# 碧生源控股有限公司
# Besunyen Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

**Stock Code: 926**

Annual Report 2012

天然養生

固本之道

Sustaining Health from
Nature's Nourishing

# Corporate Profile


Besunyen Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") are the leading provider of therapeutic tea in China, engaging in the development, production, sales and promotion of therapeutic tea and the business of other health food products.

In 2012, the majority of the Group's turnover comes from the Group's two best-selling products, namely Besunyen Detox Tea and Besunyen Slimming Tea. According to a survey conducted by China Southern Medicine Economy Research Institute (南方醫藥經濟研究所), these two products were the leading therapeutic tea products sold through retail pharmacies in China in the laxative and slimming products market in terms of retail sales value in 2012, with a market share of 20.8% and 32.5% respectively.


Products of the Group use exclusive formulae and are manufactured with high quality Chinese herbal-based medicine and tea leaves, providing effective, safe, affordable and convenient to use health food products for those with chronic or recurring health problems, as well as those seeking to maintain a healthy body and lifestyle.

As of 31 December 2012, products of the Group are sold in nearly 131,000 retail outlets all over China, of which approximately 95% are retail pharmacies. The distribution network of the Group covers 384 distributors in 31 provinces, autonomous regions and centrally administered municipalities in China.

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# Corporate Information

## DIRECTORS

### Executive Directors

Mr. Zhao Yihong
*(Chairman and Chief Executive Officer)*
Ms. Gao Yan *(Vice Chairman)*

### Non-executive Director

Mr. Zhuo Fumin

### Independent non-executive Directors

Mr. Huang Jingsheng
Mr. Wong Lap Tat Arthur
Mr. Zhang Fenglou

## AUDIT COMMITTEE

Mr. Wong Lap Tat Arthur *(Chairman)*
Mr. Huang Jingsheng
Mr. Zhang Fenglou

## REMUNERATION COMMITTEE

Mr. Huang Jingsheng *(Chairman)*
Mr. Zhao Yihong
Mr. Wong Lap Tat Arthur
Mr. Zhang Fenglou

## NOMINATION COMMITTEE

Mr. Zhang Fenglou *(Chairman)*
Mr. Zhao Yihong
Mr. Wong Lap Tat Arthur
Mr. Huang Jingsheng

## COMPANY SECRETARY

Mr. Au Lap Ming, CPA, ACIS, ACS

## REGISTERED OFFICE IN CAYMAN ISLANDS

Portcullis TrustNet (Cayman) Ltd.
The Grand Pavilion Commercial Centre
Oleander Way, 802 West Bay Road
P.O. Box 32052
Grand Cayman KY1-1208
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN PRC

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## PLACE OF BUSINESS IN HONG KONG

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6-8 Harbour Road, Wanchai
Hong Kong

## WEBSITE OF THE COMPANY

http://ir.besunyen.com

## INVESTOR RELATIONS

ir@besunyen.com

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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Grand Cayman, KY1-1102
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

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183 Queen's Road East, Wanchai
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## AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

## LEGAL ADVISORS

*As to Hong Kong:*
O'Melveny & Myers
31/F, AIA Central
1 Connaught Road, Central
Hong Kong

*As to PRC Law:*
Global Law Office
15/F, Tower 1, China Central Place
81 Jianguo Road, Chaoyang District
Beijing 100025
PRC

# Sales
# Network


Market Presence: [(1)]

- >=5 years
- >=3 and <5 years
- >=1 and <3 years
- None

[(1)] Defined as number of years for which our sales teams have covered relevant market, as of December 31, 2012.


Heilongjiang
Jilin
Liaoning
Beijing
Inner Mongolia
Tianjin
Hebei
Shandong
Ningxia
Shanxi
Gansu
Shaanxi
Henan
Jiangsu
Anhui
Shanghai
Chongqing
Hubei
Sichuan
Zhejiang
Hunan
Jiangxi
Guizhou
Fujian
Taiwan
Yunnan
Guangxi
Guangdong
Hong Kong
Macau
Hainan

# Chairman and CEO's Report

*"We will strive to maintain our long-term competitive edges to actualize our business goal and development strategy of fulfilling consumers' need for high-quality healthcare products. "*

**ZHAO Yihong**
Chairman and CEO

Dear shareholders,

On behalf of the Board of Directors, I would like to present to you our Group's audited annual results for the year ended 31 December 2012.

In 2012, China's economy faced serious headwinds due to a number of negative factors, such as the fragility in the global economic recovery, strict property curbs and excessive production capacity. To buoy the slowing economy, the government rolled out an array of measures last year, including cutting benchmark interest rates twice, easing of banks' reserve requirements and giving green light to infrastructure projects worth more than RMB1 trillion (USD158.7 billion). However, according to the National Bureau of Statistics, China's GDP growth slowed to only 7.8% in 2012, the slowest year-on-year growth in the past 13 years. That compares with the 9.2% growth posted in 2011.

In a subdued environment, growth in demand for the Group's products from its distributors remained slow following a shrinkage in demand in the second half of 2011. The revenue of the Group in 2012 was RMB475.2 million, representing a decrease of 43.5% as compared to the revenue of RMB840.4 million in 2011. Gross profit decreased from RMB737.6 million to RMB392.1 million, showing a decrease of 46.8%. Meanwhile, the gross profit margin decreased from 87.8% in 2011 to 82.5% in 2012. On the other hand, the total operating expenses (including selling and marketing expenses, administrative expenses, research and development costs) of the Group in 2012 were RMB690.1 million, representing a decrease of 7.9% as compared with RMB749.5 million in 2011. The Group recognized a loss on the disposal of a subsidiary of RMB6.7 million in 2012 (2011: Nil). In addition, there was impairment loss of RMB8.8 million in 2012 (2011: Nil) in respect of intangible assets as well as impairment loss of RMB41.7 million in 2012 (2011: RMB962,000) in respect of property, plant and equipment. Due to these factors, the Group recorded a net loss of RMB342.2 million in 2012 as compared to a net loss of RMB40.9 million in 2011.

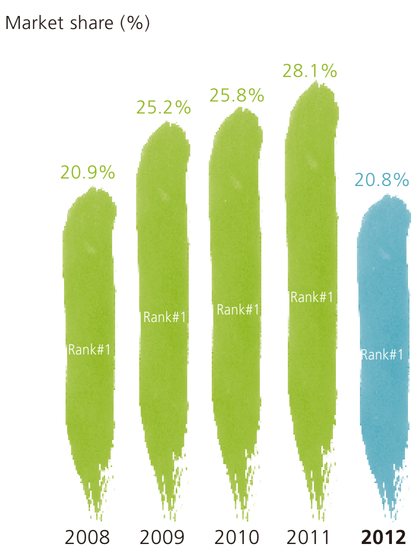
Despite such adversity, we remain confident in China's economic growth over the longer run, which we believe will continue to underpin demand for health food products. As the leading brand and provider of therapeutic tea products in China, we will continue to maintain and strengthen our long-term competitive advantages, such as strong national brand name, national distribution and sales network as well as innovative research and development. We will stick to our well-established business strategy and business objectives of satisfying consumers' demand for quality health food products.

## INDUSTRY, MARKET AND COMPETITIONS

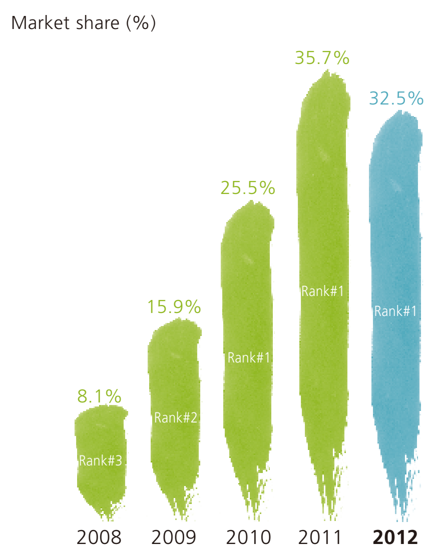
The long-term growth in the market for health food products with laxative or slimming functions is in line with the increase in the number of people suffering from constipation or with weight problems. The aging population, the sub-health condition of young people and the middle-aged due to work-related stress, and the growing popularity of slimming products have fuelled the demand for the Group's products, which target urban health problems such as constipation and obesity. Consumers' growing awareness for food safety, green and herbal products also make Besunyen products the preferred choice since its products are purely made of herbal-based Chinese medicine and tea leaves.

The Group's Besunyen Detox Tea and Besunyen Slimming Tea compete with other laxative and slimming products, including health food products, over-the-counter ("OTC") drugs and other products, in particular those products sold in retail pharmacies. According to the Group-commissioned study of China Southern Medicine Economy Research Institute ("SMERI") released in February 2013, the Group continued to be the No. 1 leading provider of laxative products sold through retail pharmacies in 2012 in terms of retail sales value, enjoying a market share of 20.8%. In the market for slimming products sold through retail pharmacies, the Group also continued to be the No. 1 leading provider of slimming products sold through retail pharmacies in 2012 in terms of retail sales value, having a market share of 32.5%.

**Market share and ranking of Besunyen Detox Tea among laxative products sold through retail pharmacies in the China market(Note) (calculated based on retail sales value)**



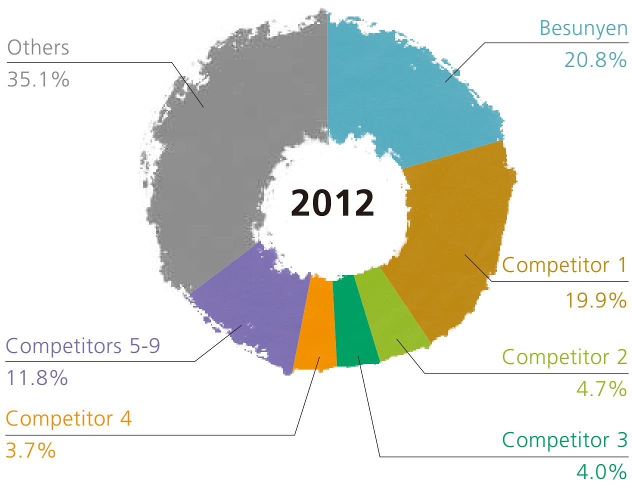

**Market share and ranking of Besunyen Slimming Tea among slimming products sold through retail pharmacies in the China market(Note) (calculated based on retail sales value)**

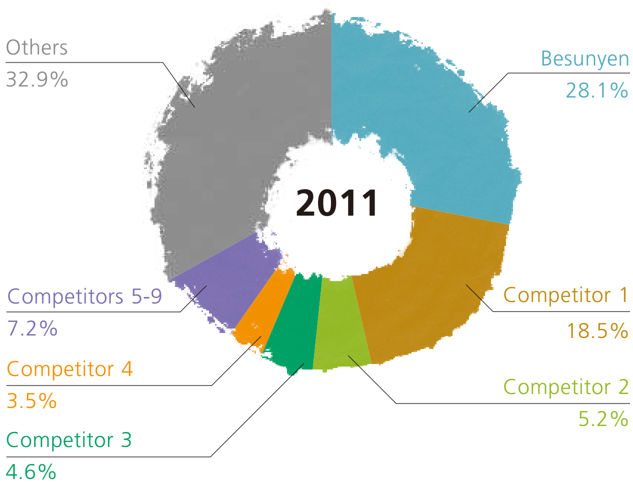



Note: China market refers to the Chinese market excluding Hong Kong, Macau and Taiwan.

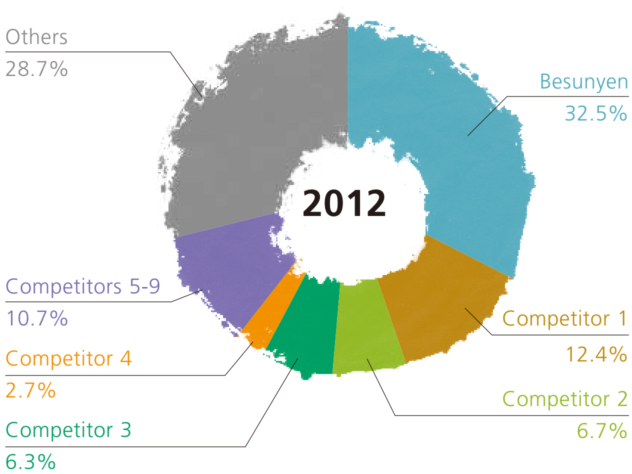
Source: SMERI, February 2013.

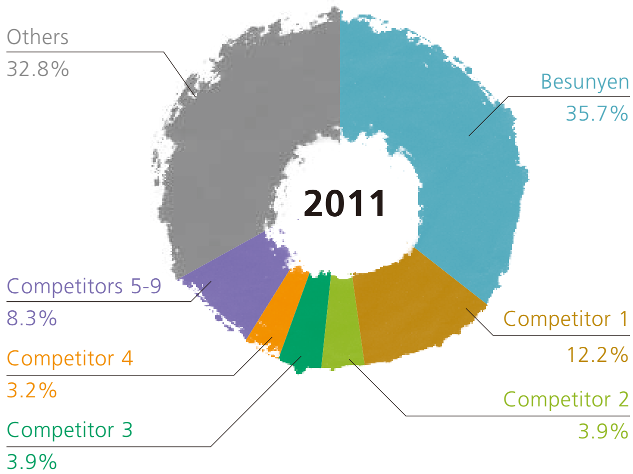
**Market share and ranking of Besunyen Detox Tea among laxative products sold through retail pharmacies in the China market(Note) (calculated based on retail sales value)**




**Market share and ranking of Besunyen Slimming Tea among slimming products sold through retail pharmacies in the China market(Note) (calculated based on retail sales value)**




Note: China market refers to the Chinese market excluding Hong Kong, Macau and Taiwan.

Source: SMERI, February 2013.

## BUSINESS REVIEW

During 2012, we had the following business development:

### Steady pace in sales network expansion and streamline of distributors

Since 2010, the Group has continued to expand the sales network to include all provinces, autonomous regions and centrally administered municipalities in Mainland China. Capitalizing on its solid market position in first- and second-tier cities, the Group has been proactively deepening its market penetration to expand its network to lower tier cities. The Group has taken initiatives to streamline its distribution system by selecting large-scale distributors, to clarify channel segmentation and remove under-performing distributors from our list. As a result, the total number of distributors dropped from 420 as at 31 December 2011 to 384 as at 31 December 2012. Despite the decrease in the number of distributors, the number of retail outlets covered by our distributors increased moderately to approximately 131,000 as at 31 December 2012 (including about 124,000 retail pharmacies and about 7,000 supermarkets, hypermarkets and chain stores), compared with approximately 130,000 retail outlets as at 31 December 2011.

### Ongoing development of e-commerce business

The Group has strategically developed e-commerce business as a new sales and distribution channel to complement its existing retail sales network. The online platform not only sells the Group's core products which are selling well in the physical stores, but also sells newly-launched products and those products specially designed for the online shoppers.

The Group's products are extensively sold on its own retail website 7cha.com and other major B2C websites, like Tmall.com, 360buy.com, Dangdang.com, Amazon.cn, yihaodian.com (一 號 店) and Lefeng.com (樂蜂網), etc. Sales revenue generated from 7cha.com increased significantly by over 100% in 2012 compared to that of 2011. On 11 November 2012, online sales revenue of Besunyen flagship store on Tmall.com reached RMB1.2 million, listing in the top 10 online stores in the health food market segment in Tmall.com that day.

Through the B2C website 7cha.com, the Group has a customer database of over 100,000 registered users to date. Apart from that, the on-line marketing campaigns in collaboration with traditional media have helped build up the brand awareness among the young shoppers.

The Group has been marketing and selling new series of teabag beverage "floral tea" and "herbal tea" through its e-commerce platform as one of the key sales channels to introduce the new products to our existing customers.

## Fostering long-term brand building efforts

For the sake of long-term brand building and refreshing the public of the Besunyen brand, the Group has carried out various marketing and communication programs across a diversified range channels, including TV, direct marketing, print media, outdoor media and the internet. In particular, the Group focused its marketing efforts on the popular satellite TV channels, such as Jiangsu Satellite TV, Hunan Satellite TV and Dragon TV, etc. The Group sponsored a very popular match-making series "If you are the one" (非誠勿擾) on Jiangsu Satellite TV in the first half of 2012. The Group launched below-the-line activities "Happy, Seize and Enjoy" (幸福搶樂匯) to let more people who purchase the Besunyen products may get an entrance ticket to the live show of the programme. The Group sponsored "The Voice of China" (中國好聲音) on Zhejiang Satellite TV, "Talents in Life" (點事成金) on Heilongjiang Satellite TV and "You are the Best, Mom" (老媽看你的) on Liaoning TV. Since January 2013, the Group has sponsored "King Wang" (大王小王) on Hubei Satellite TV. To further enhance corporate image, the Group placed community-oriented advertisements and sponsored Mid-Autumn Festival evening show of year 2012 on CCTV channels.


In order to promote our products to future customers, the Group sponsored the University Advertisement Art Show-Academy Award (大學生廣告藝術節學院獎) and collected thousands of creative works from college students based on the theme of "Slimming Makes life more Wonderful" (減一減 生活更精彩). A series of roadshows were staged in 18 cities and 20 universities, which built up our image among young people and helped turn them into our future consumers.

In April 2012, the Group was awarded as one of the "Top 10 Credible Health Food Brands" for 2011 in the Fourth China Credible Health Food Forum (第四屆中國保健品公信力論壇) organized by China Health Care Association. Furthermore, at the 19th China International Advertising Festival in October 2012, the Besunyen brand received an accolade of "The Brand Trusted by Consumers" (消費者信賴品牌) for 2012 from the China Advertising Great-wall Awards (中國廣告長城獎). The awards underscore the country-wide recognition of the Besunyen products and its strong brand image as a leading health product supplier.

## Foray into teabag beverage market

Compared with health food, food and beverage products enjoy a more substantial consumer group and higher frequency consumption. In addition, there are only a limited number of branded teabag beverage products in the market. Leveraging on its leading brand position in the therapeutic tea market and its innovation capabilities, in June 2012, the Group launched two new double-chamber teabag products – Chinese herbal tea series and floral tea series.

Besunyen's Chinese herbal tea series is a delicious and healthy teabag drink with therapeutic functions, using only the best tea leaves, resulting in a perfect blend of natural herbal benefits with wisdom of Chinese medicine. The Chinese herbal tea series has three flavors – lemon and ginger tea, ginger tea, chrysanthemum and goji tea, packaged in 12 bags or 20 bags a box. Besunyen's floral tea series is a perfect blend of choice tea leaves with quality petals. The series has two flavors – rose black tea and royal chrysanthemum green tea, packaged in 20 bags or 25 bags a box. Both herbal tea and floral tea have the specially-designed packages for e-commerce business.



