence RMB'000	Customer relationships RMB'000	Royalty agreement RMB'000	Unpatented product formula RMB'000	Computer software and others RMB'000	Total RMB'000
Cost:							
At 1 January 2016	1,794,984	103,780	855,159	84,610	52,446	48,023	2,939,002
Acquisition of subsidiaries (Restated)	15,035	2,036	19,918	–	–	–	36,989
Additions	1,633	–	–	–	–	3,010	4,643
Transfer from construction in progress	–	–	–	–	–	2,350	2,350
Disposals	(112)	–	–	–	–	(2,299)	(2,411)
Exchange alignment	109,706	(30)	52,424	5,156	3,196	558	171,010
At 31 December 2016 (Restated)	1,921,246	105,786	927,501	89,766	55,642	51,642	3,151,583
Accumulated amortisation:							
At 1 January 2016	–	11,532	16,278	2,644	874	11,058	42,386
Amortisation provided during the year	–	6,952	65,480	11,062	3,657	8,031	95,182
Disposals	–	–	–	–	–	(2,284)	(2,284)
Exchange alignment	–	16	2,018	320	106	407	2,867
At 31 December 2016	–	18,500	83,776	14,026	4,637	17,212	138,151
Net carrying amount:							
At 31 December 2016 (Restated)	1,921,246	87,286	843,725	75,740	51,005	34,430	3,013,432

15. INTANGIBLE ASSETS (CONTINUED)

Notes:

* Trademarks, brand names and distribution rights are regarded as having indefinite useful lives as they are expected to generate net cash inflows to the Group indefinitely. As at 31 December 2017 and 2016, these intangible assets with indefinite useful lives were tested for impairment (note 16).

\# In November 2017, the Group entered into an agreement to acquire the exclusive distribution rights to market and distribute Swisse branded products in certain regions from a commercial partner. The purchase price, including transaction costs and contingent payments, was estimated to be US$103,500,000 (approximately RMB685,960,000).

Based on the substance of the agreement, this transaction did not constitute a business combination because there were insufficient inputs, processes and outputs to qualify as a business as defined in IFRS 3 *Business Combinations*. As a result, it was determined that the transaction was the acquisition of a group of assets and the following intangible assets were identified within the transaction:

- Distribution rights
- Customer relationships
- Products registration

The purchase consideration is allocated to the identified intangible assets acquired based on their relative fair values. The consideration allocated to distribution rights, customer relationships and products registration amounted to US$87,000,000 (approximately RMB576,850,000), US$16,000,000 (approximately RMB105,896,000) and US$500,000 (approximately RMB3,214,000), respectively. The useful lives of distribution rights are assessed to be infinite, and is not amortised. Customer relationships and products registration are amortised on the straight line basis over their estimated useful lives of 5 to 14 years.

The transaction was completed in November 2017. The net outflow of cash and cash equivalent included in cash flows from investing activities for the year amounted to RMB496,974,000. The remaining consideration payable of RMB182,958,000 was included in other payable as at 31 December 2017.

16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Goodwill and intangible assets with indefinite useful lives have been allocated to the following CGUs for impairment testing:

– Infant formulas;

– Adult nutrition and care products;

– Dried baby food and nutrition supplements; and

– Baby care products.

The respective carrying amounts of goodwill and intangible assets with indefinite useful lives allocated to each of the above CGUs are set out below:

	2017		2016	
	Goodwill RMB'000	Intangible assets with indefinite useful lives RMB'000	Goodwill RMB'000 (Restated)	Intangible assets with indefinite useful lives RMB'000 (Restated)
Infant formulas	76,000	–	76,000	–
Adult nutrition and care products	5,198,167	2,490,106	5,119,472	1,882,109
Dried baby food and nutrition supplements	40,070	26,272	42,540	23,936
Baby care products	62,581	16,233	58,606	15,201
	5,376,818	2,532,611	5,296,618	1,921,246

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets or forecasts approved by management covering a period of five years. The growth rates used to extrapolate the cash flows beyond the period are based on the estimated growth rate of each unit taking into account the industry growth rate, past experience and the medium or long term growth target of each CGU.

The pre-tax discount rates applied to cash flow projections and the growth rates used to extrapolate cash flows beyond the five year period are as follows:

	Discount rate		Growth rate	
	2017	2016	2017	2016
Infant formulas	18.1%	19.4%	3%	3%
Adult nutrition and care products	11.6%	18.0%/20.3%	2.5%	3%
Dried baby food and nutrition supplements	13.2%	15.5%	3%	3%
Baby care products	12.6%	14.7%	3%	3%

Assumptions were used in the value in use calculation of each CGU as at 31 December 2017 and 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill, intangible assets with indefinite useful lives:

16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIVES (CONTINUED)

Budgeted sales amounts – The budgeted sales amounts are based on the historical sales data and market outlook perceived by management.

Budgeted gross margins – The bases used to determine the values assigned to the budgeted gross margins are the average gross margins achieved in the year immediately before the budget year, adjusted for expected efficiency gains and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant CGUs.

The values assigned to the key assumptions on market development of the CGUs, discount rates and raw materials purchase prices are consistent with external information sources.

In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

17. BONDS RECEIVABLE

	2017 RMB'000	2016 RMB'000
Bonds receivable	136,361	127,701

The Group entered into a bond subscription agreement with Isigny Sainte Mère ("**ISM**") (the "**Bond Subscription Agreement**") on 30 July 2013, pursuant to which ISM issued, and the Group subscribed for 17,477,075 bonds, with a nominal value of EUR1 per bond, in three separate tranches, at a subscription price equivalent to the face value of the bond. As at 31 December 2017, the Group continued to hold the bonds it had subscribed for.

The bonds bear interest at a rate of 5% per annum. The bonds will mature on 30 July 2023, ten years from the date of the Bond Subscription Agreement.

18. LOANS RECEIVABLE

	2017 RMB'000	2016 RMB'000
Current portion of loans receivable	**21,748**	27,084
Loans receivable due after one year	**44,910**	48,789
	66,658	75,873

	Effective interest rate	Maturity	2017 RMB'000	2016 RMB'000
Denominated in US$	3.00%	By instalments before December 2018	**35,942**	38,156
Denominated in Danish Krones (the "**DKK**")	DKK CIBOR rate +1%	By instalments before January 2020	**30,716**	37,717
Total loans receivable			**66,658**	75,873

Loans receivable represent loans provided to certain suppliers for the purpose of financing their production capacity expansion to fulfil the purchase requirements of the Group and are repayable by instalments.

The US$ denominated loan receivable is convertible at the option of the Company at any time before maturity into equity interest of the supplier, which may not exceed 49% of the outstanding equity interest of that supplier. The loan is redeemable under certain circumstances before maturity. Accordingly, this loan is separated into two components: the debt element and the conversion option element. The Group has classified the debt element and the conversion option element as loan receivable and derivative financial instrument, respectively. Details of the conversion option element are included in note 27 to these financial statements.

The carrying amounts of the current portion and non-current portion of the loans receivable approximate to their fair values.

19. DEPOSITS

	2017 RMB'000	2016 RMB'000
Deposits paid for purchase of items of property, plant and equipment	**5,725**	1,223
Deposits paid for purchase of intangible assets	**3,702**	–
Rental deposits	**5,538**	4,439
	14,965	5,662

20. INVESTMENT IN AN ASSOCIATE

	2017 RMB'000	2016 RMB'000
Share of net assets	41,095	35,193
Loan to an associate	40,000	40,000

As at 31 December 2017, the loan to an associate was secured, bearing interest at a rate of 4% per annum. The loan is due for repayment on 7 November 2018.

The trade payable balance with the associate is disclosed in note 25 to these financial statements.

Particulars of the associate are as follows:

Name	Particulars of registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Hangzhou Coamie Personal Care Products Co., Ltd.	RMB100,000,000	PRC/Mainland China	40%	Manufacture, retail and import and export of baby diapers

The Group's shareholding in the associate represents equity shares held through a wholly-owned subsidiary of the Company.

The following table illustrates the financial information of the Group's associate that is not material to the Group:

	2017 RMB'000	2016 RMB'000
Share of the associate's profit/(loss) for the year	5,902	(5,012)
Share of the associate's comprehensive income/(loss)	5,902	(5,012)
Carrying amount of the Group's investment in the associate	41,095	35,193

21. INVENTORIES

	2017 RMB'000	2016 RMB'000 (Restated)
Raw materials	579,325	226,310
Raw materials in transit	153,779	60,161
Work in progress	1,139	1,291
Finished goods	278,376	488,221
	1,012,619	775,983

22. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	636,494	498,043
Bills receivable	62,946	36,103
	699,440	534,146
Less: Impairment provision	(4,744)	(17,522)
	694,696	516,624

Advance payment is normally required for sales of the baby nutrition and care products except in limited circumstances for credit sales. Credit sales are usually allowed for the adult nutrition and care products with credit terms of 30 to 60 days from end of month. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

Trade receivables are unsecured and non-interest-bearing. Bills receivable represent bank acceptance notes issued by banks in Mainland China which are non-interest-bearing.