By the end of year 2012, the products have expanded their footprint on major online sales platforms and across over 2,000 retail stores in eastern China. The retail network covers convenient stores, supermarkets and hypermarkets like C-Store, FamilyMart, RT-Mart & Walmart, etc. The products sold well especially in convenient stores compared to the similar traditional healthy beverage.

## Product development pipeline

– *Maishuping*

The planned launch of Maishuping, an OTC medicine teabag which helps stabilize blood pressure, is on track. Maishuping obtained the approvals from the State Food and Drug Administration of China ("SFDA" 國家食品藥品監督管理局) in November 2011. Clinical trials undertaken in four large hospitals in China showed that the overall efficacy rate on blood pressure control reached 96% among 300 people who took the medicine. In February 2013, the Group has acquired the GMP certificate from SFDA for Maishuping's teabag production. Positioning and marketing strategies of Maishuping have been well in place.

– *Other products*

A product designed to alleviate physical fatigue and assist in improving memory has already passed all the tests as well as evaluation of the SFDA and is waiting for the certificate issuance.

Another product aiming to improve skin tone and repair ageing skin has also passed all the relevant tests on safety, efficacy and quality reliability set by the SFDA and application will be submitted to the SFDA soon.

Furthermore, the development of new products for the benefits of the throat, sights and digestion are well under way.

## PROSPECTS

The Chinese government announced that the GDP growth target for 2013 had been set at 7.5% year on year, which is expected to decelerate from the 7.8% annual growth achieved in 2012. Looking ahead, weak external demand due to a volatile global economy and structural imbalance between investment and consumption will continue to pose new challenges to China's economy. Given the lingering uncertainty in China's economic growth and the slow recovery in demand from our distributors in 2012, we remain cautious on the Group's performance in 2013. To maintain our long-term competitive advantages, we will continue to invest in our sales channels, brand building and development of new products at our own pace despite short-term volatility on sales. Meanwhile, we will closely monitor and control our expenditures to get the maximum benefit out of every penny we spend.

At the annual Central Economic Work Conference held in December 2012, the new leaders of the Chinese government set their key policy agenda for 2013, pledging to speed up reforms and urbanisation as the key medium- and long-term growth engine. We believe that this long-term trend of rapid urbanisation and increasing disposable income in China will escalate consumer demand for health and healthy lifestyle products, in turn offering better long-term market potential for detox and slimming as well as other new products of the Group. The Group will continue its effort on selling, producing and developing products that combine the modern way of tea brewing in teabags with the self-cure functionality of traditional Chinese herbs. We believe that our strong national brand recognition and well-established nationwide distribution and sales networks, coupled with our knowledge in the regulatory requirements necessary for the success of health food products, will put us in a unique position to compete with other market players. Our vision is to turn the Besunyen brand into a Chinese household name, promote its function in curing ailments of our customers, and instil the enjoyment of a green lifestyle among them.

## ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to express my heartfelt gratitude to the steadfast support from many parties, including our customers, distributors, suppliers, media and other partners, shareholders and investors. In particular, I would like to thank all the staff of our Group for their dedicated work in 2012!

**Chairman and CEO**
**Zhao Yihong**

Hong Kong, 15 March 2013

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Operational Results

The following table sets forth operational results of the Group for the years ended 31 December as indicated:

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Revenue | **475,182** | 840,409 |
| Cost of sales | **(83,063)** | (102,770) |
| Gross profit | **392,119** | 737,639 |
| Other income, gains and losses | **11,540** | 21,415 |
| Selling and marketing expenses | **(562,721)** | (619,744) |
| Administrative expenses | **(112,068)** | (110,299) |
| Research and development costs | **(15,279)** | (19,451) |
| Loss on disposal of a subsidiary | **(6,700)** | – |
| Impairment loss on goodwill | **–** | (15,480) |
| Impairment loss recognised in respect of intangible assets | **(8,844)** | – |
| Impairment loss recognised in respect of property, plant and equipment | **(41,744)** | (962) |
| Loss before tax | **(343,697)** | (6,882) |
| Income tax credit (expense) | **1,510** | (33,994) |
| Loss and total comprehensive expense for the year | **(342,187)** | (40,876) |
| Loss per share | | |
| Basic (RMB) | **(0.22)** | (0.02) |
| Diluted (RMB) | **(0.22)** | (0.02) |

### Revenue

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **Percentage of the total** | RMB'000 | Percentage of the total |
| Revenue: | | | | |
| Besunyen detox tea | **192,991** | **40.6%** | 417,847 | 49.7% |
| Besunyen slimming tea | **268,311** | **56.5%** | 414,232 | 49.3% |
| Other tea products | **13,880** | **2.9%** | 8,330 | 1.0% |
| Total | **475,182** | **100.0%** | 840,409 | 100.0% |

The revenue of the Group decreased by 43.5% from RMB840.4 million in 2011 to RMB475.2 million in 2012.

Due to the challenging economic environment, there was a slow recovery in demand for the Group's products from distributors after the reduction of sales in the second half of 2011.

The revenue of Besunyen Detox Tea decreased by 53.8% from RMB417.8 million in 2011 to RMB193.0 million in 2012, mainly due to the decrease of sales volume from 271.6 million tea bags to 135.3 million tea bags. The revenue of Besunyen Slimming Tea decreased by 35.2%, from RMB414.2 million in 2011 to RMB268.3 million in 2012, mainly due to the decrease in sales volume from 406.7 million tea bags to 252.7 million tea bags.

In 2012, the average selling price ("ASP") of Besunyen Detox Tea and Besunyen Slimming Tea (revenue divided by sales volume) were RMB1.43 per bag and RMB1.06 per bag respectively (compared to RMB1.54 per bag and RMB1.02 per bag respectively in 2011). The ASP of Besunyen Detox Tea decreased by 7.1%, however the ASP of Besunyen Slimming Tea increased by 3.9%. The decrease of ASP of Besunyen Detox Tea was mainly due to the increase in free products and special rebates given to distributors in order to encourage their payments by cash instead of bank acceptance notes. The increase of ASP of Besunyen Slimming Tea was because of sales price increase in 2012, the effect of price increase was mitigated by the increase in free products and special rebates given to distributors.

## Cost of Sales and Gross Profit

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **Percentage of revenue** | RMB'000 | Percentage of revenue |
| Total cost of sales | **83,063** | **17.5%** | 102,770 | 12.2% |
| Gross profit | **392,119** | **82.5%** | 737,639 | 87.8% |

Cost of sales of the Group decreased by 19.2%, from RMB102.8 million in 2011 to RMB83.1 million in 2012. Cost of sales as a percentage of revenue increased from 12.2% in 2011 to 17.5% in 2012. The increase was mainly due to the allocation of fixed manufacturing overhead costs over reduced production volume caused by the decrease in sales volume, thus unit cost of each tea bag increased. In addition, the increase in sales of other products, which have higher cost of sales ratios, also brought the increase of overall cost of sales ratios of the Group.

As a result of the decrease in revenue by 43.5% and decrease in cost of sales by 19.2% in 2012 compared to 2011, the gross profit of the Group decreased 46.8% from RMB737.6 million in 2011 to RMB392.1 million in 2012. The gross profit margin of the Group decreased 5.3% from 87.8% in 2011 to 82.5% in 2012.

## Other Income, Gains and Losses

Other income in 2012 of RMB11.5 million (2011: RMB21.4 million) was mainly comprised of an interest income amounting to RMB10.0 million (2011: RMB13.3 million), a net exchange loss of RMB1.5 million (2011: RMB8.0 million), and a government grant of RMB5.7 million (2011: RMB16.5 million) provided by the Chinese government to support the Group's operations and business.

## Selling and Marketing Expenses

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **Percentage of revenue** | RMB'000 | Percentage of revenue |
| Advertising expenses | **311,782** | **65.6%** | 343,370 | 40.9% |
| Other marketing and promotional expenses | **93,911** | **19.8%** | 93,855 | 11.2% |
| Staff costs | **108,106** | **22.8%** | 132,850 | 15.8% |
| Others | **48,922** | **10.3%** | 49,669 | 5.9% |
| Total | **562,721** | **118.4%** | 619,744 | 73.8% |

The selling and marketing expenses of the Group decreased 9.2% from RMB619.7 million in 2011 to RMB562.7 million in 2012. Advertising expenses, staff costs and others decreased by 9.2%, 18.6% and 1.5% respectively in 2012 as compared with 2011. Other marketing and promotional expenses increased by 0.1% in 2012 as compared with 2011.

Although total selling and marketing expenses decreased by 9.2%, the selling and marketing expenses as a percentage of revenue increased substantially from 73.8% 2011 to 118.4% in 2012, as a result of the 43.5% decrease in revenue compared with 2011.

Advertising expenses remained high, largely because of spending on television and other commercials as well as brand sponsorship activities during the first half of 2012. The Group has sponsored a very popular match-making series "If You are the One" (非誠勿擾) on Jiangsu Satellite TV in the first half of 2012 and the show helped boost the brand awareness of "Besunyen" across the country. Advertising expenses, however, have been cut substantially in the second half of 2012.

The decrease in staff costs in relation to selling and marketing of the Group was mainly attributable to the enhancement of sales team.

The increase in other marketing and promotional expenses (including point-of-sale terminals expenses, promotional expenses and expenses on gifts, etc.) was mainly attributable to the increased sales activities in point-of-sale terminals conducted by the Group.

## Administrative Expenses

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **Percentage of revenue** | RMB'000 | Percentage of revenue |
| Staff costs | **53,869** | **11.3%** | 55,834 | 6.6% |
| Office expenses | **27,610** | **5.8%** | 16,860 | 2.0% |
| Professional fees | **19,767** | **4.2%** | 10,362 | 1.2% |
| Travel and entertainment expenses | **6,198** | **1.3%** | 11,357 | 1.4% |
| Others | **4,624** | **1.0%** | 15,886 | 1.9% |
| Total | **112,068** | **23.6%** | 110,299 | 13.1% |

The administrative expenses of the Group increased 1.6% from RMB110.3 million in 2011 to RMB112.1 million in 2012. The administrative expenses as a percentage of revenue increased from 13.1% in 2011 to 23.6% in 2012 mainly due to the 43.5% decrease in revenue.

## Research and Development Costs

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **Percentage of revenue** | RMB'000 | Percentage of revenue |
| Research and development costs | **15,279** | **3.2%** | 19,451 | 2.3% |

The Group's research and development costs decreased by 21.4% from RMB19.5 million in 2011 to RMB15.3 million in 2012. The research and development costs as a percentage of revenue remained fairly stable in both years.

## Loss on Disposal of a Subsidiary

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **Percentage of revenue** | RMB'000 | Percentage of revenue |
| Loss on disposal of a subsidiary | **6,700** | **1.4%** | – | – |

In the first half of 2012, the Group entered into a sale agreement to dispose of its 100% equity interest in Zhuhai Qi Jia Medical Industry Co., Ltd. ("Zhuhai Oi Jia"), after transfer of the intellectual properties of Maishuping from Zhuhai Qi Jia to the Group. The disposal was completed on 28 June 2012, on which date the Group lost control of Zhuhai Qi Jia. Total loss on disposal of Zhuhai Qi Jia recognised in 2012 was RMB6.7 million (2011: Nil).

## Impairment Loss on Goodwill

| | For the years ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **Percentage of revenue** | RMB'000 | Percentage of revenue |
| Impairment loss on goodwill | **–** | **–** | 15,480 | 1.8% |

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. In 2011, the Group recognised an impairment loss of RMB15.5 million in relation to goodwill arising on acquisition of Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd. ("Jian Shi Xing"), given that the recoverable amount was less than the carrying amount of the cash generating unit.

## Impairment Loss on Intangible Assets

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **Percentage of revenue** | RMB'000 | Percentage of revenue |
| Impairment loss on intangible assets | **8,844** | **1.9%** | – | – |

The Group tests intangible assets annually for impairment, or more frequently if there are indications that intangible assets might be impaired. In 2012, the Group recognised an impairment loss of RMB8.8 million (2011: Nil) in relation to intangible assets arising on acquisition of Jian Shi Xing, given that the recoverable amount was less than the carrying amount of these assets after considering the long term business plan and results.

## Impairment Loss on Property, Plant and Equipment

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2012** | | 2011 | |
| | **RMB'000** | **Percentage of revenue** | RMB'000 | Percentage of revenue |
| Impairment loss on property, plant and equipment | **41,744** | **8.8%** | 962 | 0.1% |

The Group tests fixed assets annually for impairment or more frequently if there are indications that fixed assets might be impaired. During the year, the Group conducted a review of the cash-generating units including property, plant and equipment and determined that a number of those assets were impaired. Accordingly, impairment loss of RMB41.7 million (2011: RMB962,000) has been recognised in respect of property, plant and equipment. The recoverable amounts of the cash-generating units have been determined based on higher of its fair value less cost of disposal and value in use. The discount rates in measuring the amounts of value in use were 20% to 23% (2011: 19%) in relation to property, plant and equipment.

## Taxation

Taxation expenses of the Group decreased from RMB34.0 million in 2011 to RMB1.5 million credit in 2012. This was mainly due to the decreased taxable income of the Group and deferred tax adjustments.

## Loss and Total Comprehensive Expense of the Group for the Year

Due to the aforementioned factors, the loss and total comprehensive expense of the Group increased from loss of RMB40.9 million in 2011 to loss of RMB342.2 million in 2012.

## Use of the Net Proceeds from the IPO

The net proceeds from the IPO amounted to RMB1,033.2 million. The use of proceeds has been consistent with the disclosure in the Prospectus, and the respective use of the net proceeds until 31 December 2012 is as follows:

| | Net Amount from IPO | | |
|---|---|---|---|
| | **Available** RMB'000 | **Used** RMB'000 | **Unused** RMB'000 |
| Acquisition of new production equipment and building new production facilities | 364,913 | 193,420 | 171,493 |
| Setup of the East China Headquarters | 150,000 | 77,518 | 72,482 |
| Beijing new office building | 123,664 | 123,664 | – |
| Extension of sales and distribution network, channels and brand building | 73,092 | 73,092 | – |
| Design, R&D of new products | 146,185 | 45,589 | 100,596 |
| Improvement of ERP and overall IT system | 43,855 | 5,279 | 38,576 |
| Loan repayment | 73,000 | 73,000 | – |
| Working capital | 58,474 | 58,474 | – |
| Total | 1,033,183 | 650,036 | 383,147 |

## Cash Flow and Capital Resources

In 2012, funds and capital expenditure required in the operation of the Group mainly came from cash flow generated from its internal operations as well as the proceeds from the IPO.

## Cash Flow

The following table summarises the net cash flow of the Group for the years ended 31 December as indicated:

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Net cash from (used in) operating activities | **28,778** | (66,131) |
| Net cash used in investing activities | **(78,508)** | (455,306) |
| Net cash used in financing activities | **(103,824)** | (38,455) |
| Net decrease in cash and cash equivalents (before effect of foreign exchange rate changes) | **(153,554)** | (559,892) |
| Effect of foreign exchange rate changes | **(1,509)** | (8,036) |
| Decrease in cash and cash equivalents (after effect of foreign exchange rate changes) | **(155,063)** | (567,928) |

In 2012, net cash from operating activities of the Group was RMB28.8 million (2011: RMB66.1 million cash outflow) and net loss was RMB342.2 million. The difference was mainly caused by a decrease in trade receivables and bills receivables amounting to RMB248.8 million, and a decrease in deposits, prepayments and other receivables amounting to RMB81.5 million, but offset by a decrease in other payables and accrued expenses amounting to RMB48.1 million. In addition, there was an impairment loss on property, plant and equipment amounting to RMB41.7 million (2011: RMB962,000). Net cash used in investing activities of the Group was RMB78.5 million (2011: RMB455.3 million), and it was mainly due to purchases of property, plant and equipment. Net cash used in financing activities of the Group was RMB103.8 million (2011: RMB38.5 million). It was mainly due to repurchase of shares in 2012 amounting to RMB64.5 million, and payments for shares under restricted share award scheme amounting to RMB39.3 million.

## Cash and Bank Loans

As of 31 December 2012, the bank balance and cash totalled RMB447.5 million (as at 31 December 2011: RMB602.5 million), representing a decrease of RMB155.0 million as compared to the previous year. Over 92.2% of the bank balance and cash of the Group was in Renminbi. In addition, as at 31 December 2012, the Group did not have any bank borrowings (as at 31 December 2011: Nil) and any unused bank credit lines (as at 31 December 2011: Nil).

## Capital Expenditure

In 2012, capital expenditure of the Group was RMB89.7 million (2011: RMB452.8 million), which mainly included purchases of properties, plants and production equipment as well as intangible assets. The following table sets forth capital expenditure by the Group for the years ended 31 December as indicated:

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Property, plant and equipment | **82,756** | 451,848 |
| Intangible assets | **770** | 913 |
| Land-use rights | **6,210** | – |
| Total | **89,736** | 452,761 |

## Investment properties

The following table sets forth the details of our investment properties as of the dates indicated:

| | As of 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Investment properties | **267,393** | – |

The Group owns certain office premises at Linglong Tiandi Center located in Haidian District, Beijing and Changcheng Building located in Shanghai. The Group will not fully use up all of the office space at these properties and has decided to lease the unused office space to independent third parties until the Group needs to take up the remaining office space as its operations expand in the future. The properties held for lease are classified as investment properties.

As at 31 December 2012, total investment properties amounted to RMB267.4 million (at 31 December 2011: Nil). These investment properties are measured using the cost model and depreciated on a straight-line basis over the estimated useful life of 30 years. As at 31 December 2012, the Group had estimated the fair value of the investment properties based on a valuation carried out by an independent valuer not connected with the Group and determined that the fair values were higher than the carrying values of these investment properties. As such, no impairment is considered required.

## Inventories

The Group's inventories included raw materials and packaging materials, work in progress and finished goods. The following table sets forth the inventory analysis as of the dates indicated:

| | As of 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Raw materials and packing materials | **4,205** | 3,687 |
| Work in progress | **784** | 2,962 |
| Finished goods | **3,119** | 1,850 |
| Total inventories | **8,108** | 8,499 |

The turnover days of the Group's inventories in 2012 (calculated by dividing the average amount of inventories balances at the beginning and the end of the period by the cost of sales of the period, then multiplying the number of days during the period) was 36 days (2011: 25 days). The Group actively monitors its inventories level to ensure that the inventories volumes of raw materials, work in progress and finished goods remain at a rather low but sufficient level. Throughout the distribution and retail process, the Group monitors and evaluates sales performance and product trends, so as to better estimate inventories requirements.

## Trade and Bills Receivables

The Group generally requests distributors to pay before the delivery of products. For certain major distributors having a long-term cooperation relationship with the Group, the Group may allow more favourable payment and settlement terms. For example, if these distributors provide an effective proof of payment, such as acceptance bills issued by a reliable bank. Although such acceptance bills are listed as bills receivables before its maturity date or before the Group has transferred them to a third party, the Group deems such acceptance bills as low risk and regards the payment as settled, the Group would deliver the products. The Group usually provides a credit period of 60 days or a maximum of six months to a limited number of distributors. These are mainly reliable and reputable distributors providing wholesale services to supermarkets and convenience store chains (general industry practice allows credit sales). For distributors not enjoying a credit period in the sales contract, they may apply for credit on an individual basis, and the Group would grant approval on a case by case basis considering marketing development needs, payment capabilities of the distributors and their past payment records.

The following table sets forth the Group's trade and bills receivables analysis as of the dates indicated:

| | As of 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Trade receivables | **15,317** | 19,176 |
| Bills receivables[(1)] | **34,832** | 282,963 |
| Less: allowance for doubtful debts | **(267)** | (111) |
| Total | **49,882** | 302,028 |

(1) As at 31 December 2012, the Group received advance payments from distributors amounting to RMB13.3 million (as at 31 December 2011: RMB94.3 million), in the form of acceptance bills and therefore included in the balance of bills receivables.

The following table sets forth the turnover days of trade receivables and bills receivables of the Group during the periods indicated (calculated by dividing the average amount between the amount at the beginning and the end of the period by the turnover of the period, then multiplying the number of days during the period):

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| Trade and bills receivables turnover days[(1)] | **94** | 78 |
| of which, trade receivables turnover days | **13** | 33 |

(1) Since the advance payment from distributors amounting to RMB13.3 million in the form of bills receivables as at 31 December 2012 (as at 31 December 2011: RMB94.3 million) will be recognised as turnover only when the products are made and shipped to the distributors after 31 December 2012, the amount was deducted from the year end balance of bills receivables in calculation of the turnover period.

Trade and bills receivables turnover days of the Group increased from 78 days in 2011 to 94 days in 2012. It was mainly due to the large amount of bills receivables as at 31 December 2011 and the lower sales in 2012. Since 2012, the Group encourages more cash settlements and only accepts payments from its distributors in the form of bank acceptance bills issued by reliable banks, which resulted in the amount of bills receivables of the Group decreased by RMB248.2 million from RMB283.0 million as of 31 December 2011 to RMB34.8 million as of 31 December 2012. In the meantime, the Group adopted a more prudent credit policy and the trade receivables turnover days decreased from 33 days for the year ended 31 December 2011 to 13 days for the year ended 31 December 2012.

The following table summarises the aging of the Group's trade and bills receivables as of the dates indicated:

| | As of 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0-90 days | **47,759** | 300,115 |
| 91-180 days | **1,858** | 1,597 |
| 181-365 days | **265** | 316 |
| Total | **49,882** | 302,028 |

Included in the Group's trade and bills receivables are debtors with an aggregate carrying amount of approximately RMB265,000 (2011: RMB316,000) which are past due at 31 December 2012, for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.

## Trade Payables

The Group's trade payables mainly comprise payables by the Group to the suppliers of raw materials and packaging materials. Based on the long-term relationships with major suppliers of the Group, the Group generally enjoys favourable credit terms of up to 90 days.

The following table sets forth the Group's trade payables analysis as of the dates indicated:

| | As of 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Trade payables | **2,750** | 7,248 |

The following table sets forth the turnover of trade payables of the Group for the year ended 31 December as indicated (calculated by dividing the average amount of the trade payables balance at the beginning and end of the period by the cost of sales of the period, then multiplying the number of days during the period):

| | For the years ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| Trade payables turnover days | **22** | 26 |

The following table summarises the age of the Group's trade payables during the years ended 31 December as indicated:

| | As of 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0-90 days | **2,570** | 6,924 |
| 91-180 days | **180** | 324 |
| Total | **2,750** | 7,248 |

## Risks in Foreign Exchange

The majority of sales income, costs and expenses of sales, as well as administrative expenses of the Group are calculated in Renminbi. Apart from some bank deposits that are held in Hong Kong dollar and US dollar, most assets and liabilities of the Group are valued in Renminbi. Since Renminbi is the functional currency of the Group, risks in foreign exchange mainly come from assets valued in Hong Kong dollar and US dollar.

For the year ended 31 December 2012, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools (2011: Nil).

## Pledge of Assets

As of 31 December 2012, the Group had no pledge of assets (31 December 2011: Nil).

## Contingent Liabilities and Guarantees

As of 31 December 2012, the Group had no material contingent liabilities or guarantees (31 December 2011: Nil).

## Off-Balance Sheet Commitments and Arrangements

As of 31 December 2012, the Group had no off-balance sheet commitments or arrangements (31 December 2011: Nil).

## Capital Commitments

As of 31 December 2012, the Group had a total capital commitment of RMB32.5 million (31 December 2011: RMB67.8 million), mainly used in building new manufacturing facilitates, acquiring manufacturing and other equipments.

## Human Resources Management

The Group regards high-quality employees as its most important resources. As at 31 December 2012, the Group had about 2,085 employees in mainland China and Hong Kong (including 384 promotional staff employed by employment agents) (2011: 3,153 staff members (including 826 promotional staff employed by employment agents)). For the year ended 31 December 2012, the total labour costs (including Directors' remunerations and non-cash share-based compensation) was approximately RMB185.4 million (2011: RMB202.8 million). Staff remuneration is formulated with reference to individual performance, work experience, qualification and current industry practice. Apart from basic salary and statutory pension welfare, staff welfare also includes discretionary bonus and stock options.

The Group places emphasis in the recruitment, motivation and retention of suitable talents. Directors and some of the senior and middle management executives enjoy share options based on the pre-IPO share option scheme adopted by the Company. On the other hand, the employee's share options scheme aims at giving staff members an incentive, to encourage them to work hard to enhance the value and foster better long-term development of the Group. In November 2012, the Company has also adopted a restricted share award scheme to grant restricted shares to eligible employees.

The Group invests sufficient efforts into continuous education and training for its staff members, so as to keep enhancing staff knowledge and skills, and to promote the spirit of teamwork. The Group often provides internal and external training courses to relevant staff based on various needs.

## DIVIDENDS

The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2012.

# Directors and Senior Management Profile

## DIRECTORS

### Executive Directors

**Mr. ZHAO Yihong**, aged 46, is our co-founder, Chairman and Chief Executive Officer and was appointed as an executive Director of the Company in August 2009. Mr. Zhao is also a member of the remuneration committee and the nomination committee of the Company and a director and the legal representative of various subsidiaries of the Group. Mr. Zhao is primarily responsible for our Group's overall strategic planning and the management of our Group's business. Mr. Zhao established Beijing Outsell to pioneer the Group's therapeutic tea products production and distribution in the PRC and has played a vital role in the development of our Group since its commencement in 2000. Mr. Zhao has 23 years of experience in China's food and beverage industry. Between 1988 and 1991, Mr. Zhao has served as an officer at the Jinan Municipal Bureau of Grain of the Shandong Province. Between 1991 and 2000, Mr. Zhao served in various positions, including a sales and a vice manager, responsible for the beverage business in the Northern China region, at Ting Hsin International Group, a food conglomerate in the PRC. Mr. Zhao graduated from China Coal Economic College, now known as Shandong Institute of Business and Technology, in 1988 with a bachelor's degree in economics. He also completed the China New Entrepreneur Development Program in 2006, a joint program sponsored by the Enterprise Research Institution, DRC-ERI and the Stanford Center for Professional Development. Mr. Zhao is currently a council member and an adjunct professor of Shandong University of Science and Technology. Mr. Zhao is the spouse of Ms. Gao Yan, our Vice Chairman and executive Director.

**Ms. GAO Yan**, aged 44, is our co-founder and Vice Chairman and was appointed as an executive Director of the Company in October 2009. Ms. Gao is also a director of various subsidiaries of the Group. Ms. Gao has served as the vice chairman of Beijing Outsell since 2000. Between 1997 and 2000, Ms. Gao worked as a director at Beijing Ruipule Commerce and Trade Co., Ltd., a private trading company. Ms. Gao is the spouse of Mr. Zhao Yihong, our Chairman, Chief Executive Officer and executive Director.

### Non-executive Director

**Mr. ZHUO Fumin**, aged 61, was appointed as a non-executive Director of the Company in October 2009. Mr. Zhuo is also a director of various subsidiaries of the Group. Mr. Zhuo has more than 40 years of experience in the field of enterprise management and capital markets. Between 1987 and 1995, Mr. Zhuo served senior positions including an office head and an officer assistant of the Shanghai Economic System Reform Committee. Between 1995 and 2002, Mr. Zhuo held in turn various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer and the vice chairman of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 363) and the chairman and an executive director of SIIC Medical Science and Technology (Group) Limited, a medical company. From 2002 to 2005, Mr. Zhuo was the chairman and the chief executive officer of Vertex China Investment Co., Ltd., a wholly owned subsidiary of Vertex Management Group, a global venture capital management company. In 2005, Mr. Zhuo co-founded SIG Capital Limited, an investment fund which focuses primarily on energy conservation, environmental protection and health care sectors. Mr. Zhuo has been serving as a management partner of GGV Capital, a venture capital fund, since 2008. Mr. Zhuo is an independent director of Focus Media Holding Limited (a company listed on NASDAQ, stock code: FMCN), China Enterprise Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600675) and Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ), an independent non-executive director of Shenyin Wanguo (H.K.) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 218) and SRE Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1207) and a director of Grandhope Biotech Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300238). Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997.

## Independent non-executive Directors

**Mr. HUANG Jingsheng**, aged 55, was appointed as an independent non-executive Director of the Company in May 2010. He is the chairman of the remuneration committee, and a member of the audit committee and the nomination committee, of the Company. Mr. Huang co-founded Mtone Wireless Corporation, a mobile phone service provider in China, in 1993 and served as a vice president of marketing. Between 1996 and 1998, Mr. Huang served as a director of Asia Pacific research operations at the Gartner Group, an information and technology research and advisory company. Between 1999 and 2000, he was a senior manager at Intel Capital and was responsible for strategic investment. In 2001, Mr. Huang was a partner at SUNeVision Ventures, an investment company which focuses on the information technology sector. Between 2002 and 2005, Mr. Huang was the managing director of SOFTBANK Asia Infrastructure Fund, a private equity firm. Between 2005 and August 2011, Mr. Huang was a managing director of Bain Capital, a private investment firm. Since September 2011, Mr. Huang has been serving as a partner of TPG Capital, a private equity firm. Mr. Huang has served as an independent director of Shanda Interactive Entertainment Limited (a company listed on NASDAQ, stock code: SNDA), and a non-executive director of Clear Media Limited (a company listed on the Hong Kong Stock Exchange, stock code:100) and SinoMedia Holding Limited (a company listed on the Hong Kong Stock Exchange, stock code: 623). Mr. Huang graduated from the Beijing Foreign Studies University in 1984 with a bachelor's degree in English and obtained a master's degree in arts in 1988 from Stanford University. Mr. Huang received a master's degree in business administration from Harvard University in 1999.

**Mr. WONG Lap Tat Arthur**, aged 53, was appointed as an independent non-executive Director of the Company in July 2010. He is the chairman of the audit committee, and a member of the remuneration committee and the nomination committee, of the Company. Mr. Wong has more than 27 years of experience in the field of accounting. From July 1982 to May 2008, he worked for Deloitte Touche Tohmatsu, an international public accounting firm, in Hong Kong, San Jose and Beijing during different periods of time, and lastly as a partner of its Beijing office, assisting companies with their listings on stock exchanges in the United States and Hong Kong and serving other local and multinational companies. Mr. Wong has not, by himself or through the firm he practices with, provided professional services to the Company in the past. From June 2008 to December 2009, he served as the chief financial officer of Asia New Energy Holdings Pte. Ltd, a company engaged in the business of manufacturing and sales of chemical, fertilizer and energy products in China. From March 2010 to November 2010, Mr. Wong served as the chief financial officer of Nobao Renewable Energy Holdings Limited, a company engaged in clean energy management service utilizing ground source heat pump technologies in China. From February 2011 to May 2012, Mr. Wong served as the chief financial officer of GreenTree Inns Hotel Management Group, Inc. Since January 2013, Mr. Wong has been serving as the chief financial officer of Beijing Radio Cultural Transmission Company Limited. Mr. Wong is currently an independent non-executive director of Termbray Petro-king Oilfield Services Limited (a company listed on the Hong Kong Stock Exchange, stock code: 2178) and an independent director of VisionChina Media Inc. (a company listed on NASDAQ, stock code: VISN), China Automotive Systems, Inc. (a company listed on NASDAQ, stock code: CAAS) and Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ). Mr. Wong received a higher diploma of accountancy from Hong Kong Polytechnic University in 1982 and a bachelor's degree in applied economics from the University of San Francisco in 1988. He is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.

**Mr. ZHANG Fenglou**, aged 72, was appointed as an independent non-executive Director of the Company in December 2012. He is the chairman of the nomination committee, and a member of the audit committee and the remuneration committee, of the Company. Mr. Zhang had been the deputy head of the Party Discipline Inspection Group of the Ministry of Health of the PRC, the director-general of the Discipline Inspection Bureau designated by the Ministry of Supervision of the PRC to the Ministry of Health and the party secretary of China Academy of Chinese Medical Sciences. Between 1993 and 2005, Mr. Zhang served as the head and party member of the Discipline Inspection Group designated by the Central Commission for Discipline Inspection to the Ministry of Health. He was a member of the 15th and the 16th Central Commission for Discipline Inspection. Mr. Zhang is now the chairman of China Health Care Association and the president of China Health Inspection Association. Mr. Zhang graduated from Peking College of Political Science and Law (now known as the China University of Political Science and Law) in 1965.

## Senior Management

**Mr. ZHAO Yihong** is our Chief Executive Officer. His profile is shown in the director profile above.

**Mr. WONG Chi Keung**, aged 46, is our Chief Financial Officer. Mr. Wong joined our Group in September 2011 and has nearly 21 years of experience in accounting, auditing and finance. Between 1989 and 1999, Mr. Wong worked for PricewaterhouseCoopers, an international public accounting firm, in Hong Kong and lastly as an audit manager. Between 2002 and 2006, Mr. Wong worked at various operating entities of China Netcom Group, including serving as a senior finance manager of China Netcom Group Corporation (Hong Kong) Limited (a company previously listed on the Hong Kong Stock Exchange, former stock code: 906, and subsequently merged, in 2008, with China Unicom (Hong Kong) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 762). Between 2006 and August 2011, Mr. Wong served as chief financial officer for a number of sino-foreign joint venture and Hong Kong and US listed companies, including China Dongxiang (Group) Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 3818). Mr. Wong graduated from Chinese University of Hong Kong in 1989 with a bachelor degree in business administration. He obtained a master degree in business administration from the Australian Graduate School of Management in 2001. He is also a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

**Mr. YU Hongjiang**, aged 48, is our Vice President principally in charge of our internal control and legal. Mr. Yu is also a director and the legal representative of Besunyen Food and Beverage. Mr. Yu joined our Group in July 2000 and has more than 22 years of experience in the field of finance. Between 1987 and 1989, Mr. Yu served as a manager of the finance department at Tianjin Binhai Company Limited (now known as Tianjing Zhongxin Pharm. Binhai Corp., Ltd.). Between 1997 and 2000, Mr. Yu worked at Beijing Green World Nutrition Health Products Co., Ltd., a health food manufacturer, as the chief financial officer. Mr. Yu graduated from Shanxi University of Finance and Economics in 1987 and obtained a bachelor's degree in economics with a major focus in accounting.

**Mr. YANG Ming,** aged 40, is our Vice President principally in charge of our human resources. Mr. Yang joined our Group in 2000 and has more than 10 years of experience in sales and marketing. From 1996 to 2000, Mr. Yang served in Beijing Green World Nutrition Health Products Co., Ltd., a health food manufacturer, as a sales manager responsible for regional sales. He held various senior positions in our Group, including assistant to the Chairman and director of North Region. Mr. Yang graduated from Xi'an Geological Institute in 1994 with a bachelor's degree in engineering survey.

**Mr. CAI Ya**, aged 55, is our Vice President principally in charge of our research & development. Dr. Cai is also a director of Ever Assure and a director and the legal representative of Jian Shi Xing, a company which focuses on the research and development of tea and Chinese medicinal herbal products. Dr. Cai joined our group in June 2010 and has more than 26 years of experience in the field of chemistry research. Between 1988 and 1990, Dr. Cai worked at the chemistry department of the University of Sheffield as a researcher. Between 1990 and 1992, Dr. Cai worked at the School of Pharmacy of the University of London as a researcher. Between 1992 and 1993, Dr. Cai worked at the Stiefel Laboratories as a researcher for the Chinese herbal project. Between 1993 and 1997, Dr. Cai worked at the natural products department of the England office of Unilever, a multinational consumer products corporation, as a tea scientist. Between 1997 and 2000, Dr. Cai worked as a senior manager at the PRC office of Unilever and was responsible for the business development of the Lipton Tea business. Between 2000 and 2001, Dr. Cai worked at the London office of Unilever as a senior manager for the China business. Between 2002 and 2006, Dr. Cai worked as a research director of Unilever in the PRC. Between 2007 and 2010, Dr. Cai worked at Jian Shi Xing as a general manager. Dr. Cai graduated from the polymer science department of Chengdu Technology University in 1982 with a bachelor's degree in engineering and in 1985 with a master's degree in engineering. He graduated from the University of Sheffield in 1990 as a doctor of philosophy.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high standards of corporate governance in order to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Code on Corporate Governance Practices (the "Former CG Code") as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") was amended and renamed as the Corporate Governance Code (the "New CG Code") on 1 April 2012.