An aging analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 month	394,479	434,166
1 to 3 months	290,573	79,610
Over 3 months	9,644	2,848
	694,696	516,624

Receivables that were past due but not impaired, amounting to approximately RMB8,412,000, (2016: RMB1,529,000), related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Receivables that were neither past due nor impaired related to recognised and creditworthy customers for whom there was no recent history of default. Customers who trade on credit terms are subject to credit verification procedures.

22. TRADE AND BILLS RECEIVABLES (CONTINUED)

The movements in provision for impairment of trade receivables are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of year	17,522	5,171
Acquisition of subsidiaries	–	1,747
Impairment losses recognised (note 7)	1,492	14,060
Amount written off as uncollectible	(8,664)	–
Impairment losses reversed (note 7)	(6,212)	(3,925)
Exchange realignment	606	469
	4,744	17,522

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB4,744,000 (2016: RMB17,522,000) with a carrying amount before provision of RMB4,744,000 (2016: RMB17,522,000).

The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are expected not to be recovered.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000 (Restated)
Prepayments	17,314	6,853
Deposits	4,379	506,003
Other receivables	83,446	68,369
Prepaid expenses	10,777	27,301
Current portion of prepaid land lease payments (note 13)	1,478	1,478
	117,394	610,004

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	1,955,746	1,162,170
Time deposits	134,534	344,033
Pledged deposits	11,082	995,498
	2,101,362	2,501,701
Less:		
Pledged deposits for senior notes	–	(987,674)
Restricted deposits for bills issue	(11,082)	(7,824)
Cash and cash equivalents as stated in the consolidated statement of financial position	2,090,280	1,506,203
Less:		
Non-pledged time deposits with original maturity of three months or more when acquired	–	(214,033)
Cash and cash equivalents as stated in the consolidated statement of cash flows	2,090,280	1,292,170
Denominated in RMB (note)	1,158,118	1,252,380
Denominated in other currencies	943,244	1,249,321
	2,101,362	2,501,701

Note:

The RMB is not freely convertible into other currencies, however, under Mainland China'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 authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between three months and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Long-term time deposits are with original maturity over one year when acquired. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

25. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**632,039**	524,459
Bills payable	**12,651**	7,662
	644,690	532,121

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 month	**417,060**	411,358
1 to 3 months	**219,238**	112,389
Over 3 months	**8,392**	8,374
	644,690	532,121

The trade payables are non-interest-bearing. The average credit period for trade purchases is 30 to 90 days.

As at 31 December 2017, included in the trade payables was an amount due to the Group's associate of RMB4,391,000 (2016: RMB4,497,000) which was repayable within 30 days, being a credit period offered by the Group's associate to its major customers.

26. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000 (Restated)
Advances from customers	**21,665**	38,892
Salaries and welfare payables	**190,324**	68,017
Accruals	**844,186**	564,168
Other tax payables	**121,094**	89,295
Deferred income (note 33)	**77,070**	31,324
Other payables	**341,997**	96,351
	1,596,336	888,047
Less: Current portion	**(1,563,339)**	(864,872)
Non-Current portion	**32,997**	23,175

The above balances are non-interest-bearing and have no fixed terms of repayment.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	2017 Assets RMB'000	2017 Liabilities RMB'000	2016 Assets RMB'000	2016 Liabilities RMB'000
Current					
Conversion option embedded in a loan receivable	(a)	2,745	–	2,914	–
Forward currency contracts	(b)	502	5,968	–	3,074
		3,247	5,968	2,914	3,074
Non-current					
Early redemption option embedded in the senior notes	(c)	79,529	–	55,509	–
The Swaps (as defined below)	(d)	–	52,137	68,957	–
The CCSs (as defined below)	(e)	–	134,058	122,285	–
		79,529	186,195	246,751	–

Notes:

(a) A conversion option is embedded in a loan receivable, details of which are set out in note 18 to these financial statements. The fair value of the conversion option as at 31 December 2017 was RMB2,745,000 (2016: RMB2,914,000). A fair value gain of RMB22,000 was recognised in profit or loss during the year (2016: a gain of RMB1,000).

(b) The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. The fair value of the forward currency contracts as at 31 December 2017 was RMB5,466,000 (negative) (2016: RMB3,074,000 (negative)). A fair value loss of RMB2,284,000 was recognised in profit or loss during the year (2016: a gain of RMB2,784,000).

(c) An early redemption option is embedded in the senior notes issued on 21 June 2016, details of which are set out in note 30 to these financial statements. The fair value of the early redemption option as at 31 December 2017 was RMB79,529,000 (2016: RMB55,509,000). A fair value gain of RMB28,665,000 was recognised in profit or loss for the year (2016: a gain of RMB25,406,000).

27. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes: (continued)

(d) A subsidiary of the Group entered into interest rate swap, cross currency swap and cross currency interest rate swap agreements (collectively the "**Swaps**") with financial institutions with an aggregate notional amount of US$239,500,000 for the purpose of hedging the foreign currency risk and interest rate risk in relation to a US$ denominated floating rate bank borrowing.

As at 31 December 2017, the fair value of the Swaps designated for hedge purposes amounted to RMB52,137,000 (negative) (31 December 2016: RMB68,957,000).

The terms of the Swaps have been negotiated to match the terms of that bank borrowing. The cash flow hedge relating to the expected interest and principal payments were assessed to be highly effective. A net gain of RMB19,820,000 (2016: a gain of RMB905,000) was included in the hedging reserve as follows and a net loss of the ineffective portion of RMB26,857,000 (2016: a gain of RMB6,550,000) was charged to profit or loss.

	2017 RMB'000
Total fair value losses included in the hedging reserve	119,692
Deferred tax on fair value losses	(35,907)
Reclassified from other comprehensive income and recognised in profit or loss	(130,880)
Deferred tax on reclassifications to profit or loss	27,166
Exchange realignment	109
Net gains on cash flow hedges	(19,820)

(e) The Company also entered into certain cross currency swap agreements ("**CCSs**") with financial institutions with an aggregate notional amount of RMB2,026,210,000 for the purpose of managing the foreign currency risk of its investments in foreign operation.

During the year, the CCSs with an aggregate nominal amount of RMB1,512,085,000 are designated as hedging instruments for hedges of net investments in foreign operations which are accounted for in a similar way to cash flow hedges. Gains or losses on those CCSs relating to the effective portion of the hedges are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. The remaining CCSs which did not qualify as hedging instruments are measured at fair value with any gains or losses arising from their changes in fair value taken directly to profit or loss.

The fair value of these CCSs as at 31 December 2017 was RMB134,058,000 (negative) (31 December 2016: RMB122,285,000). Net loss of RMB143,818,000 (2016: a gain of RMB117,094,000) arising from the changes in fair value of these CCSs was charged to profit or loss and a net loss on net investment hedge of RMB171,865,000 (2016: Nil) was included in exchange fluctuation reserve, respectively. During the year ended 31 December 2017, the Company has paid net cash of RMB62,921,000 (2016: Nil) in respective of those CCSs.

28. INTEREST-BEARING BANK LOANS

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Secured bank loan	BBSY+margin	April 2018	242,759	BBSY+margin	April 2017	257,325
Secured bank loan	Libor+margin	April 2018	265,708	Libor+margin	April 2017	292,062
			508,467			549,387
Non-current						
Secured bank loan	BBSY+margin	April 2019	877,737	BBSY+margin	April 2019	1,021,135
Secured bank loan	Libor+margin	April 2019	966,540	Libor+margin	April 2019	1,221,656
			1,844,277			2,242,791
			2,352,744			2,792,178

BBSY stands for Australian Bank Bill Swap Bid Rate
Libor stands for London InterBank Offered Rate

Notes:

(a) As at 31 December 2017, the Group's bank loans are guaranteed on a joint and several basis by the Company and certain of the Company's subsidiaries and are secured by fixed and floating charges (in respect of H&H HK, a floating charge only) over all present and future assets of the Company and certain of its subsidiaries and assignments over the Company's and certain of its subsidiaries' rights to their material contracts and insurance policies. In addition, certain subsidiaries' shares are also pledged.