The Company has applied the principles and complied with the code provisions of the Former CG Code during the period from 1 January 2012 to 31 March 2012 and the New CG Code during the period from 1 April 2012 to 31 December 2012, except code provisions A.2.1 of the Former CG Code and the New CG Code, A.4.1 of the Former CG Code and the New CG Code and A.6.7 of the New CG Code.

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the shareholders.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own securities dealing code for the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they complied with the required standard as set out in the Model Code during the year ended 31 December 2012.

## BOARD OF DIRECTORS

The Board comprised six Directors, including two executive Directors, namely Mr. ZHAO Yihong (Chairman and Chief Executive Officer), Ms. GAO Yan (Vice Chairman); a non-executive Director, namely Mr. ZHUO Fumin; and three independent non-executive Directors, namely Mr. HUANG Jingsheng, Mr. WONG Lap Tat Arthur and Mr. ZHANG Fenglou. Biographical details of the Directors are set out under the section headed "Directors and Senior Management Profile" of this annual report on pages 26 to 29.

Under code provision A.2.1 of both the Former CG Code and the New CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 23 years of experience in China's food and beverage industry. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

Mr. Zhao is the spouse of Ms. Gao. Save as disclosed in this annual report, to the knowledge of the Company, there is no financial, business, family or other material or relevant relationships among members of the Board.

The executive Directors have the overall responsibility for formulating the business strategies and development plans of the Group and the senior management are responsible for supervising and executing the plans of the Group.

The primary responsibilities of the Chairman are to provide leadership to the Board in setting corporate goals of the Company, to oversee the performance and effectiveness of the Board and to take a lead to ensure that the Board acts in the best interest of the Company and shareholders as a whole.

The primary responsibilities of the executive Directors of the Company are to provide leadership for the management of the Company, to take a lead to implement the Company's strategy and to oversee the performance of the management in achieving corporate goals.

The Board plays the important roles in corporate governance and is responsible for performing the corporate governance duties set out in the New CG Code. All Directors contributed to the Group by sharing their valuable expertise, in-depth knowledge and impartial judgment on issues discussed at the board and committee meetings which became more effective.

The Company has received an annual written confirmation from each of the independent non-executive Directors of his independence. The Board considers that all the independent non-executive Directors are independent in accordance with Rule 3.13 of the Listing Rules.

Under code provision A.4.1 of both the Former CG Code and the New CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Wong Lap Tat Arthur, Mr. Zhang Fenglou and Ms. Xin Katherine Rong (the then independent non-executive Director) are appointed for a term of 3 years. Mr. Zhuo Fumin, Mr. Wang Bing (the then non-executive Director) and Mr. Huang Jingsheng are not appointed for a specific term during the period from 1 January 2012 to 15 March 2012. However, all Directors (including executive and non-executive) of the Company are subject to retirement by rotation at least once every three years at the annual general meeting ("AGM") of the Company in accordance with article 16.18 of the articles of association of the Company. The Board believes that this retirement by rotation requirement serves the same purpose as that of code provision A.4.1. Nevertheless, to promote good corporate governance practice, the Company entered into an appointment letter with each of Mr. Zhuo, Mr. Wang and Mr. Huang for a term of 3 years on 16 March 2012.

All Directors have full and timely access to all relevant information and briefing on significant legal, regulatory or accounting issues affecting the Group. The Directors are able to seek independent professional advice at the Company's expense in appropriate circumstances.

A kit of corporate information and an induction regarding the management, operations and governance practices of the Group and general compliance regulations under the Listing Rules has been provided to all Directors shortly upon their appointments as Directors of the Company. Updates on the amendments of applicable rules and regulations were given to the Directors from time to time. During the year, the Company has organized for the Board a training session conducted by qualified professionals on the amendments to the Listing Rules relating to the New CG Code and associated Listing Rules. Save for Mr. Zhang Fenglou, who was appointed as an independent non-executive Director on 17 December 2012, and received about 3 hours of training in 2012 since his appointment, each existing Director received more than 10 hours of training in 2012.

At least four regular Board meetings will be held each year, with additional meetings to be held as and when required. In respect of regular meetings, at least 14 days' notice was given to all Directors to allow them an opportunity to include matters in the agenda and the board papers were sent to all Directors at least 3 days before the meeting. For all other meetings, reasonable notice was given.

## BOARD COMMITTEES

### Audit Committee

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. WONG Lap Tat Arthur, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. HUANG Jingsheng and Mr. ZHANG Fenglou. Ms. XIN Katherine Rong was a member until 17 December 2012.

The primary responsibilities of the Audit Committee include:

- monitoring integrity of the financial statements;
- reviewing the annual report and the interim report;
- monitoring and assessing the internal control system (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function) and risk management system;
- monitoring and assessing the effectiveness of internal control function;
- monitoring the independence of an external auditor; and
- proposing to the Board the appointment, reappointment or removal of external auditor, and facilitating the communication between external auditor and internal audit function.

In the Audit Committee meetings held in 2012, the following works, inter alia, were performed by the Audit Committee:

(i) reviewed and discussed with Messrs. Deloitte Touche Tohmatsu, the Group's external auditor, on the audit scope, audit approach and audit areas of focus for the financial years ended 31 December 2011 and 2012;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2011 auditor's report from Messrs. Deloitte Touche Tohmatsu;

(iv) reviewed and approved the 2011 annual report and audited financial statements, the 2011 annual results announcement, the 2012 interim report and the 2012 interim results announcement;

(v) reviewed and approved the report on the continuing connected transactions for the financial year ended 31 December 2011;

(vi) reviewed the management letter prepared by Messrs. Deloitte Touche Tohmatsu; and

(vii) reviewed various aspects of risk management including the effectiveness of the internal control system of the Group.

For the year ended 31 December 2012, approximately RMB4.5 million and RMB7,000 have been paid to Messrs. Deloitte Touche Tohmatsu for audit services and non-audit services respectively.

## Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") comprises three independent non-executive Directors, namely Mr. HUANG Jingsheng, who serves as the chairman of the Remuneration Committee, Mr. WONG Lap Tat Arthur and Mr. ZHANG Fenglou and one executive Director, Mr. ZHAO Yihong. Ms. XIN Katherine Rong was a member until 17 December 2012.

The primary responsibilities of the Remuneration Committee include:

- reviewing and approving the management's remuneration proposals;
- determining, with delegated responsibility, the remuneration package of individual executive directors and senior management; and
- reviewing, approving and advising the compensation arrangement to Directors and senior management.

In the Remuneration Committee meetings held in 2012, the following works, inter alia, were performed by the Remuneration Committee:

(i) reviewed share-based remuneration arrangements;

(ii) reviewed the performance of the executive Directors; and

(iii) reviewed and determined the remuneration package of the Directors and senior management.

## Nomination Committee

The nomination committee of the Company (the "Nomination Committee") comprises three independent non-executive Directors, namely Mr. ZHANG Fenglou, who serves as the chairman of the Nomination Committee, Mr. WONG Lap Tat Arthur and Mr. HUANG Jingsheng and one executive Director, Mr. ZHAO Yihong. Ms. XIN Katherine Rong was a member until 17 December 2012.

The primary responsibilities of the Nomination Committee are to identify suitable individuals to become members of the Board and to advise on the selection of individuals nominated for directorships. A candidate's qualifications, ability, experience, and potential contribution to the Group are to be taken into account in nomination.

In the Nomination Committee meeting held in 2012, the following works, inter alia, were performed by the Nomination Committee:

(i) reviewed the structure, size and composition of the Board;

(ii) recommended to the Board the appointment of Mr. Zhang Fenglou as an independent non-executive Director; and

(iii) assessed the independence of the independent non-executive Directors.

Details of the attendance of the Directors at the meetings of the Board, its respective committees and the general meeting during the year are as follows:

| Directors | Meeting Attended/Held<br>Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting | Nomination Committee Meeting | General Meeting |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Mr. ZHAO Yihong | 15/15 | – | 2/2 | 1/1 | 2/2 |
| Ms. GAO Yan | 15/15 | – | – | – | 1/2 |
| **Non-executive Directors** | | | | | |
| Mr. ZHUO Fumin | 13/15 | – | – | – | 0/2 |
| Mr. WANG Bing (resigned on 6 July 2012) | 5/6 | – | – | – | 0/1 |
| **Independent non-executive Directors** | | | | | |
| Mr. HUANG Jingsheng | 14/15 | 4/4 | 2/2 | 1/1 | 0/2 |
| Mr. WONG Lap Tat Arthur | 14/15 | 4/4 | 2/2 | 1/1 | 2/2 |
| Ms. XIN Katherine Rong (resigned on 17 December 2012) | 13/15 | 3/4 | 2/2 | 0/1 | 0/2 |
| Mr. ZHANG Fenglou (appointed on 17 December 2012) | 0/0 | 0/0 | 0/0 | 0/0 | 0/0 |

Under code provision A.6.7 of the New CG Code, independent non-executive directors and other non-executive directors should attend general meetings. Mr. Zhuo Fumin, Mr. Wang Bing (the then non-executive Director), Mr. Huang Jingsheng and Ms. Xin Katherine Rong (the then independent non-executive Director) did not attend the AGM and the extraordinary general meeting (the "EGM") of the Company held on 11 May 2012 and 20 August 2012 respectively due to their other commitments. However, the Board believes that the presence of Mr. Zhao Yihong, Ms. Gao Yan and Mr. Wong Lap Tat Arthur (an independent non-executive Director) at the 2012 AGM and the presence of Mr. Zhao and Mr. Wong at the EGM allowed the Board to develop a balanced understanding of the views of shareholders.

## INTERNAL CONTROLS

The Directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls. Appropriate policies and control procedures have been designed and established to ensure that assets are safeguarded against improper use or disposal; relevant rules and regulations are adhered to and complied with; reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements; and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud. The Directors, through the Company's Audit Committee, are kept regularly appraised of significant risks that may impact on the Group's performance, and have conducted a review of the effectiveness of the internal control system of the Group.

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

We believe accountability and transparency are indispensable for ensuring good corporate governance and, in this regard, timely communication with our shareholders, including institutional investors, is crucial. We manage investor relations systematically as a key part of our operations.

We maintain a website to keep our shareholders and the public investors being informed of our latest business developments and to disseminate shareholder information.

During the year, we followed a policy of maintaining an open and regular dialogue with institutional and minority shareholders, fund managers, analysts and the media through different means, including meetings, presentations, telephone conferences, correspondence, media briefings and press releases to distribute information of the Group's latest developments and strategies. We are also proactive in responding to general enquires raised by the investing public, individual and institutional investors and analysts.

During the year, the Group's 2011 annual report received two awards in the international ARC Awards 2012. It earned us the Gold Award among Health and Well-Being Products companies in the Overall Annual Report entry, and the Silver Award among the same category in the Cover Photo/Design entry.

## SHAREHOLDERS' RIGHTS

Shareholders may request for convening an EGM and putting forward proposals at a general meeting pursuant to article 12.3 of the articles of association of the Company.

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company's principal place of business in Hong Kong.

## MEMORANDUM AND ARTICLES OF ASSOCIATION

To promote good corporate governance practice and to comply with the amendments to the Listing Rules which came into effect recently, a special resolution was passed at the 2012 AGM by the shareholders to approve the amendments to the articles of association of the Company. The amendments are to bring the articles of association of the Company in line with (i) Rule 13.44 of the Listing Rules, from which the 5% exemption for voting by a director on a board resolution in which he has an interest is removed; and (ii) Rule 13.39(4) of the Listing Rules, which allows the chairman at a general meeting to decide whether a resolution purely relates to a procedural or administrative matter and if so, such resolution can be voted on by a show of hands. Details of the amendments to the articles of association of the Company are set out on pages 16 and 17 of the circular of the Company dated 5 April 2012.

The memorandum and articles of association of the Company are available on the website of the Company.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the results of operations and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates which are reasonable and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group.

The Directors' and auditor's responsibilities for the financial statements of the Company are set out in the independent auditor's report on pages 49 and 50 of this annual report.

# Directors' Report

The Board hereby presents its report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are the manufacture and sales of therapeutic tea products. The particulars of the Company's subsidiaries are set out in note 36 of the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the Consolidated Statement of Comprehensive Income on page 51 of this annual report.

The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2012.

## FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 110.

## PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the issued share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2012 amounted to RMB1,174.0 million.

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 53 of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012:

(a) the turnover attributable to the five largest customers of the Group was less than 30% of the turnover of the Group;

(b) the purchases attributable to the five largest suppliers of the Group accounted for 39.3% of the purchases of the Group;

(c) the purchases attributable to the largest supplier of the Group accounted for 16.4% of the purchases of the Group; and

(d) none of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in any of the five largest suppliers of the Group.

## DIRECTORS

The directors of the Company during the year and up to the date of this report are:

### Executive Directors

Mr. ZHAO Yihong *(Chairman and Chief Executive Officer)*
Ms. GAO Yan *(Vice Chairman)*

### Non-executive Directors

Mr. ZHUO Fumin
Mr. WANG Bing (resigned on 6 July 2012)

### Independent non-executive Directors

Mr. HUANG Jingsheng
Mr. Wong Lap Tat Arthur
Ms. XIN Katherine Rong (resigned on 17 December 2012)
Mr. ZHANG Fenglou (appointed on 17 December 2012)

In accordance with article 16.2 of the articles of association of the Company, Mr. Zhang Fenglou, who was appointed by the Board with effect from 17 December 2012, will retire at the forthcoming AGM, and, being eligible, will offer himself for re-election.

In accordance with article 16.18 of the articles of association of the Company, Mr. Huang Jingsheng and Mr. Wong Lap Tat Arthur will retire by rotation at the forthcoming AGM, and being eligible, will offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors have a service contract with the Company which is not determinable by the Company within one year without the payment of compensation other than statutory compensation.

## REMUNERATION OF THE DIRECTORS

The remuneration of each Director is determined with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in note 9 to the consolidated financial statements of this annual report.

## EMOLUMENTS POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a share option scheme and a restricted share award scheme for its employees.

## DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the section headed "CONTINUING CONNECTED TRANSACTIONS" in this report of the Directors, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party, and which subsisted at the end of the year or at any time during the year.

## RETIREMENT BENEFIT PLANS

The retirement benefit plans are set out in note 27 to the consolidated financial statements of this annual report.

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

As at 31 December 2012, the Directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

| Name of Director/ Chief Executive | Nature of interest | Number of Shares[7] | Number of Shares subject to options granted under the Pre-IPO Share Option Scheme | Approximate percentage of interest of total issued Shares (%)[7] |
|---|---|---|---|---|
| Mr. ZHAO Yihong | Beneficial owner, interest of his spouse, founder of a discretionary trust and interest of corporation controlled by the Director[1][3] | 1,075,864,600[1][L] | 36,000,000[1][L] | 68.55% |
| Ms. GAO Yan | Beneficial owner and interest of her spouse[2][3] | 1,075,864,600[2][L] | 36,000,000[2][L] | 68.55% |
| Mr. ZHUO Fumin | Beneficial owner and interest of his spouse | 536,000[4][L] | 400,000[4][L] | 0.03% |
| Mr. HUANG Jingsheng | Beneficial owner | 500,000[5][L] | 500,000[5][L] | 0.03% |
| Mr. WONG Lap Tat Arthur | Beneficial owner | 700,000[6][L] | 500,000[6][L] | 0.04% |
| Mr. ZHANG Fenglou | – | – | – | – |

(1) Mr. Zhao Yihong, executive Director, beneficially owns 24,000,000 Shares pursuant to the grant of an option for 24,000,000 Shares under the Pre-IPO Share Option Scheme and 1,726,000 Shares directly. Mr. Zhao is also deemed or taken to be interested in the following Shares for the purposes of the SFO:

(i) 1,031,178,600 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao;

(ii) 6,960,000 Shares which are beneficially owned by Better Day Holdings Limited, a company which is controlled by Mr. Zhao; and

(iii) 12,000,000 Shares which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse, pursuant to the grant of an option for 12,000,000 Shares under the Pre-IPO Share Option Scheme.

(2) Ms. Gao Yan, executive Director, beneficially owns 12,000,000 Shares pursuant to the grant of an option for 12,000,000 Shares under the Pre-IPO Share Option Scheme. Ms. Gao is also deemed or taken to be interested in the following Shares for the purposes of the SFO:

(i) 1,726,000 Shares which are beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse;

(ii) 1,031,178,600 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Foreshore Holding Group Limited;

(iii) 6,960,000 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Better Day Holdings Limited; and

(iv) 24,000,000 Shares which are beneficially owned by Mr. Zhao, pursuant to the grant of an option for 24,000,000 Shares under the Pre-IPO Share Option Scheme.

(3) 84.15% of the issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by KCS Trust Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.

(4) Mr. Zhuo Fumin, non-executive Director, beneficially owns 400,000 Shares pursuant to the grant of an option for 400,000 Shares under the Pre-IPO Share Option Scheme. Mr. Zhuo is also deemed or taken to be interested in the 136,000 Shares beneficially owned by his wife for the purposes of the SFO.

(5) Mr. Huang Jingsheng, independent non-executive Director, beneficially owns 500,000 Shares pursuant to the grant of an option for 500,000 Shares under the Pre-IPO Share Option Scheme.

(6) Mr. Wong Lap Tat Arthur, independent non-executive Director, beneficially owns 500,000 Shares pursuant to the grant of an option for 500,000 Shares under the Pre-IPO Share Option Scheme and 200,000 Shares directly.

(7) This is calculated based on 1,569,421,820 Shares, being the number of Shares in issue as at 31 December 2012. The Shares and the percentage of interest in the columns include the Pre-IPO share options.

* The letter "L" denotes the person's long position in such Shares.

## PRE-IPO SHARE OPTION SCHEME

The Company adopted a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on 30 April 2010. The Pre-IPO Share Option Scheme gives the employees an opportunity to have a personal stake in the Company and to motivate the employees to optimize their performance and efficiency, and to retain the employees whose contribution are important to the long-term growth and profitability of the Group. No further options under the Pre-IPO Share Option Scheme can be granted after the date of listing of the shares of the Company on the Stock Exchange.

Details of the Pre-IPO Share Options outstanding and movements during the year ended 31 December 2012 are set out in note 28 to the consolidated financial statements of this annual report.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 8 September 2010.

The purpose of the Share Option Scheme is to provide an incentive to motivate, attract and retain eligible person, and to encourage them to optimize their performance efficiency, enhance the value of the Company and promote the long-term growth of the Company. This Scheme will provide the eligible participants, including employees, consultants, executives or officers of the Company to have a personal stake in the Company to achieve its intended purpose.

The Share Option Scheme shall be valid and effective for a period of 10 years from 8 September 2010, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

The maximum number of shares in respect of which may be issued upon exercise of all options to be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme shall not, in aggregate, exceed 168,109,132, being 10% of the shares of the Company in issue immediately after the initial public offering ("IPO") on the listing date (i.e. 29 September 2010) which is the effective date of such scheme.

The maximum number of shares issued and to be issued upon exercise of the options granted to any eligible person under the Share Option Scheme shall not in any 12-month period up to the date of grant exceed 1% of the issued share capital of the Company from time to time. Any further grant of share options in excess of this limit is subject to the issue of a circular and shareholders' approval in general meeting. The period within which an option may be exercised under the Share Option Scheme or the Pre-IPO Share Option Scheme will be determined by the Board at its absolute discretion, save that no option may be exercised later than 10 years from the date of grant of the particular option. Under the Share Option Scheme, the exercise price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of such option; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of such option; and (iii) the nominal value of a share on the date of grant of such option.

No share options were granted under the Share Option Scheme by the Company during the year ended 31 December 2012 and there were no outstanding share options under the Share Option Scheme as at 31 December 2012.

## RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme (the "Restricted Share Award Scheme") on 11 November 2011.

The purpose of the Restricted Share Award Scheme is to attract, motivate and retain the eligible participants who shall receive offers of restricted shares as designated by the administration committee (the "Selected Participants") and to increase the degree to which the Selected Participants' remuneration and interests are tied to the financial performance of the Company and fortunes of the shareholders of the Company. This scheme will provide the eligible participants, which includes any director, employee, consultant, executive or officer of the Company or any of its subsidiaries, to have a personal stake in the Company.

The total number of restricted shares which may be granted under the Restricted Share Award Scheme shall not exceed 5% of the aggregate of the shares in issue on 2 December 2011; and the total number of restricted shares which may be granted under the Restricted Share Award Scheme to an individual Selected Participant shall not exceed 1.5% of the aggregate of the shares in issue on 2 December 2011.

The Company has set up the Restricted Share Award Scheme Trust (the "Trust"). Pursuant to the Restricted Share Award Scheme, existing shares will be purchased by the trustee from the open market using cash contributed by the Company and be held in trust for the relevant participants until such shares are vested with the relevant participants in accordance with the provisions of the Restricted Shares Award Scheme.

Details of the restricted shares movements during the year ended 31 December 2012 are set out in note 28 to the consolidated financial statements of this annual report.

Save as disclosed above, during the year ended 31 December 2012, neither the Company nor any of its subsidiaries is a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any associated corporation and none of the Directors had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2012, so far as known to any Director or chief executive of the Company, persons (other than a Director or chief executive of the Company) who had an interest in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

| Substantial Shareholders | Number of Shares* | Approximate percentage of interest of total issued Shares (%)[3] |
|---|---|---|
| Foreshore Holding Group Limited[1] | 1,031,178,600[L] | 65.70% |
| KCS Trust Limited[1] | 1,031,178,600[L] | 65.70% |
| Sea Network Holdings Limited[1] | 1,031,178,600[L] | 65.70% |
| GGV III Entrepreneurs Fund L.P.[2] | 102,788,640[L] | 6.55% |
| Granite Global Ventures III L.L.C.[2] | 102,788,640[L] | 6.55% |
| Granite Global Ventures III L.P.[2] | 102,788,640[L] | 6.55% |

(1) 84.15% of the issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by KCS Trust Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.

(2) Granite Global Ventures III L.L.C. is the general partner of Granite Global Ventures III L.P., which beneficially owns 101,144,040 Shares, and GGV III Entrepreneurs Fund L.P., which beneficially owns 1,644,600 Shares. Granite Global Ventures III L.P. and GGV III Entrepreneurs Fund L.P. are parties to an agreement under section 317 of the SFO and are deemed or taken to be interested in a total of 102,788,640 Shares.

(3) This is calculated based on 1,569,421,820 Shares, being the number of Shares in issue as at 31 December 2012.

* The letter "L" denotes the person's long position in such Shares.

Other than as disclosed above, as at 31 December 2012, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## CONTINUING CONNECTED TRANSACTIONS

(a) Beijing Outsell, an indirect wholly owned subsidiary of the Company, has entered into transactions with Besunyen Investment Co., Ltd. ("BSYI"), a company controlled by Mr. Zhao Yihong. As disclosed in the prospectus of the Company dated 16 September 2010, pursuant to a commercial premises lease agreement dated 10 January 2010 and a supplemental lease agreement dated 9 August 2010 (together, the "BSYI Lease Agreements"), Beijing Outsell agreed to lease (the "BSYI Lease") from BSYI the premises located at Rooms 1811, 1813, 1815 and 1817 of No. 9, Si Huan Xi Road North, Haidian District, Beijing (the "Haidian Properties") for use as offices. Pursuant to the BSYI Lease Agreements, the term of the BSYI Lease is effective from 1 January 2010 to 31 December 2012 and the rental per annum was RMB1.2 million, such rental payable in full by the end of August every year and is fixed throughout the term of the BSYI Lease.

The BSYI Lease Agreements are supplemented by a supplemental agreement dated 12 July 2012 (the "Supplemental BSYI Lease Agreement"). Pursuant to the Supplemental BSYI Lease Agreement, BSYI and Beijing Outsell agreed to extend the BSYI Lease Agreements to 31 December 2014 and to amend the rent thereunder to RMB198 per sq. m. per month, in accordance with prevailing market rates and with reference to the open market rental value of similar properties of comparable size. The new rent is effective from 1 September 2012. The aggregate fee paid under the BSYI Lease Agreements and the Supplemental BSYI Lease Agreement for the year ended 31 December 2012 was RMB1.26 million, which was not more than the annual cap of RMB1.26 million.

(b) On 30 September 2010, Beijing Outsell and Beijing Pincha Online E-Commerce Co., Ltd. ("Pincha"), which is wholly owned by Mr. Zhao Yihong, entered into a distribution agreement (the "Distribution Agreement"). Pursuant to the Distribution Agreement, Beijing Outsell agreed to sell products to Pincha for distribution. On the same date, Beijing Outsell also entered into a lease agreement (the "Lease Agreement") with Pincha and agreed to lease the Haidian Properties to Pincha for office use.

The Board decided it was necessary for Beijing Outsell to establish and formalize the Group's e-commerce platform with Pincha. In view of this, Beijing Outsell and Pincha entered into an exclusive business cooperation agreement, an equity interests pledge agreement, an exclusive purchase agreement and a power of attorney (collectively, the "Structure Contracts"), a supplemental distribution agreement (the "Supplemental Distribution Agreement") and extended the term under the Lease Agreement by entering into the supplemental lease agreement (the "Supplemental Lease Agreement") on 28 March 2011.

The Board expected that the annual transaction amounts for the Structure Contracts, the Distribution Agreement and the Supplemental Distribution Agreement between Beijing Outsell and Pincha would be increased significantly for the three years ending 31 December 2011, 2012 and 2013. On 27 September 2011, the Board approved the revision of the aggregate annual caps for the transactions contemplated under the Distribution Agreement, the Supplemental Distribution Agreement, the Lease Agreement, the Supplemental Lease Agreement and the Structure Contracts for the three years.

The Board expected that the annual transaction amounts would be increased significantly for the years ending 31 December 2012, 2013 and 2014. In view of this, on 12 July 2012, Beijing Outsell and Pincha entered into a new distribution agreement (the "New Distribution Agreement") and a further supplemental lease agreement (the "Further Supplemental Lease Agreement"), and Beijing Outsell, Pincha and Mr. Zhao Yihong entered into a supplemental agreement to the Structure Contracts (the "Supplemental Structure Contract"). Pursuant to the New Distribution Agreement, the Group agreed to sell products to Pincha for distribution. The Supplemental Structure Contract extended the term of the Structure Contracts to 31 December 2014. The Board proposed to further revise the annual caps to the revised annual caps for the years ended/ending 31 December 2012, 2013 and 2014 (the "Revised Annual Caps"). As certain of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Revised Annual Caps exceeds 5%, the transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. On 20 August 2012, the independent shareholders of the Company approved the New Distribution Agreement, the Further Supplemental Lease Agreement, the Supplemental Structure Contract and the Revised Annual Caps. The revised annual caps and the actual amounts for the year ended 31 December 2012 are shown below:

| | **Revised annual cap** (RMB) | **Actual amount** (RMB) |
|---|---|---|
| New Distribution Agreement | 48,551,000 | 19,209,000 |
| Further Supplemental Lease Agreement | 1,195,000 | 1,194,000 |
| Supplemental Structure Contract | 1,373,000 | 156,000 |

The independent non-executive Directors have reviewed and confirmed that the continuing connected transactions for the year ended 31 December 2012 were entered into:

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

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; 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.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions and the auditor has reported the factual findings on these procedures to the Board committee.

The auditor of the Company has confirmed to the Board in writing in respect of the continuing connected transactions set out above for the year ended 31 December 2012:

(a) were approved by the Board;

(b) were in accordance with the pricing policies of the Group;

(c) were entered into in accordance with the relevant agreements governing the transactions; and

(d) did not exceed the relevant cap amounts for the financial year ended 31 December 2012.

Save as disclosed above, there is no related party transaction or continuing related party transaction as set out in note 34 to the consolidated financial statements that falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## MANAGEMENT CONTRACTS

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

## CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "CONTINUING CONNECTED TRANSACTIONS" in this report of the Directors:

(i) no contracts of significance in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which a controlling shareholder of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year; and

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the Directors were aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

## PRE-EMPTIVE RIGHTS

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

For details, please refer to the section headed "DIRECTORS' SECURITIES TRANSACTIONS" on page 30 of this annual report.

## CORPORATE GOVERNANCE PRACTICE

For details of the corporate governance practice, please refer to the Corporate Governance Report from pages 30 to 35 of this annual report.

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

During the year ended 31 December 2012, the trust set up for the Restricted Share Award Scheme purchased 61,000,000 Shares on the Stock Exchange in a total net consideration of HK$48,291,000 for the Restricted Share Award Scheme.

During the year ended 31 December 2012, the Company made the following repurchase of Shares on the Stock Exchange:

| Month/Year | Number of Shares repurchased | Price per Share Highest HK$ | Price per Share Lowest HK$ | Aggregate consideration HK$'000 |
|---|---|---|---|---|
| March 2012 | 10,312,000 | 0.74 | 0.68 | 7,341 |
| April 2012 | 34,570,000 | 0.74 | 0.64 | 23,733 |
| May 2012 | 15,806,000 | 0.69 | 0.57 | 10,118 |
| June 2012 | 39,795,000 | 0.84 | 0.67 | 30,193 |
| August 2012 | 4,174,000 | 0.70 | 0.64 | 2,811 |
| September 2012 | 650,000 | 0.64 | 0.62 | 415 |
| December 2012 | 10,000,000 | 0.50 | 0.465 | 4,796 |
| Total | 115,307,000 | | | 79,407 |

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

## USE OF THE NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

For details, please refer to the section headed "Use of the Net Proceeds from the IPO" on page 18 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the Directors' knowledge at the date of this annual report, the Company has maintained sufficient public float during the year and up to the date of this annual report.

## AUDITOR

The Company has appointed Messrs. Deloitte Touche Tohmatsu as auditor of the Company for the year ended 31 December 2012. Messrs. Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed for approval by shareholders at the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed by the Company from 8 May 2013 to 10 May 2013, both days inclusive. During such period, no transfer of shares of the Company will be registered. The record date for determining the eligibility to attend the forthcoming AGM of the Company will be on 10 May 2013. In order to be eligible for attending the AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 7 May 2013.

On behalf of the Board
**ZHAO Yihong**
*Chairman*

Hong Kong, 15 March 2013

# Independent Auditor's Report

**Deloitte.**
**德勤**

**To the Members of Besunyen Holdings Company Limited**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Besunyen Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 109, which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in the accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
15 March 2013

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

| | Notes | Year ended 31 December 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **475,182** | 840,409 |
| Cost of sales | | **(83,063)** | (102,770) |
| Gross profit | | **392,119** | 737,639 |
| Other income, gains and losses | 6 | **11,540** | 21,415 |
| Selling and marketing expenses | | **(562,721)** | (619,744) |
| Administrative expenses | | **(112,068)** | (110,299) |
| Research and development costs | | **(15,279)** | (19,451) |
| Loss on disposal of a subsidiary | 31 | **(6,700)** | – |
| Impairment loss on goodwill | 17 | **–** | (15,480) |
| Impairment loss recognised in respect of intangible assets | 15 | **(8,844)** | – |
| Impairment loss recognised in respect of property, plant and equipment | 12 | **(41,744)** | (962) |
| Loss before tax | 7 | **(343,697)** | (6,882) |
| Income tax credit (expense) | 8 | **1,510** | (33,994) |
| Loss and total comprehensive expense for the year | | **(342,187)** | (40,876) |
| Loss per share | | | |
| Basic (RMB) | 11 | **(0.22)** | (0.02) |
| Diluted (RMB) | 11 | **(0.22)** | (0.02) |

# Consolidated Statement of Financial Position

At 31 December 2012

| | Notes | At 31 December 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | **473,531** | 428,851 |
| Prepaid lease payments | 13 | **61,554** | 67,284 |
| Investment properties | 14 | **267,393** | – |
| Intangible assets | 15 | **5,027** | 17,062 |
| Non-current deposits | 16 | **11,094** | 324,319 |
| Deferred tax assets | 25 | **15,237** | 15,077 |
| Goodwill | 17 | **–** | 5,305 |
| | | **833,836** | 857,898 |
| CURRENT ASSETS | | | |
| Inventories | 18 | **8,108** | 8,499 |
| Trade and bills receivables | 19 | **49,882** | 302,028 |
| Deposits, prepayments and other receivables | 20 | **47,553** | 129,195 |
| Restricted cash | | **–** | 5,000 |
| Bank balances and cash | 21 | **447,478** | 602,541 |
| | | **553,021** | 1,047,263 |
| CURRENT LIABILITIES | | | |
| Trade payables | 22 | **2,750** | 7,248 |
| Other payables and accrued expenses | 23 | **127,402** | 190,960 |
| Tax payable | | **5,614** | 16,184 |
| | | **135,766** | 214,392 |
| NET CURRENT ASSETS | | **417,255** | 832,871 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,251,091** | 1,690,769 |
| CAPITAL AND RESERVES | | | |
| Share capital | 26 | **89** | 95 |
| Reserves | | **1,235,421** | 1,672,071 |
| | | **1,235,510** | 1,672,166 |
| NON-CURRENT LIABILITIES | | | |
| Deferred government grant | 24 | **7,898** | 8,684 |
| Deferred tax liabilities | 25 | **6,422** | 9,919 |
| Other non-current liabilities | | **1,261** | – |
| | | **15,581** | 18,603 |
| | | **1,251,091** | 1,690,769 |

The consolidated financial statements on pages 51 to 109 were approved and authorised for issue by the Board of Directors on 15 March 2013 and are signed on its behalf by:

***Zhao Yihong***
DIRECTOR

***Gao Yan***
DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (Note a) | Capital redemption reserve RMB'000 (Note c) | Treasury share reserve under restricted share award scheme RMB'000 (Note d) | Statutory surplus reserve RMB'000 (Note b) | Share-based payment reserve RMB'000 | Retained earnings/ (accumulated losses) RMB'000 | Attributable to owners of the Company RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2011 | 95 | 1,387,351 | 230,864 | – | – | 52,946 | 36,643 | 27,796 | 1,735,695 |
| Loss and total comprehensive expense for the year | – | – | – | – | – | – | – | (40,876) | (40,876) |
| Transfer of reserves | – | – | – | – | – | 8,049 | – | (8,049) | – |
| Dividends | – | (41,631) | – | – | – | – | – | – | (41,631) |
| Exercise of share options | – | 5,995 | – | – | – | – | (1,819) | – | 4,176 |
| Share-based payments | – | – | – | – | – | – | 14,802 | – | 14,802 |
| At 31 December 2011 | 95 | 1,351,715 | 230,864 | – | – | 60,995 | 49,626 | (21,129) | 1,672,166 |
| Loss and total comprehensive expense for the year | – | – | – | – | – | – | – | (342,187) | (342,187) |
| Transfer of reserves | – | – | – | – | – | 365 | – | (365) | – |
| Share-based payments | – | – | – | – | – | – | 9,355 | – | 9,355 |
| Share repurchased and cancelled | (6) | (64,506) | – | 6 | – | – | – | (6) | (64,512) |
| Transfer of share-based payment reserve upon forfeiture of share options | – | – | – | – | – | – | (4,390) | 4,390 | – |
| Purchase of shares under restricted share award scheme (Note 28) | – | – | – | – | (39,312) | – | – | – | (39,312) |
| Exercise of restricted shares under restricted share award scheme (Note 28) | – | – | – | – | 4,350 | – | (3,587) | (763) | – |
| **At 31 December 2012** | **89** | **1,287,209** | **230,864** | **6** | **(34,962)** | **61,360** | **51,004** | **(360,060)** | **1,235,510** |

Note a: Special reserve represents the aggregate of (i) the difference between the nominal value of the Company's share, issued upon the group reorganisation and the net assets of Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell") and Besunyen Food and Beverage Co., Ltd. ("Besunyen Food and Beverage"), and (ii) a deemed distribution of RMB2,200,000 to the shareholders.

Note b: According to the relevant laws in the People's Republic of China ("PRC"), the enterprises established in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a general reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to offset the previous year losses, if any. The general reserve fund is non-distributable other than upon liquidation.

Note c: The amount represented the nominal value of the shares repurchased by the Company.