(b) At 31 December 2017, the Group's bank loans were denominated in US$ and A$ at aggregate amounts of RMB1,232,248,000 (2016: RMB1,513,718,000) and RMB1,120,496,000 (2016: RMB1,278,460,000), respectively.

29. CONVERTIBLE BONDS

On 20 February 2014, the Company issued zero coupon convertible bonds due 20 February 2019 with an aggregate principal amount of HK$3,100,000,000. The convertible bonds have been listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 21 February 2014.

The bonds may be converted, at the option of the bondholders, at any time on or after 4 April 2014 to the close of business on the date falling seven days prior to 20 February 2019, or if such convertible bonds have been called for redemption before 20 February 2019, then up to and including the close of business on a date no later than seven days prior to the date fixed for redemption. The convertible bonds are convertible into shares at an initial conversion price of HK$90.84 per share. The conversion price is subject to adjustment for, among other things, consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, capital distributions, rights issues of shares or options over shares, rights issues of other securities and other dilutive events.

The bonds are redeemable at the option of the Company in whole, but not in part, at a redemption price equal to the early redemption amount as at such date, (i) at any time after 20 February 2017, provided that the closing price of the Company's share, for 20 out of the 30 consecutive trading days immediately prior to the date upon which the notice is given, was at least 130% of the early redemption amount divided by the conversion ratio then in effect immediately prior to the date upon which notice of such redemption is given, or (ii) if, prior to the date the relevant notice is given, conversion rights have been exercised and/or purchased (and corresponding cancellations) and/or redemptions effected in respect of 90% or more in the principal amount of the convertible bonds originally issued.

The bonds do not bear any coupon interest. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each bond at 115.34% of its principal amount on 20 February 2019.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component and has been included in shareholders' equity.

On 6 June 2016, the Company commenced an offer to repurchase in cash the convertible bonds (the "**Offer**") and announced to accept for purchase valid tenders of the convertible bonds with an aggregate principal amount of HK$1,814,000,000 pursuant to the Offer on 15 June 2016. The purchase price is HK$2,140,000 for each HK$2,000,000 in the principal amount of the convertible bonds and the Offer was settled on 22 June 2016.

On 20 February 2017, at the option of the bondholders, the Company redeemed the remaining outstanding convertible bonds with an aggregate principal amount of HK$1,286,000,000. The purchase price is HK$2,178,800 for each HK$2,000,000 in the principal amount of the convertible bonds.

According to IAS 32, when the Company extinguishes a convertible bond before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the Company is required to allocate the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the convertible bond at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Company when the convertible bond was issued. The gain or loss relating to the equity component is recognised in equity. The gain or loss relating to the liability component is recognised in profit or loss.

29. CONVERTIBLE BONDS (CONTINUED)

The movements of the convertible bonds for the years ended 31 December 2017 and 2016 are set out below:

	Liability component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2016	2,659,057	66,978	2,726,035
Interest charged	72,637	–	72,637
Repurchase of convertible bonds	(1,624,618)	(24,847)	(1,649,465)
Loss on repurchase of convertible bonds charged to profit or loss (note 7)	18,003	–	18,003
Transfer to retained profits	–	(17,642)	(17,642)
Exchange alignment	98,540	–	98,540
At 31 December 2016 and 1 January 2017	1,223,619	24,489	1,248,108
Interest charged	5,844	–	5,844
Redemption of convertible bonds	(1,230,948)	(9,932)	(1,240,880)
Loss on redemption of convertible bonds charged to profit or loss (note 7)	13,061	–	13,061
Transfer to retained profits	–	(14,557)	(14,557)
Exchange alignment	(11,576)	–	(11,576)
At 31 December 2017	–	–	–

30. SENIOR NOTES

On 21 June 2016, the Company issued senior notes due 21 June 2021 with an aggregate principal amount of US$400,000,000. The net proceeds after deduction of underwriting discount and certain expenses related to the senior notes issue were released to repurchase the convertible bonds tendered in the Offer as detailed in note 29 above. The net proceeds from the senior notes issue was deposited into an escrow account to fund the repurchase/redemption of the convertible bonds.

On 23 January 2017, the Company issued additional senior notes due 21 June 2021 with an aggregate principal amount of US$200,000,000, which were under the same indenture entered by the Company on 21 June 2016 and formed part of the same series as the aforesaid US$400,000,000 senior notes. The net proceeds after deduction of underwriting discount and certain expenses related to the senior notes issue were released for the 17% Acquisition.

The coupon interest rate of the senior notes is 7.25% per annum and interests are paid semi-annually. The senior notes are listed on the Singapore Exchange Securities Trading Limited.

As at 31 December 2017, the senior notes are secured by a floating charge over the assets of the Company (other than any assets located in the PRC or shares of subsidiaries) on a second-ranking basis. Besides, the senior notes are jointly and severally guaranteed on a senior subordinated basis by certain subsidiaries.

Pursuant to the terms of the senior notes, the senior notes are subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the Company and certain of its subsidiaries. The Company regularly monitors its compliance with these covenants.

30. SENIOR NOTES (CONTINUED)

On or after 21 June 2018, the Company may on any one or more occasions redeem all or any part of the senior notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the senior notes redeemed, to (but not including) the applicable redemption date, if redeemed during the twelve-month period beginning on 21 June of the years indicated below (subject to the rights of holders of senior notes on the relevant record date to receive interest on the relevant interest payment date).

Period	**Redemption Price**
2018	103.6250%
2019	101.8125%
2020 and thereafter	100.0000%

The Company may at its option redeem the senior notes, in whole but not in part, at any time prior to 21 June 2018, at a redemption price equal to 100% of the principal amount of the senior notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the applicable redemption date.

At any time prior to 21 June 2018, the Company may at its option, on any one or more occasions, redeem up to 40% of the aggregate principal amount of the senior notes with the net cash proceeds of one or more sales of the ordinary shares of the Company in one or more equity offerings or of the ordinary shares of Biostime Australia Holdings in a qualifying initial public offering (the "**Qualifying IPO**"), which is a transaction or series of related transactions upon the consummation of which Biostime Australia Holdings has its ordinary shares listed on an internationally recognised stock exchange, at a redemption price of 107.25% of the principal amount of the senior notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the applicable redemption date, provided that at least 60% of the aggregate principal amount of the senior notes originally issued on the 21 June 2016 and 23 January 2017 remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the equity offering or the Qualifying IPO, as the case may be.

As at 31 December 2017, the fair value of the early redemption option embedded in the senior notes which is separately recognised amounted to RMB79,529,000, details of which are set out in note 27(c) to these consolidated financial statements.

The movements of the senior notes during the years ended 31 December 2017 and 31 December 2016 is set out below:

	RMB'000
Upon completion of the issuance on 21 June 2016	
Proceeds received	2,640,712
Transaction costs incurred	(65,627)
Redemption option embedded in the senior notes	27,577
Interest charged during the year	104,920
Interest paid during the year	(101,272)
Exchange alignment	137,564
At 31 December 2016 and 1 January 2017	2,743,874
Upon completion of the additional issuance on 23 January 2017	
Proceeds received	1,433,155
Transaction costs incurred	(19,676)
Interest charged during the year	291,781
Interest paid during the year	(354,540)
Exchange alignment	(163,931)
At 31 December 2017	3,930,663
Less: Current portion	(284,235)
Non-current portion	3,646,428

31. FINANCIAL LIABILITIES ASSOCIATED WITH PUT OPTIONS

In contemplation with the Acquisition, the following three wholly-owned investment holding companies were set up by the Company during the year ended 31 December 2015:

– Biostime Australia Investment;

– Biostime Australia Holdings, the immediate holding company of Biostime Australia Investment; and

– Biostime Australia, the immediate holding company of Biostime Australia Holdings.

Biostime Australia Investment entered into a roll-up call option deed (the "**Roll-Up Call Option Deed**") with the non-controlling shareholders of Swisse (the "**Non-controlling Shareholders**") simultaneously with the entry into of the share sale agreement (the "**Share Sale Agreement**") dated 17 September 2015 in relation to the Acquisition. Under the Roll-Up Call Option Deed, Biostime Australia Investment has the right (the "**Roll-up Call Option**") to require the Non-controlling Shareholders to sell all of the shares they continue to hold in Swisse after the completion of the Acquisition in exchange for an issue of shares representing an equivalent stake in Biostime Australia Holdings within an agreed period.