Note d: Treasury share reserve is comprised of the consideration paid for the treasury shares held for the restricted share award scheme.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| OPERATING ACTIVITIES | | |
| Loss before tax | **(343,697)** | (6,882) |
| Adjustments for: | | |
| Allowance for doubtful debts | **156** | 111 |
| Amortisation of intangible assets | **3,432** | 5,716 |
| Depreciation of property, plant and equipment | **32,950** | 28,488 |
| Depreciation of investment properties | **3,024** | – |
| Exchange loss | **1,509** | 8,036 |
| Impairment loss on goodwill | **–** | 15,480 |
| Impairment loss on intangible assets | **8,844** | – |
| Impairment loss on property, plant and equipment | **41,744** | 962 |
| Write down of inventory | **2,857** | – |
| Interest income | **(9,991)** | (13,279) |
| Loss on disposal of a subsidiary | **6,700** | – |
| Loss (gain) on disposal of property, plant and equipment | **1,742** | (56) |
| Release of deferred government grant | **(786)** | (775) |
| Release of prepaid lease payments | **1,445** | 1,483 |
| Share-based compensation | **9,355** | 14,802 |
| Operating cash flows before movements in working capital | **(240,716)** | 54,086 |
| Increase in inventories | **(2,466)** | (2,830) |
| Decrease (increase) in trade and bills receivables | **248,765** | (149,336) |
| Decrease (increase) in deposits, prepayments and other receivables | **81,547** | (26,647) |
| Decrease in trade payables | **(4,498)** | (94) |
| (Decrease) increase in other payables and accrued expenses | **(48,099)** | 90,456 |
| Increase in other non-current liabilities | **1,261** | – |
| Cash generated from (used in) from operations | **35,794** | (34,365) |
| Income taxes paid | **(11,866)** | (43,006) |
| Interest received | **4,850** | 11,240 |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | **28,778** | (66,131) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| INVESTING ACTIVITIES | | |
| Purchase of short term investment | **(460,000)** | (100,000) |
| Purchase of property, plant and equipment | **(82,756)** | (451,848) |
| Purchase of land use right | **(6,210)** | – |
| Purchase of intangible assets | **(770)** | (913) |
| Net cash outflow arising from disposal of a subsidiary (Note 31) | **(498)** | – |
| Placement of restricted cash | **–** | (5,000) |
| Proceeds on redemption of short term investment | **465,141** | 102,039 |
| Withdrawal of restricted cash | **5,000** | – |
| Proceeds from disposal of property, plant and equipment | **1,585** | 416 |
| NET CASH USED IN INVESTING ACTIVITIES | **(78,508)** | (455,306) |
| FINANCING ACTIVITIES | | |
| Payments on repurchase of shares | **(64,512)** | – |
| Payments for shares under restricted share award scheme | **(39,312)** | – |
| Dividends paid | **–** | (41,631) |
| Repayment to a related party | **–** | (1,000) |
| Proceeds from issue of shares upon exercise of share options | **–** | 4,176 |
| NET CASH USED IN FINANCING ACTIVITIES | **(103,824)** | (38,455) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **(153,554)** | (559,892) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **602,541** | 1,170,469 |
| EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | **(1,509)** | (8,036) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING BANK BALANCES AND CASH | **447,478** | 602,541 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 1. General

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its holding company is Foreshore Holding Group Limited (incorporated in the British Virgin Islands). The address of the registered office is the Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands, and the principal place of business of the Company is No. 1 Qiushi Industrial Park, Doudian Town, Fangshan District, Beijing.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the manufacture and sales of therapeutic tea products. Details of subsidiaries are set out in note 36.

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

## 2. Adoption of New and Revised International Financial Reporting Standards ("IFRSs")

In the current year, the Group has applied the following amendments to standards.

| | |
|---|---|
| IAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets |
| IFRS 7 (Amendments) | Financial Instruments: Disclosures – Transfers of Financial Assets |

Except as described below, the application of the amendments to standards in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has applied for the first time the amendments to IFRS 7 Disclosures – Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has transferred certain bills receivables to its suppliers to settle its payables through endorsing the bills to its suppliers. The Group has derecognised these bills receivables and the payables to suppliers in their entirety, as in the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership of these bills to the suppliers. Relevant disclosure has been made in note 19A. In accordance with the transitional provision set out in the amendments to IFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

## 2. Adoption of New and Revised International Financial Reporting Standards ("IFRSs") *(Continued)*

### New and revised IFRSs issued but not effective

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective.

| | |
|---|---|
| IFRSs (Amendments) | Annual Improvements to IFRSs 2009 – 2011 Cycle[1] |
| IFRS 7 (Amendments) | Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| IFRS 9 and IFRS 7 (Amendments) | Mandatory Effective Date of IFRS 9 and Transition Disclosures[3] |
| IFRS 10, IFRS 11 and IFRS 12 (Amendments) | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| IFRS 10, IFRS 12 and IAS 27 (Amendments) | Investment Entities[2] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[1] |
| IFRS 11 | Joint Arrangements[1] |
| IFRS 12 | Disclosure of Interests in Other Entities[1] |
| IFRS 13 | Fair Value Measurement[1] |
| IAS 19 (Revised in 2011) | Employee Benefits[1] |
| IAS 27 (Revised in 2011) | Separate Financial Statements[1] |
| IAS 28 (Revised in 2011) | Investments in Associates and Joint Ventures[1] |
| IAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income[4] |
| IAS 32 (Amendments) | Offsetting Financial Assets and Financial Liabilities[2] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2014
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 July 2012

*Annual Improvements to IFRSs 2009 – 2011 Cycle issued in June 2012*

The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include the amendments to IAS 16 Property, Plant and Equipment and the amendments to IAS 32 Financial Instruments: Presentation.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The amendments to IAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

The directors anticipate that the application of the amendments will be applied in the financial period beginning on 1 January 2013 and that the application of the amendments will not have a material impact on the Group's consolidated financial statements.

## 2. Adoption of New and Revised International Financial Reporting Standards ("IFRSs") *(Continued)*

### New and revised IFRSs issued but not effective *(continued)*

*IFRS 9 Financial Instruments*

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of IFRS 9 will be applied in its financial period beginning on 1 January 2015. Based on an analysis of the financial instruments on 31 December 2012, the application of IFRS 9 Financial Instruments is not expected to have any material impact on the classification and measurement of the Group's financial assets and financial liabilities.

## 2. Adoption of New and Revised International Financial Reporting Standards ("IFRSs") *(Continued)*

### New and revised IFRSs issued but not effective *(continued)*

*New and revised standards on consolidation, joint arrangements, associates and disclosures*

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised in 2011) and IAS 28 (Revised in 2011).

Key requirements of these five standards that are relevant to the Group are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate these five standards together with the amendments will be applied for the financial period beginning on 1 January 2013 and that the application of these five standards will not have a material impact on the Group's consolidated financial statements.

*Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities*

The amendments to IFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities.

Under the amendments to IFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

## 2. Adoption of New and Revised International Financial Reporting Standards ("IFRSs") *(Continued)*

### New and revised IFRSs issued but not effective *(continued)*

*Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (continued)*

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to IFRS 10, IFRS 12 and IAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments will have no impact on the Group as the Company is not an investment entity.

Other than set out above, the directors anticipate the application of other new and revised IFRSs will not have material impact on amounts reported in the Group's consolidated financial statements and/or disclosures set out these consolidated financial statements.

## 3. Significant Accounting Policies

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

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

The principle accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

## 3. Significant Accounting Policies *(Continued)*

### Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

## 3. Significant Accounting Policies *(Continued)*

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, returns, rebates, and sales related tax.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Service income is recognised when services are rendered.

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

### Leasing

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

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

*The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

## 3. Significant Accounting Policies *(Continued)*

### Leasehold land and building *(continued)*

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

## 3. Significant Accounting Policies *(Continued)*

### Equity-settled share-based payment transactions

*Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based payment reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share-based payment reserve.

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained profits (accumulated losses).

*Share options granted to consultant*

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

*Restricted share award scheme*

The Company has set up the Employees' Share Award Scheme Trust for the purpose of administering the restricted share award scheme and holding the restricted shares before they vest. As the Company has the power to control the financial and operating policies of the Employees' Share Award Scheme Trust, the Group is required to consolidate the Employees' Share Award Scheme Trust under IAS 27 Consolidated and Separate Financial Statements.

The fair value of services received determined by reference to the fair value of restricted shares at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based payment reserve).

At the end of the reporting period, the Group revises its estimates of the number of restricted shares that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share-based payment reserve.

When the restricted shares are vested and awarded to employees, the amount previously recognised in share-based payment reserve will be transferred to treasury share reserve. The difference between the amount previously recognised in share-based payment reserve and the cost for repurchasing the restricted shares will be transferred from treasury share reserve to retained profits (accumulated losses).

## 3. Significant Accounting Policies *(Continued)*

### Taxation

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

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

## 3. Significant Accounting Policies *(Continued)*

### Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated in the consolidated statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost, other than construction in progress, over their estimated useful lives, and after taking into account their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Owner-occupied property is transferred to investment property when there is a change in use evidenced by the end of owner occupation.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

## 3. Significant Accounting Policies *(Continued)*

### Prepaid lease payments

Payment for obtaining land use rights is accounted for as prepaid lease payments and is charged to profit or loss on a straight-line basis over the lease terms.

### Intangible assets

*Intangible assets acquired separately*

Intangible assets represent product trademarks, patents, contract backlog, customers base and non-compete agreement for the manufacturing of therapeutic tea products and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (if any). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period with the effective of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

*Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

## 3. Significant Accounting Policies *(Continued)*

### Intangible assets *(continued)*

*Research and development expenditure (continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

*Intangible assets acquired in a business combination*

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

*Impairment of tangible and intangible assets other than goodwill*

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

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

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

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

## 3. Significant Accounting Policies *(Continued)*

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### Financial instruments

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

*Financial assets*

The Group's financial assets including loans and receivables.

*Effective interest method*

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

Income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, restricted cash and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(continued)*

*Impairment of financial assets (continued)*

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60-180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

*Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

## 3. Significant Accounting Policies *(Continued)*

### Financial instruments *(continued)*

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Other financial liabilities*

Other financial liabilities including trade and other payables and other non-current liabilities are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised at cost and deducted directly in equity. No gain or loss is recognised in profit or loss on repurchase or cancellation of the Company's own equity instruments.

*Derecognition*

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty 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.

### Estimated impairment of property, plant and equipment

Determining whether property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units to which property, plant and equipment has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of property, plant and equipment is RMB473,531,000 (net of accumulated impairment loss of RMB41,744,000) (2011: carrying amount of RMB428,851,000 net of accumulated impairment loss of RMB962,000). Details of the recoverable amount calculation are disclosed in note 12.

### Allowances for doubtful debts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed. As at 31 December 2012, the carrying amount of trade receivables was RMB15,050,000 (net of allowance for doubtful debts of RMB267,000) (2011: carrying amount of RMB19,065,000, net of allowance for doubtful debts of RMB111,000).

## 5. Revenue and Segment Information

Revenue represents the invoiced value of therapeutic tea products sold to customers by the Group less returns, discounts, rebates, and sales related tax.

The Group operates and manages its business as a single segment that includes primarily the manufacture and sales of therapeutic tea products. The Group's chief operating decision maker has been identified as the Company's Chairman and Chief Executive Officer, who reviews the revenue analysis by major products of the Group when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial information is available for the assessment of performance of different products, no segment information is presented other than entity-wide disclosures.

The revenues attributable to the Group's major products are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Detox tea | **192,991** | 417,847 |
| Slimming tea | **268,311** | 414,232 |
| Other tea products | **13,880** | 8,330 |
| | **475,182** | 840,409 |

### Major customers

No single customer contributes over 10% or more of total revenue of the Group for the years ended 31 December 2012 and 2011.

### Geographical disclosures

The Group operates in the PRC and all of its customers are located in the PRC. Substantially all of the non-current assets of the Group are located in the PRC.

## 6. Other Income, Gains and Losses

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Government grants (Note) | **5,712** | 16,497 |
| Interest income | | |
| – Bank interest income | **4,850** | 11,240 |
| – Interest income from short term investment | **5,141** | 2,039 |
| | **9,991** | 13,279 |
| Net foreign exchange loss | **(1,509)** | (8,036) |
| Others | **(4,943)** | (3,257) |
| Service income | **2,289** | 2,932 |
| | **11,540** | 21,415 |

Note:

The government grants mainly represented the various subsidies from the PRC government for supporting the business operations in which the Company's headquarters is located.

The amount for the year ended 31 December 2012 also includes a government grant of RMB786,000 (2011: RMB775,000) related to the construction of the plant facilities (see note 24).

## 7. Loss Before Tax

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Loss before tax has been arrived at after charging (crediting): | | |
| Staff costs, including directors' remuneration | | |
| – salaries and other allowances | **165,262** | 179,279 |
| – share-based compensation | **9,355** | 14,802 |
| – retirement benefit scheme contributions | **10,807** | 8,729 |
| Total staff costs | **185,424** | 202,810 |
| Gross rental income from investment properties | **(4,126)** | – |
| Less: | | |
| Direct operating expense (including depreciation) incurred for investment properties that generated rental income during the year | **3,741** | – |
| Direct operating expense (including depreciation) incurred for investment properties that did not generate rental income during the year | **450** | – |
| | **(65)** | – |
| Amortisation of intangible assets (included in cost of sales) | **3,432** | 5,716 |
| Auditors' remuneration | **4,471** | 3,815 |
| Cost of inventories recognised as expense (include write-down of inventory amounted to RMB2,857,000 (2011: Nil)) | **83,063** | 102,770 |
| Depreciation of property, plant and equipment | **32,950** | 28,488 |
| Depreciation of investment properties | **3,024** | – |
| Loss (gain) on disposal of property, plant and equipment | **1,742** | (56) |
| Release of prepaid lease payments | **1,445** | 1,483 |

## 8. Income Tax (Credit) Expense

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| The charge comprises | | |
| Current tax: | | |
| PRC income tax | **2,553** | 42,048 |
| Over provision in prior year: | | |
| PRC income tax | **(1,184)** | – |
| | **1,369** | 42,048 |
| Deferred tax: | | |
| current year (note 25) | **(2,879)** | (8,054) |
| | **(1,510)** | 33,994 |

## 8. Income Tax (Credit) Expense *(Continued)*

The income tax (credit) expense for the year can be reconciled to the loss before tax per the consolidated statement of comprehensive income as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Loss before tax | **(343,697)** | (6,882) |
| Tax at PRC Enterprise Income Tax rate of 25% (2011: 25%) | **(85,924)** | (1,721) |
| Effect of tax exemption granted | **–** | (16,956) |
| Tax effect of tax loss/deductible temporary differences not recognised | **40,460** | 19,688 |
| Utilisation of tax loss previously not recognised | **(1,476)** | (1,662) |
| Tax effect of expenses not deductible for tax purposes | **49,741** | 34,979 |
| Over provision in prior year | **(1,184)** | – |
| Others | **(3,127)** | (334) |
| Tax (credit) charge for the year | **(1,510)** | 33,994 |

The Company was incorporated in the Cayman Islands and Besunyen Investment (BVI) Co., Ltd. ("Besunyen BVI") was incorporated in the British Virgin Islands ("BVI") that are tax exempted under the tax laws of the Cayman Islands and the BVI.

Beijing Outsell is exempted from PRC income tax for two years starting from its first profit making year, followed by a 50% reduction for the next three years. Beijing Outsell was exempted from PRC income tax in 2007 and 2008, and entitled to 50% reduction in PRC income tax in 2009, 2010 and 2011. Beijing Outsell applied the statutory rate of 25% for the year ended 31 December 2012.

Except for Beijing Outsell, the remaining PRC subsidiaries are subject to a unified Enterprise Income tax rate at 25% for the two years ended 31 December 2012.

No provision for Hong Kong Profits Tax has been made as the Group's operations in Hong Kong had no assessable profit in Hong Kong for either year.

## 9. Directors', Chief Executive's and Employees' Emoluments

### Directors and Chief Executive

Details of the emoluments paid and payable to the directors and the chief executive of the Company are as follows:

**For the year ended 31 December 2012:**

| | Directors' fee RMB'000 | Salaries and other allowances RMB'000 | Share-based compensation RMB'000 | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| *Executive directors* | | | | | |
| Zhao Yihong | 130 | 1,926 | 1,925 | 46 | 4,027 |
| Gao Yan | 130 | 1,489 | 963 | 46 | 2,628 |
| | 260 | 3,415 | 2,888 | 92 | 6,655 |
| *Non-executive directors* | | | | | |
| Zhuo Fumin | 130 | – | 39 | – | 169 |
| Wang Bing (Note) | 50 | – | (42) | – | 8 |
| | 180 | – | (3) | – | 177 |
| *Independent non-executive directors* | | | | | |
| Arthur Wong Lap Tat | 130 | – | 89 | – | 219 |
| Huang Jingsheng | 130 | – | 49 | – | 179 |
| Xin Katherine Rong (Note) | 122 | – | (83) | – | 39 |
| Zhang Fenglou (Note) | 8 | – | – | – | 8 |
| | 390 | – | 55 | – | 445 |

Note: Mr. Wang Bin and Ms. Xin Katherine Rong resigned on 6 July 2012 and 17 December 2012, respectively. Mr. Zhang Fenglou was appointed as an independent non-executive director of the Company with effect from 17 December 2012.

## 9. Directors', Chief Executive's and Employees' Emoluments *(Continued)*

For the year ended 31 December 2011:

| | Directors' fee RMB'000 | Salaries and other allowances RMB'000 | Share-based compensation RMB'000 | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| *Executive directors* | | | | | |
| Zhao Yihong | 97 | 1,874 | 3,759 | 30 | 5,760 |
| Gao Yan | 97 | 1,438 | 1,880 | 30 | 3,445 |
| | 194 | 3,312 | 5,639 | 60 | 9,205 |
| *Non-executive directors* | | | | | |
| Zhuo Fumin | 97 | – | 61 | – | 158 |
| Wang Bing | 97 | – | 61 | – | 158 |
| | 194 | – | 122 | – | 316 |
| *Independent non-executive directors* | | | | | |
| Arthur Wong Lap Tat | 97 | – | 168 | – | 265 |
| Huang Jingsheng | 97 | – | 76 | – | 173 |
| Xin Katherine Rong | 97 | – | 168 | – | 265 |
| | 291 | – | 412 | – | 703 |

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

The bonus and other related incentive payments, which were discretionary, were determined based on financial performance of the Group. No bonus and other related incentive payments were paid during either year.

## 9. Directors', Chief Executive's and Employees' Emoluments *(Continued)*

### Employees

The five highest paid individuals of the Group for the year ended 31 December 2012 included two directors (2011: two). The emoluments of the remaining three individuals for the year ended 31 December 2012 (2011: three) are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Salaries and other benefits | **6,010** | 5,698 |
| Share-based compensation | **4,186** | 3,344 |
| Retirement benefit scheme contributions | **46** | 30 |
| | **10,242** | 9,072 |

The emoluments of the five highest paid individuals and senior management personnel, other than directors and the chief executive, were within the following bands:

| | Number of employees Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| HK$500,001 to HK$1,000,000 | **–** | 1 |
| HK$1,500,001 to HK$2,000,000 | **2** | 2 |
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |
| HK$2,500,001 to HK$3,000,000 | **1** | – |
| HK$6,500,001 to HK$7,000,000 | **–** | 1 |
| HK$7,500,001 to HK$8,000,000 | **1** | – |

During the year ended 31 December 2012, no remuneration was paid by the Group to the directors or the highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during either year.

## 10. Dividends

In respect of the financial year ended 31 December 2010, a final dividend of HK$0.01 per share (total dividend of RMB14,062,000) was declared on 29 April 2011 and paid to shareholders during the year ended 31 December 2011.

An interim dividend of HK$0.02 per share (total dividend of RMB27,569,000) in respect of the interim period ended 30 June 2011 was declared in August 2011 and paid during the year ended 31 December 2011.

No final dividend was proposed or paid for the year ended 31 December 2011 and 2012.

## 11. Loss per Share

The calculation of the basic and diluted loss per share is based on the following data:

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| **Loss attributable to owners of the company:** | | |
| Loss for the purpose of calculating basic and diluted loss per share | **(342,187)** | (40,876) |

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **'000** | '000 |
| **Numbers of shares:** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share | **1,565,102** | 1,682,275 |

The computation of diluted loss per share for both years ended 31 December 2011 and 2012 does not assume the exercise of the Company's outstanding share options as it would result in a decrease in loss per share.

The computation of diluted loss per share for the year ended 31 December 2012 does not consider the effect of non-vested shares under the employee share award scheme as it would result in a decrease in loss per share.

The weighted average number of ordinary shares shown above has been arrived at after adjusting the effect of shares repurchased by the Company and the shares held by the Company's restricted share award scheme under the Trust (defined in note 28) during the year ended 31 December 2012.

## 12. Property, Plant and Equipment

| | Leasehold land and buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Furniture and fixtures RMB'000 | Computer equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At 1 January 2011 | 135,040 | 120,366 | 12,816 | 2,885 | 10,485 | 17,404 | 298,996 |
| Additions | 97,008 | 61,288 | 3,499 | 706 | 2,838 | 21,177 | 186,516 |
| Disposals | – | (160) | (1,207) | (62) | (53) | – | (1,482) |
| At 31 December 2011 | 232,048 | 181,494 | 15,108 | 3,529 | 13,270 | 38,581 | 484,030 |
| Additions | 99,359 | 6,096 | 3,404 | 89 | 1,738 | 51,631 | 162,317 |
| Transfer to investment properties | (37,356) | – | – | – | – | – | (37,356) |
| Disposals/write-off | – | (37) | (3,442) | (20) | (109) | (1,561) | (5,169) |
| Disposal of a subsidiary | (4,099) | (2,873) | (12) | – | (7) | – | (6,991) |
| **At 31 December 2012** | **289,952** | **184,680** | **15,058** | **3,598** | **14,892** | **88,651** | **596,831** |
| DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2011 | 6,121 | 12,549 | 5,048 | 1,315 | 1,818 | – | 26,851 |
| Provided for the year | 7,875 | 15,150 | 2,774 | 513 | 2,176 | – | 28,488 |
| Impairment loss recognised in profit or loss | – | 962 | – | – | – | – | 962 |
| Eliminated on disposals | – | (113) | (914) | (57) | (38) | – | (1,122) |
| At 31 December 2011 | 13,996 | 28,548 | 6,908 | 1,771 | 3,956 | – | 55,179 |
| Provided for the year | 8,664 | 17,231 | 3,210 | 575 | 3,270 | – | 32,950 |
| Transfer to investment properties | (1,132) | – | – | – | – | – | (1,132) |
| Impairment loss recognised in profit or loss | 9,859 | 31,885 | – | – | – | – | 41,744 |
| Eliminated on disposals/ write-off | – | (26) | (1,706) | (13) | (97) | – | (1,842) |
| Eliminated on disposal of a subsidiary | (714) | (2,873) | (12) | – | – | – | (3,599) |
| **At 31 December 2012** | **30,673** | **74,765** | **8,400** | **2,333** | **7,129** | **–** | **123,300** |
| NET BOOK VALUES | | | | | | | |
| At 31 December 2011 | 218,052 | 152,946 | 8,200 | 1,758 | 9,314 | 38,581 | 428,851 |
| **At 31 December 2012** | **259,279** | **109,915** | **6,658** | **1,265** | **7,763** | **88,651** | **473,531** |

## 12. Property, Plant and Equipment *(Continued)*

During the year ended 31 December 2012, the Group acquired property, plant and equipment amounting to RMB162,317,000 (2011: RMB186,516,000), including an amount of RMB79,561,000 (2011: RMB41,558,000) transferred from non-current deposit paid.

The above items of property, plant and equipment, after taking into account their estimated residual value of 5% to 10% of the cost, are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | 3% – 7% |
| Plant and machinery | 10% – 20% |
| Motor vehicles | 20% |
| Furniture and fixtures | 20% |
| Computer equipment | 20% – 50% |

The Group's leasehold land and buildings are situated on land in the PRC held by the Group under medium-term leases.

At 31 December 2012, the Group is in the process of obtaining property certificates of the leasehold land and buildings with a carrying value approximate to RMB91,126,000 (2011: RMB76,055,000) which is located in the PRC.

During the year, the directors conducted a review of the cash-generating units including property, plant and equipment and certain intangible assets (Note 15) and determined that a number of those assets were impaired. Accordingly, impairment loss of RMB41,744,000 (2011: RMB962,000) has been recognised in respect of leasehold land and buildings and plant and machinery. The recoverable amounts of the cash-generating units have been determined based on higher of its fair value less costs to sell and value in use. The discount rates in measuring the amounts of value in use were 20% to 23% (2011: 19%) in relation to leasehold land and buildings and plant and machinery.

## 13. Prepaid Lease Payments

The Group's prepaid lease payments comprise leasehold land in the PRC under medium-term leases and are analysed for reporting purposes as:

| | **31 December** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Current assets (included in deposits, prepayment and other receivables) | **1,352** | 1,447 |
| Non-current assets | **61,554** | 67,284 |
| | **62,906** | 68,731 |

The prepaid lease payments represent the land use rights and are amortised on a straight-line basis over lease terms of 50 years as stated in the relevant land use right certificates granted for usage by the Group in the PRC.

## 14. Investment Properties

| | RMB'000 |
|---|---|
| COST | |
| At 1 January 2011 and 31 December 2011 | – |
| Transfer from property, plant and equipment | 36,224 |
| Transfer from non-current deposit | 234,193 |
| **At 31 December 2012** | **270,417** |
| DEPRECIATION | |
| At 1 January 2011 and 31 December 2011 | – |
| Provided for the year | 3,024 |
| **At 31 December 2012** | **3,024** |
| CARRYING VALUES | |
| At 31 December 2011 | – |
| **At 31 December 2012** | **267,393** |

The fair value of the Group's investment properties at 31 December 2012 was RMB277,200,000. The fair value has been arrived at based on a valuation carried out by DTZ Debenham Tie Leung Limited, independent valuers not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the similar locations and conditions.

At 31 December 2012, the Group is in the process of obtaining a property certificate of the leasehold land and building with a carrying value approximate to RMB231,757,000 which is located in the PRC.

The above investment properties are depreciated on a straight-line basis over 30 years.

The Group's investment properties are situated on land in the PRC held by the Group under medium-term leases.

## 15. Intangible Assets

| | Trademarks RMB'000 | Patents RMB'000 | Product development costs RMB'000 | Contract backlog RMB'000 | Customers base RMB'000 | Non-compete agreement RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At 1 January 2011 | 9,516 | 16,680 | 3,483 | 200 | 2,430 | 2,260 | 34,569 |
| Additions | 614 | 17 | – | – | – | – | 631 |
| At 31 December 2011 | 10,130 | 16,697 | 3,483 | 200 | 2,430 | 2,260 | 35,200 |
| Additions | 241 | – | – | – | – | – | 241 |
| **At 31 December 2012** | **10,371** | **16,697** | **3,483** | **200** | **2,430** | **2,260** | **35,441** |
| AMORTISATION | | | | | | | |
| At 1 January 2011 | 8,154 | 2,745 | 763 | 146 | 284 | 330 | 12,422 |
| Provided for the year | 1,062 | 1,593 | 1,956 | 54 | 486 | 565 | 5,716 |
| At 31 December 2011 | 9,216 | 4,338 | 2,719 | 200 | 770 | 895 | 18,138 |
| Provided for the year | 131 | 1,487 | 764 | – | 485 | 565 | 3,432 |
| Impairment loss recognised in the year | – | 6,869 | – | – | 1,175 | 800 | 8,844 |
| **At 31 December 2012** | **9,347** | **12,694** | **3,483** | **200** | **2,430** | **2,260** | **30,414** |
| CARRYING VALUES | | | | | | | |
| At 31 December 2011 | 914 | 12,359 | 764 | – | 1,660 | 1,365 | 17,062 |
| **At 31 December 2012** | **1,024** | **4,003** | **–** | **–** | **–** | **–** | **5,027** |

The above intangible assets are amortised on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Trademarks | 10 years |
| Patents | 5-10 years |
| Product development costs | 3 years |
| Contract backlog | 0.8 year |
| Customers base | 5 years |
| Non-compete agreement | 4 years |

All of the Group's intangible assets other than product development costs were acquired from third parties or through acquisition of subsidiaries. The product development costs represent payments to an independent third party, Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd. ("Jian Shi Xing") for the development of new tea products prior to the acquisition of Jian Shi Xing by the Group in May 2010. Jian Shi Xing is engaged in the research and development of tea and Chinese medicinal herbal products.

During the year, the directors conducted a review of the cash-generating units including intangible assets (see note 12) and impairment loss of RMB8,844,000 (2011: Nil) has been recognised in respect of intangible assets.

## 16. Non-Current Deposits

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Deposits for purchase of property, plant and equipment and investment properties (Note a) | **9,218** | 322,972 |
| Deposits for purchase of intangible assets (Note b) | **1,876** | 1,347 |
| | **11,094** | 324,319 |

Notes:

(a) As at 31 December 2011, included in such deposits was a full prepayment of RMB306,000,000 related to a deposit for purchasing an office property in Beijing. During the year ended 31 December 2012, the Group obtained the ownership of such property and transferred the non-current deposit of RMB79,561,000 and RMB234,193,000 to property, plant and equipment and investment properties, respectively. Further details are set out in Note 12 and Note 14.

(b) Deposits for purchase of intangible assets represented amounts paid for the acquisition of trademarks.

## 17. Goodwill

| | RMB'000 |
|---|---|
| COST | |
| At 1 January 2011 and 31 December 2011 | 20,785 |
| Eliminated on disposal of a subsidiary (Note 31) | (5,305) |
| **At 31 December 2012** | **15,480** |
| IMPAIRMENT | |
| At 1 January 2011 | – |
| Impairment loss recognised during the year | 15,480 |
| At 31 December 2011 and 31 December 2012 | 15,480 |
| CARRYING VALUES | |
| At 31 December 2011 | 5,305 |
| **At 31 December 2012** | **–** |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units that are expected to benefit from that business combination. The carrying amount of goodwill (net of accumulated impairment loss) as at 31 December 2011 has been allocated to the unit of Zhuhai Qi Jia Medical Industry Co., Ltd. ("Zhuhai Qi Jia").

The basis of the recoverable amount of the cash-generating unit of Zhuhai Qi Jia and its major underlying assumptions as at 31 December 2011 are summarized below:

As at 31 December 2011, the recoverable amount of Zhuhai Qi Jia has been determined based on value-in-use calculations. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 24%. Cash flows beyond one-year period are extrapolated using a growth rate of 149.4% over the projected period of five years for impairment assessment purposes. Since the Group's current distribution network provides a ready platform for the launch of Besunyen MaiShuPing Tea acquired from Zhuhai Qi Jia and grants easy access to the market, management of the Group believes that a 149.4% annual growth rate is reasonable. Other key assumptions for the value in use calculation and the budgeted gross margins, which are determined based on the cash-generating unit's past performance and management's expectations for the market development.

## 17. Goodwill *(Continued)*

During the year ended 31 December 2011, the Group recognised a full impairment loss of RMB15,480,000 in relation to goodwill arising on acquisition of Jian Shi Xing, given that the recoverable amount was less than the carrying amount of the cash-generating unit.

During the year ended 31 December 2012, the Group completed the disposal of its entire equity interest in Zhuhai Qi Jia (Note 31).

## 18. Inventories

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Raw materials | **4,205** | 3,687 |
| Work in progress | **784** | 2,962 |
| Finished goods | **3,119** | 1,850 |
| | **8,108** | 8,499 |

## 19. Trade and Bills Receivables

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Trade receivables | **15,317** | 19,176 |
| Bills receivables | **34,832** | 282,963 |
| Less: allowance for doubtful debts | **(267)** | (111) |
| | **49,882** | 302,028 |

The Group allows a credit period of 60-180 days to its trade customers. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the date of delivery of goods, which approximated the respective revenue recognition dates.

## 19. Trade and Bills Receivables *(Continued)*

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0 – 90 days | **47,759** | 300,115 |
| 91 – 180 days | **1,858** | 1,597 |
| 181 to 365 days | **265** | 316 |
| | **49,882** | 302,028 |

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines credit limits by customer internally. Limits and scoring attributed to customers are reviewed every year.

Included in the Group's trade and bills receivables are debtors with an aggregate carrying amount of approximately RMB265,000 (2011: RMB316,000) which are past due at 31 December 2012, for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.

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

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 181 – 365 days | **265** | 316 |

The Group anticipates a full recovery of these amounts, and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 30.

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

### Movement in the allowance for doubtful debts

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| At 1 January | **111** | – |
| Impairment loss recognised on receivables | **156** | 111 |
| At 31 December | **267** | 111 |

## 19A. Transfer of Financial Assets

The Group has transferred bills receivables amounted to RMB1,432,000 to its suppliers to settle its payables through endorsing the bills to its suppliers as at 31 December 2012. The Group has derecognised these bills receivables and the payables to suppliers in their entirety, as in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills to the suppliers. The Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

The maximum exposure to loss, which is same as the amount payable by the Group to the supplier in respect of the endorsed bills, should the issuing bank fail to settle the bills on maturity date amounted to RMB1,432,000.

All the bills receivables endorsed to suppliers of the Group have a maturity date of less than six months from the end of the reporting period.

## 20. Deposits, Prepayments and Other Receivables

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Prepaid advertising | **19,022** | 103,964 |
| Other prepayments | **14,523** | 14,467 |
| Prepayment to suppliers | **7,009** | 4,703 |
| Other receivables | **5,647** | 4,614 |
| Prepaid lease payments | **1,352** | 1,447 |
| | **47,553** | 129,195 |

## 21. Bank Balances and Cash

Bank balances and cash comprise cash and short-term deposits held by the Group with an original maturity of three months or less.

The bank deposit carries a weighted-average interest rate of 1.14% per annum as at 31 December 2012 (2011: 0.42%).

At the end of the reporting period, included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity.

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| United States Dollars | **14,726** | 114,424 |
| Hong Kong Dollars | **20,266** | 37,859 |

## 22. Trade Payables

| | At 31 December 2012 RMB'000 | At 31 December 2011 RMB'000 |
|---|---|---|
| Trade payables | **2,750** | 7,248 |

The credit period granted by suppliers is 60-90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

| | At 31 December 2012 RMB'000 | At 31 December 2011 RMB'000 |
|---|---|---|
| 0 to 90 days | **2,570** | 6,924 |
| 91 to 180 days | **180** | 324 |
| | **2,750** | 7,248 |

## 23. Other Payables and Accrued Expenses

| | At 31 December 2012 RMB'000 | At 31 December 2011 RMB'000 |
|---|---|---|
| Prepayments from customers | **45,773** | 105,448 |
| Accrued sales rebate | **19,288** | 32,375 |
| Accrued payroll | **17,955** | 24,955 |
| Other tax payables | **16,817** | 4,178 |
| Accrued expenses | **12,785** | 2,624 |
| Payable for land use right | **5,000** | 11,210 |
| Other payables | **4,838** | 3,185 |
| Payable for advertising expenses | **4,160** | – |
| Deferred government grant (Note 24) | **786** | 786 |
| Payable to former shareholders of Zhuhai Qi Jia | **–** | 4,199 |
| Payable for acquisition of a subsidiary (Note) | **–** | 2,000 |
| | **127,402** | 190,960 |

At 31 December 2011, the amounts due to former shareholders of Zhuhai Qi Jia were unsecured, non-trade related and interest free.

Note: As set out in note 31, this payable was transferred to the acquirer of Zhuhai Qi Jia as settlement of the consideration and therefore was derecognised during the year ended 31 December 2012.

## 24. Deferred Government Grant

In May and December 2010, the Group received government grants of RMB2,000,000 and RMB4,500,000 respectively for the construction of a plant facility in the PRC. The construction of the plant facilities was completed in 2010.

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| **Analysed for reporting purposes as:** | | |
| Current liabilities (included in other payables and accrued expenses) | **786** | 786 |
| Non-current liabilities | **7,898** | 8,684 |
| | **8,684** | 9,470 |

The government grant was recorded as liabilities in the consolidated statement of financial position and is recognised over the estimated useful life of the relevant assets. The amount that will be recognised in the consolidated statements of comprehensive income within a year is classified as a current liability.

## 25. Deferred Tax

The following are the major deferred tax (liability) asset recognised and movements thereon during the year ended 31 December 2012:

| | Fair value adjustment on assets acquired through business combinations | Accrued expenses, accrued payroll and sales rebates | Prepaid advertisement expenses | Withholding tax on undistributed earnings | Deferred government grant | Patent | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2011 | (4,882) | 7,476 | 145 | (6,422) | 787 | – | (2,896) |
| Credit to profit or loss during the year | 1,385 | 5,757 | 132 | – | 60 | 720 | 8,054 |
| At 31 December 2011 | (3,497) | 13,233 | 277 | (6,422) | 847 | 720 | 5,158 |
| Credit (charge) to profit or loss during the year | 2,719 | (773) | (277) | – | 1,324 | (114) | 2,879 |
| Disposal of a subsidiary | 778 | – | – | – | – | – | 778 |
| **At 31 December 2012** | **–** | **12,460** | **–** | **(6,422)** | **2,171** | **606** | **8,815** |

## 25. Deferred Tax *(Continued)*

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

| | **2012**<br>**RMB'000** | 2011<br>RMB'000 |
|---|---|---|
| Deferred tax assets | **15,237** | 15,077 |
| Deferred tax liabilities | **(6,422)** | (9,919) |
| | **8,815** | 5,158 |

At the end of the reporting period, the Group had unused tax losses of RMB199,383,000 (2011: RMB85,189,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of RMB199,383,000 (2011: RMB85,189,000) due to the unpredictability of future profit streams. Tax losses of RMB199,383,000 (2011: RMB85,189,000) will expire in various years before 2017 (2011: 2016). Deferred tax liabilities on the undistributed profits of the PRC subsidiaries of approximately RMB136,803,000 (2011: RMB254,937,000) which was generated after 1 January 2008, have not been recognised as of 31 December 2012, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. No deferred tax has been recognised for deductible temporary difference amounting to RMB41,744,000 (2011: RMB962,000) in respect of impairment loss. There was no other significant unprovided deferred tax liability at 31 December 2012 and 2011.