Pursuant to the Share Sale Agreement, on completion of the exercise of the Roll-up Call Option, a put option (the "**Holdco Put Option**" or "**Holdco Put Options**" as appropriate) is to be granted to each of the Non-controlling Shareholders whereby each Non-controlling Shareholders is given the right to require Biostime Australia to buy all (but not some only) of its shares in Biostime Australia Holdings within an agreed period by giving a put option exercise notice. In the case of an exercise of the Holdco Put Option in the exercise period which immediately follows the third anniversary of the completion of the Acquisition, the fair market value of the relevant shares in Biostime Australia Holdings will be determined on the assumption that the financial indebtedness included in Swisse and its subsidiaries (the "**Swisse Group**") at such time is the lower of: (i) net debt of the Swisse Group as at the date of such valuation; and (ii) 2.0x times the Swisse Group's consolidated earnings before interest, tax, depreciation and amortisation in the 12 calendar months preceding the date of such valuation (the "**Financial Indebtedness Adjustment Clause**").

On 14 September 2016, the Roll-up Call Option was exercised and the Holdco Put Options were granted. Consequently, Biostime Australia Investment directly holds the entire share capital of Swisse whereas Biostime Australia and the Non-controlling Shareholders in aggregate hold approximately 83% and 17% equity interests in Biostime Australia Holdings, respectively.

Under current IFRSs, when the Holdco Put Option is granted, the Group is required to record a financial liability which is to be measured at the present value of the redemption amount. On initial recognition, the corresponding debit is made to put option reserve which is a component of equity attributable to owners of the parent. The financial liability is subsequently measured in accordance with IAS 39 *Financial Instruments*.

The directors have estimated that at the grant date of the Holdco Put Options, the redemption amount would be approximately A$307,020,000 (equivalent to approximately RMB1,535,438,000), based on 17% of the business value (the "**Business Value**") of the Swisse Group as at that date. Accordingly, the Group recorded financial liabilities in respect of the Holdco Put Options of RMB1,535,438,000 as at 14 September 2016 with a corresponding debit to the put option reserve.

On 15 December 2016, the Group announced the 17% Acquisition at a cash consideration of A$311,300,000 (equivalent to approximately RMB1,561,387,000). Accordingly, as at 31 December 2016, the Group has remeasured the financial liabilities associated with the Holdco Put Options according to the consideration payable and charged the difference between the amounts as at the date of initial recognition and the year-end date to profit or loss.

On 7 February 2017, the Group completed the 17% Acquisition. Consequently, Biostime Australia Holdings and its subsidiaries became wholly-owned subsidiaries of the Group. Hence, the financial liabilities associated with the Holdco Put Options were derecognised with corresponding credit to the put option reserve and other reserve.

32. DEFERRED TAX

The movements in deferred tax assets and liabilities during the years ended 31 December 2017 and 2016 are as follows:

Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued liabilities and future deductible expenses RMB'000	Unrealised profit arising from intra-group transactions RMB'000	Deferred income RMB'000	Tax losses recognised RMB'000	Changes in fair value of derivative financial instruments RMB'000	Total RMB'000
At 1 January 2017	45,669	204,450	18,749	7,831	76,274	–	352,973
Credited/(charged) to profit or loss for the year (note 9)	(29,718)	10,704	(4,193)	973	(69,293)	23,302	(68,225)
Charged to equity for the year	–	–	–	–	–	8,443	8,443
Exchange alignment	–	1,940	–	–	2,293	(517)	3,716
At 31 December 2017	15,951	217,094	14,556	8,804	9,274	31,228	296,907
At 1 January 2016	2,171	152,740	37,223	5,927	–	–	198,061
Credited/(charged) to profit or loss for the year (note 9)	43,498	49,372	(18,474)	1,904	76,274	–	152,574
Exchange alignment	–	2,338	–	–	–	–	2,338
At 31 December 2016	45,669	204,450	18,749	7,831	76,274	–	352,973

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Withholding tax on distributable profits of subsidiaries in the PRC RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Changes in fair value of derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017 (Restated)	(1,265)	69,667	877,953	20,687	–	967,042
(Credited)/charged to profit or loss for the year (note 9)	1,598	(4,184)#	(51,949)	(21,316)	5,469	(70,382)
Charged to equity for the year	–	–	–	(298)	–	(298)
Exchange alignment	(45)	(206)	13,483	927	(89)	14,070
At 31 December 2017	288	65,277	839,487	–	5,380	910,432
At 1 January 2016	4,691	21,316	849,076	–	–	875,083
(Credited)/charged to profit or loss for the year (note 9)	(6,153)	48,351#	(25,513)	20,306	–	36,991
Acquisition of subsidiaries (Restated)	–	–	4,009	–	–	4,009
Charged to equity for the year	–	–	–	298	–	298
Exchange alignment	197	–	50,381	83	–	50,661
At 31 December 2016 (Restated)	(1,265)	69,667	877,953	20,687	–	967,042

The amount represented a deferred tax provision of RMB59,830,000 (2016: RMB95,301,000) on the distributable profits of the Company's subsidiaries in Mainland China after offsetting the realised deferred tax liabilities of RMB64,014,000 (2016: RMB46,950,000) arising from dividends declared by these subsidiaries to their foreign investors during the year.

32. DEFERRED TAX (CONTINUED)

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

	2017 RMB'000	2016 RMB'000 (Restated)
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December	**296,907**	352,973
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December	**(910,432)**	(967,042)
	(613,525)	(614,069)

Pursuant to the Enterprise Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable rate for the Group is 5%.

As at 31 December 2016, the Group had not recognised deferred tax liabilities of RMB5,463,000 in respect of temporary differences relating to the unremitted profits of subsidiaries, amounting to RMB109,264,000, that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future. As at 31 December 2017, all deferred tax liabilities in respect of temporary differences relating to unremitted profits of subsidiaries have been recognised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
Customer loyalty program		
At 1 January	**31,324**	23,707
Addition	**444,012**	346,653
Recognised as revenue during the year	**(398,266)**	(339,036)
At 31 December	**77,070**	31,324

34. SHARE CAPITAL

Shares

	2017	2016
Authorised:		
10,000,000,000 (2016: 10,000,000,000) ordinary shares of HK$0.01 each	HK$100,000,000	HK$100,000,000
Issued and fully paid:		
637,042,042 (2016: 630,472,096) ordinary shares of HK$0.01 each	HK$6,370,420	HK$6,304,721
Equivalent to	RMB5,447,000	RMB5,390,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK$'000	Equivalent to RMB'000
At 1 January 2016	630,080,426	6,301	5,387
Share options exercised (note (a))	391,670	4	3
	630,472,096	6,305	5,390
At 31 December 2016 and 1 January 2017			
Share options exercised (note (b))	5,388,038	53	47
Shares issued for 2013 Share Award Scheme (note 36)	1,181,908	12	10
At 31 December 2017	637,042,042	6,370	5,447

Notes:

(a) During the year ended 31 December 2016, the subscription rights attaching to 391,670 share options were exercised at the subscription prices ranging from HK$2.53 to HK$24.70, resulting in the issue of 391,670 ordinary shares for a total cash consideration, before expenses, of HK$3,732,000 (equivalent to approximately RMB4,581,000).

(b) During the year ended 31 December 2017, the subscription rights attaching to 5,388,038 share options were exercised at the subscription prices ranging from HK$2.53 to HK$24.70, resulting in the issue of 5,388,038 ordinary shares for a total cash consideration, before expenses, of HK$82,725,000 (equivalent to approximately RMB71,993,000).

Share options

Details of the Company's share option schemes and the share options exercised under the schemes are included in note 35 to these financial statements.

35. SHARE OPTION SCHEMES

The Company adopted a pre-initial public offering share option scheme (the "**Pre-IPO Share Option Scheme**") on 12 July 2010 and a share option scheme (the "**Share Option Scheme**") on 25 November 2010 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The Pre-IPO Share Option Scheme will expire on 17 December 2020 while the Share Option Scheme will remain in force for ten years from 25 November 2010 unless otherwise cancelled or amended.

The subscription price per share for all options granted under the Pre-IPO Share Option Scheme is HK$2.53. In respect of the Share Option Scheme, the exercise price of the share options is determined by the board of directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.

(i) Movements in share options

Movements in the number of share options outstanding and their related weighted average exercise prices are set out below:

31 December 2017

	Pre-IPO Share Option Scheme		Share Option Scheme		
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000	Total Number of options '000
At 1 January 2017	2.53	923	16.24	15,979	16,902
Granted during the year	2.53	–	29.48	17,470	17,470
Forfeited during the year	2.53	(3)	21.82	(4,274)	(4,277)
Exercised during the year	2.53	(180)	15.80	(5,208)	(5,388)
At 31 December 2017	2.53	740	24.99	23,967	24,707

35. SHARE OPTION SCHEMES (CONTINUED)

(i) Movements in share options (continued)

31 December 2016

	Pre-IPO Share Option Scheme		Share Option Scheme		
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000	Total Number of options '000
At 1 January 2016	2.53	1,131	15.71	19,815	20,946
Granted during the year	2.53	–	21.78	1,579	1,579
Forfeited during the year	2.53	(2)	15.86	(5,229)	(5,231)
Exercised during the year	2.53	(206)	17.27	(186)	(392)
At 31 December 2016	2.53	923	16.24	15,979	16,902

The weighted average share prices at the date of exercise for share options exercised under the Pre-IPO Share Option Scheme and the Share Option Scheme during the year were HK$35.17 per share (2016: HK$20.83 per share) and HK$29.00 per share (2016: HK$25.35 per share), respectively.

A total of 5,388,038 share options were exercised during the year under the two share option schemes, resulting in the issue of 5,388,038 ordinary shares of the Company and new share capital of HK$53,900 (equivalent to approximately RMB46,900) and share premium of HK$82,671,000 (equivalent to approximately RMB71,946,000) (before issue expenses). An amount of RMB17,989,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

No share option reserve related to the forfeited shares that have been vested was transferred to retained profits during the year (2016: Nil).

(ii) Outstanding share options

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme and the Share Option Scheme as at 31 December 2017 and 2016 are as follows:

Pre-IPO Share Option Scheme

	31 December 2017 Number of options '000	31 December 2016 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
	740	923	2.53	17-12-14 to 17-12-20

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

35. SHARE OPTION SCHEMES (CONTINUED)

(ii) Outstanding share options (continued)

Share Option Scheme

31 December 2017 Number of options '000	31 December 2016 Number of options '000	Exercise price* HK$ per share	Exercise period
22	66	15.312	17-12-14 to 17-12-20
39	86	11.520	17-12-14 to 17-12-20
30	90	12.120	17-12-13 to 17-12-19
90	90	12.120	17-12-14 to 17-12-20
42	89	19.640	17-12-14 to 17-12-20
108	195	24.700	17-12-14 to 17-12-20
1,246	6,098	15.580	30-12-16 to 30-12-22
137	496	15.580	1-4–17 to 1-4–23
3,148	4,154	15.580	1-4–18 to 1-4–24
2,695	3,100	15.580	1-4–19 to 1-4–25
91	91	21.050	30-12-16 to 30-12-22
19	91	21.050	1-4–17 to 1-4–23
54	145	21.050	1-4–18 to 1-4–24
36	157	21.050	1-4–19 to 1-4–25
90	146	20.920	30-12-16 to 30-12-22
31	31	20.920	1-4–17 to 1-4–23
128	166	20.920	1-4–18 to 1-4–24
87	147	20.920	1-4–19 to 1-4–25
22	38	23.300	1-4–17 to 1-4–23
116	245	23.300	1-4–18 to 1-4–24
117	258	23.300	1-4–19 to 1-4–25
673	–	25.750	1-4–18 to 1-4–24
672	–	25.750	1-4–19 to 1-4–25
150	–	25.750	1-4–20 to 1-4–26
139	–	22.150	1-4–18 to 1-4–24
139	–	22.150	1-4–19 to 1-4–25
13,072	–	29.250	1-4–21 to 1-4–27
122	–	47.100	1-4–19 to 1-4–25
652	–	47.100	1-4–21 to 1-4–27
23,967	15,979		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

35. SHARE OPTION SCHEMES (CONTINUED)

(ii) Outstanding share options (continued)

Share Option Scheme (continued)

At 31 December 2017, the share options outstanding under the Share Option Scheme were divided into two to three tranches at their respective grant dates. Generally, the first tranche vests one year after the grant date while the remaining tranches vest in the subsequent two to three years. There is a six-year exercise period for each share option granted under the Share Option Scheme.

The exercise in full of the outstanding share options under the two share option schemes would, under the present capital structure of the Company, result in the issue of 24,707,000 additional ordinary shares of the Company and additional share capital of HK$247,000 (equivalent to approximately RMB206,000) and share premium of HK$600,585,000 (equivalent to approximately RMB502,036,000) (before issue expenses).

Subsequent to the end of the reporting period, 412,000 and 49,000 share options were forfeited and exercised, respectively. At the date of approval of these financial statements, the Company had 24,246,000 share options outstanding under the two share option schemes, which represented approximately 3.8% of the Company's shares in issue as at that date.

(iii) Fair value of the share options

The directors of the Company used the Hull White model to determine the fair value of the share options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of share options granted during the year ended 31 December 2017 was HK$11.93 per share (equivalent to approximately RMB10.18 per share) (2016: HK$7.86 per share (equivalent to approximately RMB6.83 per share)).

Other than the exercise prices disclosed above, significant judgement on parameters, such as dividend yield, expected volatility, risk-free interest rate, and expected volatility, are required to be made by the directors in applying the Hull White model, which are summarised below:

	2017	2016
Dividend yield (%)	**0**	0–5.32
Expected volatility (%)	**35.95–42.29**	41.74–45.39
Risk-free interest rate (%)	**0.82–1.53**	0.84–2.01

During the year, the Group has recognised a share option expense related to the two share option schemes of RMB27,879,000 (2016: RMB33,004,000) in total.

36. SHARE AWARD SCHEMES

Share Award Scheme

The share award scheme (the "**Share Award Scheme**") of the Company was adopted by the board of directors on 28 November 2011 (the "**Adoption Date**") and amended by the board of directors on 30 March 2012.

Subject to the terms of the Share Award Scheme and the Listing Rules, the board of directors may at any time make an offer to any eligible person it may in its absolute discretion select to accept the grant of an award over such number of shares as it may determine. Shares will be acquired by the independent trustee (the "**Trustee**") of the Share Award Scheme on the market out of the funds contributed by the Company and be held in trust for the relevant participants in accordance with the provisions of the Share Award Scheme. The vesting period shall, in any event, be no longer than ten years.

During the year ended 31 December 2017, 250,500 ordinary shares of the Company on the Stock Exchange were purchased for the Share Award Scheme (2016: Nil) at a total consideration of HK$8,783,000 (approximately RMB7,415,000).

Summary of particulars of the shares granted under the Share Award Scheme (the "**Awarded Shares**") during the year is as follows:

					Number of Awarded Shares		
Date of grant	Number of outstanding Awarded Shares as at 1 January 2017	Shares newly granted during the year	Fair value	Vesting date	Vested during the year	Forfeited during the year	Outstanding Awarded Shares as at 31 December 2017
			RMB				
23 December 2016	7,713	–	161,000	1 April 2017	(7,713)	–	–
23 December 2016	320,335	–	6,680,000	1 April 2018	–	(70,313)	250,022
19 April 2017	–	111,108	2,453,000	1 April 2018	–	–	111,108*
22 September 2017	–	329,646	9,957,000	1 April 2019	–	–	329,646*
Total	328,048	440,754	19,251,000		(7,713)	(70,313)	690,776

* Among these Awarded Shares granted, none of the Awarded Shares were granted to the executive directors.

The Group recognised a share award expense of RMB7,703,000 during the year (2016: RMB10,834,000) in relation to the Share Award Scheme.

2013 Share Award Scheme

The board of directors of the Company has approved the adoption of the 2013 share award scheme ("**2013 Share Award Scheme**") on 29 November 2013.

For the purpose of satisfying awards granted under the 2013 Share Award Scheme, awarded shares shall be allotted and issued at par value by the Company, by using the general mandate granted to the board of directors by the shareholders of the Company in general meetings of the Company from time to time, unless separate shareholders' approval is obtained in a general meeting of the Company.

36. SHARE AWARD SCHEMES (CONTINUED)

2013 Share Award Scheme (continued)

Subsequent to the grant of awards, the board of directors shall pay (or cause to be paid) sufficient funds (the "**Referable Amount**") to the Trustee (or as it shall direct) from the Group's resources as soon as practicable following such funds being set aside for the subscription of the relevant awarded shares. After receiving the Referable Amount, the Trustee shall apply the same towards the subscription of awarded shares at par at such time as agreed between the Trustee and the board of directors from time to time but in any event no later than 40 business days before the vesting of the relevant Awarded Shares.

Summary of particulars of the shares granted under the Share Award Scheme (the "**2013 Awarded Shares**") during the year is as follows:

					Number of 2013 Awarded Shares		
Date of grant	Number of Outstanding 2013 Awarded Shares at 1 January 2017	Shares newly granted during the year	Fair value	Vesting date	Vested during the year	Forfeited during the year	Outstanding 2013 Awarded Shares at 31 December 2017
			RMB				
1 July 2015	68,300	–	1,173,000	30 June 2017	–	(68,300)	–
29 December 2015	511,877	–	7,238,000	1 April 2017	(511,877)	–	–
3 May 2016	82,522	–	1,375,000	1 April 2017	(82,522)	–	–
30 September 2016	14,641	–	234,000	1 April 2017	(14,641)	–	–
23 December 2016	17,839	–	372,000	1 April 2017	(17,839)	–	–
23 December 2016	1,202,140	–	25,067,000	1 April 2018	–	(307,212)	894,928
19 April 2017	–	81,992	1,811,000	1 April 2018	–	(22,190)	59,802*
7 July 2017	–	48,637	937,000	1 April 2018	–	(21,080)	27,557*
25 August 2017	–	1,198,604	29,578,000	1 April 2019	–	(166,694)	1,031,910*
5 December 2017	–	26,949	1,073,000	1 April 2019	–	–	26,949*
Total	1,897,319	1,356,182	68,858,000		(626,879)	(585,476)	2,041,146

* Among these Awarded Shares granted, none of the Awarded Shares were granted to the executive directors.

During the year ended 31 December 2017, 1,181,908 shares were issued for the 2013 Share Award Scheme (2016: Nil).

The Group recognised a share award expense of RMB22,390,000 during the year (2016: RMB19,134,000) in relation to the 2013 Share Award Scheme.

37. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 89 and 90 of these financial statements.

The Group's contributed surplus represents the excess of the previous nominal value of shares of the subsidiaries acquired pursuant to the group reorganisation (the "**Reorganisation**") over the previous nominal value of the Company's shares issued and cash consideration paid in exchange therefor.

The Group's capital surplus represents 1% of equity in Biostime Health contributed by Biostime Pharmaceuticals (China) Limited, the ultimate shareholder, during the year ended 31 December 2009 when Biostime Health became a wholly-owned subsidiary of the Group.

In accordance with the Company Law of the People's Republic of China, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with generally accepted accounting principles in the PRC ("**PRC GAAP**"), to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

38. ACQUISITION OF NON-CONTROLLING INTERESTS

(a) On 7 February 2017, the Group acquired the remaining 17% equity interest in Biostime Australia Holdings at a cash consideration of A$311,300,000 (equivalent to approximately RMB1,633,360,000) from the non-controlling shareholders. Biostime Australia Holdings was an indirect 83%-owned subsidiary of the Company right before the completion of the transaction and became an indirect wholly-owned subsidiary of the Company upon completion of the transaction.

The following summarised the financial impact arising from the changes in the Group's ownership interest in Biostime Australia Holdings on the equity attributable to owners of the Company:

	RMB'000
Consideration for the acquisition of the non-controlling interests:	
Deposit paid in prior year	524,690
Cash paid in the current year	1,108,670
Total consideration paid to the non-controlling interests	1,633,360
Less:	
Carrying amount of the non-controlling interests acquired	(39,577)
Decrease in equity attributable to owners of the Company	1,593,783

38. ACQUISITION OF NON-CONTROLLING INTERESTS (CONTINUED)

(b) On 12 July 2017, the Group acquired the remaining 53% equity interest in Noisy Beast at a cash consideration of A$5,890,000 (equivalent to approximately RMB30,542,000) from the non-controlling shareholders. Noisy Beast was an indirect 47%-owned subsidiary of the Company right before the completion of the transaction and became an indirect wholly-owned subsidiary of the Company upon completion of the transaction.

The following summarised the financial impact arising from the changes in the Group's ownership interest in Noisy Beast on the equity attributable to owners of the Company:

	RMB'000
Consideration for the acquisition of the non-controlling interests:	
Cash paid in the current year	21,376
Amount payable in the coming years	9,166
Total consideration to be paid to the non-controlling interests	30,542
Less:	
Carrying amount of the non-controlling interests acquired (negative)	2,237
Decrease in equity attributable to owners of the Company	32,779

39. BUSINESS COMBINATIONS

On 21 December 2016, the Group acquired all the equity interest in AB Pharma and its subsidiary (collectively, "**AB Pharma Group**"). The purchase consideration for the acquisition, amounting to EUR16,023,000 (equivalent to RMB115,795,000), was in form of cash. The Group has paid all the purchase consideration by the end of 2016.

As at 31 December 2016, the purchase price allocation of AB Pharma Group was incomplete, pending on the finalisation of valuation of certain assets and liabilities and the determination of the tax bases of the assets and liabilities acquired.

During the year, the valuation of these assets and liabilities has been completed, and the purchase price allocation has been completed as follows:

	Preliminary fair value recognised on acquisition RMB'000	**Final fair value recognised on acquisition** RMB'000 (Restated)
Property, plant and equipment	5,172	5,172
Intangible assets	23,534	34,953
Deposits	1,376	1,376
Inventories	9,754	10,374
Trade receivables	26,276	26,276
Prepayments, deposits and other receivables	7,613	8,608
Cash and cash equivalents	7,992	7,992
Tax payable	(9,219)	(9,219)
Trade payables	(13,639)	(13,639)
Other payables and accruals	(8,924)	(10,057)
Deferred tax liabilities	–	(4,009)
Total identifiable net assets at fair value	49,935	57,827
Goodwill on acquisition	64,865	57,968
Total consideration	114,800	115,795
Satisfied by:		
Cash	114,800	115,795

39. BUSINESS COMBINATIONS (CONTINUED)

The quantitative impact on the consolidated statement of financial position is summarised below:

	As at 31 December 2016 RMB'000
Increase in intangible assets	11,546
Decrease in goodwill	(6,974)
Increase in total non-current assets	4,572
Increase in inventories	627
Increase in prepayments, deposits and other receivables	1,006
Increase in total current assets	1,633
Increase in other payables and accruals	(2,151)
Increase in deferred tax liabilities	(4,054)

The restatement did not have any impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016, nor any impact on the earnings per share attributable to ordinary equity holders of the Company for the year ended 31 December 2016.

40. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	The CCSs RMB'000 (note 27)	**Bank loans** RMB'000	**Senior notes** RMB'000 (Note 30)	**Convertible bonds** RMB'000 (Note 29)
At 1 January 2017	(122,285)	2,792,178	2,743,874	1,223,619
Changes from financing cash flow	(62,921)	(426,203)	1,413,479	(1,240,880)
Equity component of convertible bonds	–	–	–	24,489
Total loss recognised in profit or loss	143,818	–	–	–
Total loss recognised in equity	171,865	–	–	–
Interest expense	–	161,217	291,781	5,844
Interest paid	–	(89,365)	(354,540)	–
Loss on the early redemption of convertible bonds	–	–	–	13,061
Transfer to retained profits	–	–	–	(14,557)
Foreign exchange movement	3,581	(85,083)	(163,931)	(11,576)
At 31 December 2017	134,058	2,352,744	3,930,663	–

41. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

42. PLEDGE OF ASSETS

Details of the Group's bank loans and senior notes, which are secured by the assets of the Group, are included in note 28 and note 30 to these financial statements, respectively.

43. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its offices, production plants, warehouses and vehicles under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years.

As at 31 December 2017 and 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	36,682	32,930
In the second to fifth years, inclusive	115,813	84,255
After five years	13,069	23,954
	165,564	141,139

44. COMMITMENTS

In addition to the operating lease commitments detailed in note 43 above, the Group had the following capital commitments as at the end of the reporting periods:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Intangible assets	155	335
Property, plant and equipment	11,915	1,629
	12,070	1,964

45. RELATED PARTY BALANCES AND TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) Related party transactions

	Notes	2017 RMB'000	2016 RMB'000
Purchases of finished goods from an associate	(i)	9,481	14,404
Loan to an associate		–	40,000
Interest from loans to an associate	(ii)	1,596	1,154

Notes:

(i) The transactions were conducted in accordance with mutually agreed terms.

(ii) Loan to an associate was subject to interest at a rate of 4% per annum.

(b) Material outstanding balances with related parties

(i) Details of the Group's trade payable balances with its associate as at the end of the reporting period are disclosed in note 25 to these financial statements.

(ii) Details of the Group's loan to the associate as at the end of the reporting period are included in note 20 to these financial statements.

(c) Compensation of key management personnel of the Group

In addition to the amounts paid to the Company's directors as disclosed in note 8(a), compensation of other key management personnel of the Group is as follows:

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	34,829	40,438
Pension scheme contributions	513	747
Equity-settled share option expense	5,591	6,691
Equity-settled share award expense	10,585	12,235
Total compensation paid to key management personnel	51,518	60,111

46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

2017

Financial assets

	Notes	Held-to-maturity investment RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Bonds receivable	17	–	–	136,361	136,361
Loans receivable	18	–	–	66,658	66,658
Loan to an associate	20	–	–	40,000	40,000
Held-to-maturity investment		22,259	–	–	22,259
Trade and bills receivables	22	–	–	694,696	694,696
Financial assets included in prepayments, deposits and other receivables		–	–	83,446	83,446
Derivative financial instruments	27	–	82,776	–	82,776
Pledged deposits	24	–	–	11,082	11,082
Cash and cash equivalents	24	–	–	2,090,280	2,090,280
		22,259	82,776	3,122,523	3,227,558

2017

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	25	–	644,690	644,690
Financial liabilities included in other payables and accruals		–	1,186,183	1,186,183
Derivative financial instruments	27	192,163	–	192,163
Interest-bearing bank loans	28	–	2,352,744	2,352,744
Senior notes	30	–	3,930,663	3,930,663
		192,163	8,114,280	8,306,443

46. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2016

Financial assets

	Notes	Held-to-maturity investment RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Bonds receivable	17	–	–	127,701	127,701
Loans receivable	18	–	–	75,873	75,873
Loan to an associate	20	–	–	40,000	40,000
Held-to-maturity investment		18,435	–	–	18,435
Trade and bills receivables	22	–	–	516,624	516,624
Financial assets included in prepayments, deposits and other receivables (Restated)		–	–	68,369	68,369
Derivative financial instruments	27	–	249,665	–	249,665
Pledged deposits	24	–	–	995,498	995,498
Cash and cash equivalents	24	–	–	1,506,203	1,506,203
		18,435	249,665	3,330,268	3,598,368

2016

Financial liabilities

	Notes	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	25	–	532,121	532,121
Financial liabilities included in other payables and accruals (Restated)		–	660,519	660,519
Derivative financial instruments	27	3,074	–	3,074
Interest-bearing bank loans	28	–	2,792,178	2,792,178
Convertible bonds	29	1,223,619	–	1,223,619
Senior notes	30	–	2,743,874	2,743,874
Financial liabilities associated with put options	31	1,561,387	–	1,561,387
		2,788,080	6,728,692	9,516,772

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Derivative financial instruments				
– Conversion option embedded in a loan receivable	2,745	2,914	2,745	2,914
– Early redemption option embedded in the senior notes	79,529	55,509	79,529	55,509
– The Swaps	–	68,957	–	68,957
– The CCSs	–	122,285	–	122,285
– Forward Currency Contracts	502	–	502	–
	82,776	249,665	82,776	249,665

	Carrying amounts		Fair values	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Derivative financial instruments				
– Forward currency contracts	(5,968)	(3,074)	(5,968)	(3,074)
– The Swaps	(52,137)	–	(52,137)	–
– The CCSs	(134,058)	–	(134,058)	–
Senior notes	(3,930,663)	(2,743,874)	(4,086,358)	(2,918,743)
Financial liabilities associated with put options	–	(1,561,387)	–	(1,561,387)
	(4,122,826)	(4,308,335)	(4,278,521)	(4,483,204)

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals and interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) The fair values of bonds receivable, loans receivable, the non-current time deposits, loan to an associate, held-to-maturity investment, interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing loans, and the suppliers' non-performance risk for loans and bonds receivables as at 31 December 2017 were assessed to be insignificant.

(b) The conversion option embedded in a loan receivable is measured using valuation technique of Binomial tree model using significant unobservable market inputs.

(c) The Group enters into forward currency contracts with various counterparties, principally financial institutions. Derivative financial instruments arising from the forward currency contracts are measured using market observable input. The carrying amounts of forward currency contracts are the same as their fair values.

(d) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit quality. Derivative financial instruments, including the Swaps and the CCSs, were measured by using discounted cash flow models. The valuation techniques used both observable and unobservable market inputs. The fair values of the Swaps and the CCSs were the same as their carrying amounts.

(e) The derivative financial instrument arising from the early redemption option embedded in the senior notes is measured using valuation technique of the Hull-White model using significant unobservable market inputs.

(f) The fair value of the senior notes is based on the quoted market price provided by a leading global financial market data provider.

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input
Derivative financial instrument – Conversion option embedded in a loan receivable	Binomial tree model	Weighted average cost of capital (WACC)	12.00% to 13.00%	1% increase in WACC would result in decrease in fair value by RMB209,000 1% decrease in WACC would result in increase in fair value by RMB2,238,000
		Discount rate	13.09% to 13.35%	1% increase in discount rate would result in increase in fair value by RMB922,000 1% decrease in discount rate would result in decrease in fair value by RMB864,000
Derivative financial instrument – Early redemption option embedded in the senior notes	Hull-White model	Credit spread	2.30% to 2.35%	1% increase in credit spread would result in decrease in fair value by RMB1,953,000 1% decrease in credit spread would result in increase in fair value by RMB1,955,000
Derivative financial instruments – The Swaps	Discounted cash flow model	Discount Rate – Receive leg	0.96% to 2.96%	1% increase in discount rate would result in decrease in fair value by RMB1,527,000 1% decrease in discount rate would result in increase in fair value by RMB1,497,000
		Discount Rate – Pay leg	0.89% to 2.89%	1% increase in discount rate would result in increase in fair value by RMB15,243,000 1% decrease in discount rate would result in decrease in fair value by RMB15,433,000
Derivative financial instruments – The CCSs	Discounted cash flow model	Discount Rate – Receive leg	1.69% to 2.25%	1% increase in discount rate would result in decrease in fair value by RMB2,149,000 1% decrease in discount rate would result in increase in fair value by RMB1,022,000
		Discount Rate – Pay leg	3.40% to 4.07%	1% increase in discount rate would result in increase in fair value by RMB2,333,000 1% decrease in discount rate would result in decrease in fair value by RMB3,465,000

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2017				
Derivative financial instruments				
– Conversion option embedded in a loan receivable	–	–	2,745	2,745
– Early redemption option embedded in the senior notes	–	–	79,529	79,529
– Forward Currency Contracts	–	502	–	502
	–	502	82,274	82,776
As at 31 December 2016				
Derivative financial instruments				
– Conversion option embedded in a loan receivable	–	–	2,914	2,914
– Early redemption option embedded in the senior notes	–	–	55,509	55,509
– The Swaps	–	–	68,957	68,957
– The CCSs	–	–	122,285	122,285
	–	–	249,665	249,665

The movements in fair value measurements within Level 3 during the year are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	249,665	2,728
Addition	–	27,577
Total (loss)/gain recognised in profit or loss	(94,957)	149,052
Total (loss)/gain recognised in equity	(62,313)	62,313
Exchange alignment	(10,121)	7,995
At 31 December	82,274	249,665

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2017				
Derivative financial instruments				
– Forward currency contracts	**–**	**5,968**	**–**	**5,968**
– The Swaps	**–**	**–**	**52,137**	**52,137**
– The CCSs	**–**	**–**	**134,058**	**134,058**
	–	**5,968**	**186,195**	**192,163**
As at 31 December 2016				
Derivative financial instruments				
– Forward currency contracts	–	3,074	–	3,074

The movements in fair value measurements within Level 3 during the year are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**–**	13,446
Net cash settlement/derecognition	**(85,284)**	(5,545)
Total loss/(gain) recognised in profit or loss	**47,031**	(8,581)
Total loss/(gain) recognised in equity	**229,244**	–
Exchange alignment	**(4,796)**	680
At 31 December	**186,195**	–

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, time deposits, bank loans, convertible bonds and senior notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables and trade and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including the CCSs, the Swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to these financial statements.

Interest rate risk

In respect of the floating interest rate instruments, the Group is subject to the cash flow interest rate risk, while for the fixed interest rate instruments, the Group is subject to fair value interest rate risk.

To manage the interest rate risk arising from the floating interest rate instruments, the Group has entered into the Swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. As at 31 December 2017, after taking into account the effect of the Swaps, approximately 63% (2016: 54%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax by assuming the floating rate borrowings outstanding as at the end of the reporting period were outstanding for the whole year.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
Year ended 31 December 2017	50	(6,493)
Year ended 31 December 2017	(50)	6,493
Year ended 31 December 2016	50	(7,379)
Year ended 31 December 2016	(50)	7,379

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases or financing by operating units in currencies other than the units' functional currencies. Approximately 1% (2016: 3%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 49% (2016: 49%) of costs were denominated in currencies other than the units' functional currencies. Certain operating units of the Group used forward currency contracts to eliminate the foreign currency exposures. The Group also has certain bank balances denominated in A$, HK$, US$ and EUR. In addition, the Group has investments denominated in EUR, and provided loans to suppliers denominated in US$ and DKK and issued convertible bonds in HK$ and senior notes in US$. Also, the Group has certain bank loans which are denominated in US$ and A$.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in the exchange rate between RMB or A$ against each of the following currencies, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/(decrease) in A$/US$/EUR/ HK$/DKK/ NZD/GBP rates %	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in equity* RMB'000
2017			
If the RMB weakens against the US$	5	1,498	–
If the RMB strengthens against the US$	(5)	(1,498)	–
If the RMB weakens against the EUR	5	1,184	–
If the RMB strengthens against the EUR	(5)	(1,184)	–
If the RMB weakens against the DKK	5	1,467	–
If the RMB strengthens against the DKK	(5)	(1,467)	–
If the A$ weakens against the US$	5	3,324	(43,133)
If the A$ strengthens against the US$	(5)	(3,324)	43,133
If the A$ weakens against the EUR	5	1,429	–
If the A$ strengthens against the EUR	(5)	(1,429)	–
If the A$ weakens against the NZD	5	(44)	–
If the A$ strengthens against the NZD	(5)	44	–
If the A$ weakens against the GBP	5	(111)	–
If the A$ strengthens against the GBP	(5)	111	–

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/(decrease) in A$/US$/EUR/ HK$/DKK/ NZD/GBP rates %	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in equity* RMB'000
2016			
If the RMB weakens against the US$	5	(530)	–
If the RMB strengthens against the US$	(5)	530	–
If the RMB weakens against the EUR	5	403	–
If the RMB strengthens against the EUR	(5)	(403)	–
If the RMB weakens against the DKK	5	1,745	–
If the RMB strengthens against the DKK	(5)	(1,745)	–
If the A$ weakens against the US$	5	65	(52,947)
If the A$ strengthens against the US$	(5)	(65)	52,947
If the A$ weakens against the EUR	5	(2,711)	–
If the A$ strengthens against the EUR	(5)	2,711	–
If the A$ weakens against the NZD	5	1,893	–
If the A$ strengthens against the NZD	(5)	(1,893)	–
If the A$ weakens against the GBP	5	(279)	–
If the A$ strengthens against the GBP	(5)	279	–

* Excluding retained profits

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise loans receivable, other receivables and deposits, cash and cash equivalents, time deposits and pledged deposits, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

Except for items listed below and other payables and accruals of RMB32,997,000 (2016: RMB23,175,000) as at 31 December 2017 which are due beyond one year, the Group's financial liabilities as at 31 December 2017 and 2016 are due within 12 months.

	2017 **RMB'000**	2016 RMB'000	Due date
Senior notes	**3,646,428**	2,542,703	21 June 2021
Interest bearing bank loans	**1,844,277**	2,242,791	April 2019

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a healthy liabilities to assets ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using the liabilities to assets ratio, which is total liabilities divided by total assets. The liabilities to assets ratios as at the end of the reporting periods are as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Total liabilities	9,918,178	11,015,244
Total assets	14,131,270	14,211,348
Liabilities to assets ratio	70%	78%

49. COMPARATIVE AMOUNTS

As further explained in note 4 to these financial statements, due to the reorganisation of reportable segments during the year, certain comparative amounts have been restated to conform with the current year's presentation.

As further explained in note 39 to these financial statements, the purchase price allocations for the business combinations occurred in prior year have been completed during the year, certain comparative amounts have been restated to conform with the current period's presentation and accounting treatment. The consolidated statement of financial position as at 1 January 2016 was not presented as the retrospective restatement had no effect on the information in the consolidated statement of financial position at the beginning of the preceding period.

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company as at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	29	43
Loans receivable	44,910	48,789
Investments in subsidiaries	4,081,232	4,305,178
Due from subsidiaries	3,897,839	3,838,841
Deferred tax assets	354	379
Derivative financial instrument	79,529	177,794
Total non-current assets	8,103,893	8,371,024
CURRENT ASSETS		
Prepayments, deposits and other receivables	6,649	6,249
Due from subsidiaries	1,242,702	1,303,983
Loans to subsidiaries	2,258,817	189,183
Loans receivable	21,748	27,084
Derivative financial instruments	2,745	2,914
Cash and cash equivalents	164,613	997,311
Total current assets	3,697,274	2,526,724
CURRENT LIABILITIES		
Trade payables	8,378	51,584
Due to subsidiaries	1,254,893	1,157,102
Other payables and accruals	9,925	14,244
Tax payable	2,009	2,150
Convertible bonds	–	1,223,619
Senior notes	284,235	201,171
Total current liabilities	1,559,440	2,649,870
NET CURRENT ASSETS/(LIABILITIES)	2,137,834	(123,146)
TOTAL ASSETS LESS CURRENT LIABILITIES	10,241,727	8,247,878
NON-CURRENT LIABILITIES		
Derivative financial instruments	134,058	–
Senior notes	3,646,428	2,542,703
Total non-current liabilities	3,780,486	2,542,703
Net assets	6,461,241	5,705,175
EQUITY		
Issued capital	5,447	5,390
Equity component of convertible bonds (note)	–	24,489
Reserves (note)	6,455,794	5,675,296
Total equity	6,461,241	5,705,175

Luo Fei
Director

Luo Yun
Director

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account	Equity component of convertible bonds	Shares held for the share award schemes	Contributed surplus	Share option reserve	Share award reserve	Exchange fluctuation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	443,825	66,978	(42,141)	3,260,270	6,914	899	(90,856)	961,759	4,607,648
Total comprehensive income for the year	–	–	–	–	–	–	339,859	709,575	1,049,434
Equity-settled share option arrangements	6,848	–	–	–	30,734	–	–	–	37,582
Equity-settled share award schemes	–	–	22,870	–	–	6,782	–	316	29,968
Repurchase of convertible bonds	–	(24,847)	–	–	–	–	–	–	(24,847)
Transfer to retained profits	–	(17,642)	–	–	–	–	–	17,642	–
At 31 December 2016 and 1 January 2017	450,673	24,489	(19,271)	3,260,270	37,648	7,681	249,003	1,689,292	5,699,785
Total comprehensive income for the year	–	–	–	–	–	–	(579,698)	1,223,146	643,448
Equity-settled share option arrangements	89,935	–	–	–	9,890	–	–	–	99,825
Shares issued for 2013 Share Award Scheme	–	–	(10)	–	–	–	–	–	(10)
Shares purchased for Share Award Scheme	–	–	(7,415)	–	–	–	–	–	(7,415)
Equity-settled share award schemes	–	–	288	–	–	21,441	–	8,364	30,093
Repurchase of convertible bonds	–	(9,932)	–	–	–	–	–	–	(9,932)
Transfer to retained profits	–	(14,557)	–	–	–	–	–	14,557	–
At 31 December 2017	540,608	–	(26,408)	3,260,270	47,538	29,122	(330,695)	2,935,359	6,455,794

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired, pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment in note 2.4 to these financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

51. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 25 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000	**2017** **RMB'000**
RESULTS					
REVENUE	4,561,299	4,731,563	4,818,561	6,505,616	**8,095,345**
Gross profit	2,975,120	2,926,931	2,984,565	4,059,067	**5,265,614**
PROFIT BEFORE TAX	1,162,096	1,118,335	502,748	1,456,520	**1,368,738**
Income tax expense	(341,381)	(311,549)	(210,201)	(404,558)	**(440,240)**
PROFIT FOR THE YEAR	820,715	806,786	292,547	1,051,962	**928,498**
Attributable to:					
Owners of the parent	820,715	806,786	250,687	954,396	**932,846**
Non-controlling interests	–	–	41,860	97,566	**(4,348)**
PROFIT FOR THE YEAR	820,715	806,786	292,547	1,051,962	**928,498**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB)					
For profit for the year					
– Basic	1.37	1.34	0.41	1.52	**1.48**
– Diluted	1.34	1.31	0.40	1.50	**1.46**

	31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000 (Restated)	2016 RMB'000 (Restated)	**2017** **RMB'000**
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Non-current assets	1,775,147	2,295,440	9,206,410	9,777,038	**10,140,204**
Current assets	2,865,872	4,335,721	4,637,993	4,434,310	**3,991,066**
Current liabilities	(2,044,810)	(1,267,624)	(6,679,324)	(5,239,533)	**(3,297,849)**
Non-current liabilities	(80,616)	(2,446,450)	(3,562,836)	(5,775,711)	**(6,620,329)**
Net assets	2,515,593	2,917,087	3,602,243	3,196,104	**4,213,092**
Attributable to:					
Owners of the parent	2,515,593	2,917,087	3,293,152	3,161,506	**4,213,092**
Non-controlling interests	–	–	309,091	34,598	**–**
	2,515,593	2,917,087	3,602,243	3,196,104	**4,213,092**

H&H Group
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Health and Happiness (H&H) International Holdings Limited
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