## 26. Share Capital

| | **Number of shares** | **Amount**<br>US$ | **Shown in the Financial Statements as**<br>RMB'000 |
|---|---|---|---|
| Ordinary shares of USD 0.00000833333 each | | | |
| Authorised: | | | |
| At 1 January 2011, 31 December 2011 and 31 December 2012 | 6,000,000,000 | 50,000 | 341 |
| Issued and fully paid: | | | |
| At 1 January 2011 | 1,681,091,320 | 14,009 | 95 |
| Exercise of Share Options (Note a) | 3,637,500 | 31 | – |
| At 31 December 2011 | 1,684,728,820 | 14,040 | 95 |
| Share repurchased and cancelled (Note b) | (115,307,000) | (961) | (6) |
| **At 31 December 2012** | **1,569,421,820** | **13,079** | **89** |

## 26. Share Capital *(Continued)*

Notes:

(a) During the year ended 31 December 2011, share options to subscribe for 3,637,500 ordinary shares of US$0.00000833333 each were exercised at HK$1.4 per share (equivalent to RMB1.23 per share). The shares rank pari passu with other shares in issue in all respects.

(b) During the year ended 31 December 2012, the Company repurchased its own shares on the Stock Exchange as follows:

| Month of repurchase | No. of ordinary shares | Price per share Highest | Price per share Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$'000 |
| March | 10,312,000 | 0.74 | 0.68 | 7,341 |
| April | 34,570,000 | 0.74 | 0.64 | 23,733 |
| May | 15,806,000 | 0.69 | 0.57 | 10,118 |
| June | 39,795,000 | 0.84 | 0.67 | 30,193 |
| August | 4,174,000 | 0.70 | 0.64 | 2,811 |
| September | 650,000 | 0.64 | 0.62 | 415 |
| December | 10,000,000 | 0.50 | 0.47 | 4,796 |

The above shares were cancelled after repurchase.

(c) At 31 December 2012, 54,249,162 ordinary shares of par value of US$0.00000833333 each were held by the Company's restricted share award scheme as set out Note 28. During the year ended 31 December 2012, the Trust purchased shares of the Company on the Stock Exchange for the restricted share award scheme as follows:

| Month of purchase | No. of ordinary shares | Price per share Highest | Price per share Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$'000 |
| January | 61,000,000 | 0.89 | 0.69 | 48,291 |

## 27. Retirement Benefit Plans

The employees of the Group in the PRC are members of government-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

## 28. Share-Based Payments

### Share option schemes

The Company's pre-IPO share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 30 April 2010 for the primary purpose of providing incentives to eligible employees. Under the Scheme, the board of directors of the Company may grant options to eligible directors, employees and consultant to subscribe for shares in the Company.

The maximum number of shares which can be granted under the Scheme is 151,200,000.

Details of specific category of options are as follows:

| Options type | Date of grant | Share options granted | Vesting period | Exercise period | Exercise price RMB | Fair value of option at grant date RMB |
|---|---|---|---|---|---|---|
| 1st | 6.5.2010 | 94,524,000 | 6.5.2010 – 5.11.2013 | 6.11.2010 – 5.5.2020 | 1.23 | 0.50 |
| 2nd | 6.5.2010 | 19,872,000 | 6.5.2010 – 5.5.2014 | 6.5.2011 – 5.5.2020 | 1.23 | 0.51 |
| 3rd | 6.5.2010 | 16,800,000 | 6.5.2010 – 5.5.2013 | 6.5.2011 – 5.5.2020 | 1.23 | 0.50 |
| 4th | 6.5.2010 | 4,800,000 | 6.5.2010 – 5.5.2014 | 6.5.2011 – 5.5.2020 | 3.30 | 0.28 |
| 5th | 31.5.2010 | 6,120,000 | 31.5.2010 – 5.5.2014 | 6.5.2011 – 30.5.2020 | 1.23 | 0.50 |
| 6th | 21.6.2010 | 120,000 | 21.6.2010 – 5.5.2014 | 6.5.2011 – 20.6.2020 | 1.23 | 0.87 |
| 7th | 28.6.2010 | 1,680,000 | 28.6.2010 – 5.5.2014 | 6.5.2011 – 27.6.2020 | 1.23 | 0.87 |

## 28. Share-Based Payments *(Continued)*

### Share option schemes *(continued)*

The following table discloses the movement of the Company's share options held by the directors, employees and consultant for the year ended 31 December 2012:

| | Date of grant | Option type | Vesting period | Outstanding at 1/1/2012 | Forfeited during the year | Exercised during the year | Outstanding at 31/12/2012 |
|---|---|---|---|---|---|---|---|
| *Executive directors* | | | | | | | |
| Zhao Yihong | 6.5.2010 | 1st | 3.5 Years | 24,000,000 | – | – | 24,000,000 |
| Gao Yan | 6.5.2010 | 1st | 3.5 Years | 12,000,000 | – | – | 12,000,000 |
| | | | | 36,000,000 | – | – | 36,000,000 |
| *Non-executive directors* | | | | | | | |
| Zhuo Fumin | 6.5.2010 | 2nd | 4 Years | 400,000 | – | – | 400,000 |
| Wang Bing (resigned on 6 July 2012) | 6.5.2010 | 2nd | 4 Years | 400,000 | (400,000) | – | – |
| | | | | 800,000 | (400,000) | – | 400,000 |
| *Independent non-executive directors* | | | | | | | |
| Arthur Wong Lap Tat | 28.6.2010 | 7th | 3.9 Years | 500,000 | – | – | 500,000 |
| Huang Jingsheng | 6.5.2010 | 2nd | 4 Years | 500,000 | – | – | 500,000 |
| Xin Katherine Rong (resigned on 17 December 2012) | 28.6.2010 | 7th | 3.9 Years | 500,000 | (500,000) | – | – |
| Zhang Fenglou (appointed on 17 December 2012) | – | – | – | – | – | – | – |
| | | | | 1,500,000 | (500,000) | – | 1,000,000 |
| *Employees and consultant* | | | | | | | |
| In aggregate | 6.5.2010 | 1st | 3.5 Years | 42,420,000 | (2,880,000) | – | 39,540,000 |
| | 6.5.2010 | 2nd | 4 Years | 10,220,000 | (3,950,000) | – | 6,270,000 |
| | 6.5.2010 | 3rd | 3 Years | 1,560,000 | (1,560,000) | – | – |
| | 6.5.2010 | 4th | 4 Years | 1,000,000 | (1,000,000) | – | – |
| | 31.5.2010 | 5th | 3.9 Years | 4,600,000 | – | – | 4,600,000 |
| | 21.6.2010 | 6th | 3.9 Years | 100,000 | – | – | 100,000 |
| | 28.6.2010 | 7th | 3.9 Years | 400,000 | – | – | 400,000 |
| | | | | 60,300,000 | (9,390,000) | – | 50,910,000 |
| | Total | | | 98,600,000 | (10,290,000) | – | 88,310,000 |
| Weighted average exercise price (RMB) | | | | 1.25 | 1.43 | – | 1.23 |
| Exercisable at the end of the year | | | | | | | 63,040,000 |

## 28. Share-Based Payments *(Continued)*

### Share option schemes *(continued)*

The following table discloses the movement of the Company's share options held by the directors, employees and consultant for the year ended 31 December 2011:

| | Date of grant | Option type | Vesting period | Outstanding at 1/1/2011 | Forfeited during the year | Exercised during the year | Outstanding at 31/12/2011 |
|---|---|---|---|---|---|---|---|
| *Executive directors* | | | | | | | |
| Zhao Yihong | 6.5.2010 | 1st | 3.5 Years | 24,000,000 | – | – | 24,000,000 |
| Gao Yan | 6.5.2010 | 1st | 3.5 Years | 12,000,000 | – | – | 12,000,000 |
| | | | | 36,000,000 | – | – | 36,000,000 |
| *Non-executive directors* | | | | | | | |
| Zhuo Fumin | 6.5.2010 | 2nd | 4 Years | 400,000 | – | – | 400,000 |
| Wang Bing | 6.5.2010 | 2nd | 4 Years | 400,000 | – | – | 400,000 |
| | | | | 800,000 | – | – | 800,000 |
| *Independent non-executive directors* | | | | | | | |
| Arthur Wong Lap Tat | 28.6.2010 | 7th | 3.9 Years | 500,000 | – | – | 500,000 |
| Huang Jingsheng | 6.5.2010 | 2nd | 4 Years | 500,000 | – | – | 500,000 |
| Xin Katherine Rong | 28.6.2010 | 7th | 3.9 Years | 500,000 | – | – | 500,000 |
| | | | | 1,500,000 | – | – | 1,500,000 |
| *Employees and consultant* | | | | | | | |
| In aggregate | 6.5.2010 | 1st | 3.5 Years | 42,770,000 | (300,000) | (50,000) | 42,420,000 |
| | 6.5.2010 | 2nd | 4 Years | 14,160,000 | (3,230,000) | (710,000) | 10,220,000 |
| | 6.5.2010 | 3rd | 3 Years | 14,000,000 | (9,800,000) | (2,640,000) | 1,560,000 |
| | 6.5.2010 | 4th | 4 Years | 4,000,000 | (3,000,000) | – | 1,000,000 |
| | 31.5.2010 | 5th | 3.9 Years | 5,100,000 | (262,500) | (237,500) | 4,600,000 |
| | 21.6.2010 | 6th | 3.9 Years | 100,000 | – | – | 100,000 |
| | 28.6.2010 | 7th | 3.9 Years | 400,000 | – | – | 400,000 |
| | | | | 80,530,000 | (16,592,500) | (3,637,500) | 60,300,000 |
| | **Total** | | | 118,830,000 | (16,592,500) | (3,637,500) | 98,600,000 |
| Weighted average exercise price (RMB) | | | | 1.3 | 1.61 | 1.23 | 1.25 |
| Exercisable at the end of the year | | | | | | | 26,495,000 |

In the respect of the share options exercised during the year ended 31 December 2011, the weighted average share price at the dates of exercise is HK$1.54.

## 28. Share-Based Payments *(Continued)*

### Share option schemes *(continued)*

There were no options exercised during the year ended 31 December 2012.

Pursuant to the Scheme, the first option type granted on 6 May 2010 shall be exercisable during the period from the first semi-anniversary of the date of grant (the "first semi-anniversary") and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option will be exercisable during the period from the first semi-anniversary and ending on the expiry of the option period;

(ii) up to 50% of the option will be exercisable during the period from the first anniversary of the first semi-anniversary and ending on the expiry of the option period;

(iii) up to 75% of the option will be exercisable during the period from the second anniversary of the first semi-anniversary and ending on the expiry of the option period; and

(iv) up to 100% of the option will be exercisable during the period from the third anniversary of the first semi-anniversary and ending on the expiry of the option period.

Pursuant to the Scheme, the third option type granted on 6 May 2010, shall be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period in the following manner:

(i) up to 30% of the option will be exercisable during the period from 6 May 2011 and ending on the expiry of the option period;

(ii) up to 60% of the option will be exercisable during the period from 6 May 2012 and ending on the expiry of the option period; and

(iii) up to 100% of the option will be exercisable during the period from 6 May 2013 and ending on the expiry of the option period.

## 28. Share-Based Payments *(Continued)*

### Share option schemes *(continued)*

Pursuant to the Scheme, except the first and third option types above, the options granted on 6 May 2010, 31 May 2010, 21 June 2010 and 28 June 2010 shall be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option will be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period;

(ii) up to 50% of the option will be exercisable during the period from the second anniversary of the commencement date and ending on the expiry of the option period;

(iii) up to 75% of the option will be exercisable during the period from the third anniversary of the commencement date and ending on the expiry of the option period; and

(iv) up to 100% of the option will be exercisable during the period from the fourth anniversary of the commencement date and ending on the expiry of the option period.

The Group recognised a total expense of RMB5,768,000 for the year ended 31 December 2012 (2011: RMB14,802,000) in relation to share options granted by the Company.

### Restricted share award scheme

The Company adopted a restricted share award scheme on 11 November 2011 with duration of 10 years commencing from the effective date. The purpose of the Restricted Share Award Scheme is to attract, motivate and retain the eligible participants who shall receive offers of restricted shares as designated by the administration committee (the "Selected Participants") and to increase the degree to which the Selected Participants' remuneration and interests are tied to the financial performance of the Company and fortunes of the shareholders of the Company. This scheme will provide the eligible participants, which includes any director, employee, consultant, executive or officer of the Company or any of its subsidiaries, to have a personal stake in the Company. The Company has set up the Employees' Share Award Scheme Trust (the "Trust") to administer and hold the Company's shares before they are vested and transferred to the Selected Participants. The Trust purchases the Company's shares from the open market using cash contributed by the Company.

In January 2012, the Trust purchased 61,000,000 shares of the Company on the Stock Exchange in a total consideration of HK$48,291,000 (equivalent to RMB39,312,000) for the restricted share award scheme.

On 3 September 2012, 11,750,838 shares were granted by the Company to the Selected Participants. 6,750,838 shares were vested and awarded to Selected Participants in October 2012. Another 5,000,000 shares were lapsed in December 2012.

The Group recognised a total expense of RMB3,587,000 for the year ended 31 December 2012 (2011: Nil) in relation to the restricted shares granted under the restricted share award scheme.

## 28. Share-Based Payments *(Continued)*

### Restricted share award scheme *(continued)*

The following table discloses the movement of the Company's restricted shares granted to the Selected Participants for the year ended 31 December 2012 and outstanding at 31 December 2012:

| Employees | Number of awarded shares |
|---|---|
| Outstanding as at 1 January 2012 | – |
| Granted during the year | 11,750,838 |
| Vested during the year | (6,750,838) |
| Lapsed during the year | (5,000,000) |
| Outstanding as at 31 December 2012 | – |

## 29. Capital Risk Management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank balance and cash and equity attributable to equity holders of the Company, comprising share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

## 30. Financial Instruments

### Categories of financial instruments

| | At 31 December 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Financial assets | | |
| Loans and receivables (including bank balances and cash) | **503,007** | 914,183 |
| Financial liabilities | | |
| Liabilities measured at amortised cost | **18,009** | 27,842 |

### Financial risk management objectives

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

The management of the Group monitors and manages the financial risks relating to the operations of the Group through their degree of magnitude of risks. These risks include market risk (currency risk and interest rate risk), credit risk and liquidity risk.

### Market risk

*Currency risk*

Several subsidiaries of the Company and the Company have bank balances denominated in foreign currencies. The carrying amounts of the Group's foreign currency denominated bank deposits at the end of reporting period are as follows:

| | At 31 December 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| US dollars | | |
| Assets | **14,726** | 114,424 |
| HK dollars | | |
| Assets | **20,266** | 37,859 |

## 30. Financial Instruments *(Continued)*

### Market risk *(continued)*

*Sensitivity analysis*

The Group is mainly exposed to US dollars and HK dollars. The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against US dollars and HK dollars. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates a decrease (increase) in post-tax loss where Renminbi strengthens 5% against US dollars and HK dollars. For a 5% weakening of Renminbi against US dollars and HK dollars, there would be an equal and opposite impact on the profit.

| | **Year ended 31 December** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Profit for the year (USD) | **(736)** | (5,721) |
| Profit for the year (HKD) | **(1,013)** | (1,893) |

*Interest rate risk management*

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China in relation to its bank balances and deposits. The management considers that the change in interest rate has no significant impact on profit and loss on the Group and therefore sensitivity analysis has not been presented.

## 30. Financial Instruments *(Continued)*

### Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted procedures in monitoring its credit risk.

The Group's current credit practices include assessment and evaluation of customer's credit reliability and periodic review of their financial status to determine credit limit to be granted. The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations at end of reporting period in relation to each class of recognised financial assets is the carrying amount of those financial assets as stated in the consolidated statement of financial position and the amount of bills receivables endorsed to suppliers set out in note 19A.

The Group is exposed to some concentration of credit risk. As at 31 December 2012, the five largest debtors accounted for approximately 32% (2011: 10%) of the Group's total trade receivables. The Group has explored new markets and new customers and launched new products in order to minimize the concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The credit risk on bills receivables is limited because the counterparties are banks with high credit ratings.

### Liquidity risk management

The Group manages liquidity risk by maintaining adequate bank balances and cash, monitoring forecast and actual cash flows.

## 30. Financial Instruments *(Continued)*

### Liquidity risk management *(continued)*

*Liquidity and interest risk tables*

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

| | 1-3 months RMB'000 | 3 months to 1 year RMB'000 | 1-5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|
| Non derivative financial liabilities | | | | | |
| Trade payables | **2,750** | **–** | **–** | **2,750** | **2,750** |
| Other payables | **13,998** | **–** | **–** | **13,998** | **13,998** |
| Other non-current liabilities | **–** | **–** | **1,261** | **1,261** | **1,261** |
| **At 31 December 2012** | **16,748** | **–** | **1,261** | **18,009** | **18,009** |
| Non derivative financial liabilities | | | | | |
| Trade payables | 7,248 | – | – | 7,248 | 7,248 |
| Other payables | 2,146 | 18,448 | – | 20,594 | 20,594 |
| At 31 December 2011 | 9,394 | 18,448 | – | 27,842 | 27,842 |

### Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

## 31. Disposal of a Subsidiary

During the current year, the Group entered into a sale agreement to dispose of its entire equity interest in Zhuhai Qi Jia, a PRC company which is engaged in the manufacture and sale of therapeutic tea products in the PRC. The disposal was completed on 28 June 2012, on which date the Group lost control of Zhuhai Qi Jia.

The net assets of Zhuhai Qi Jia at the date of disposal were as follows:

| | RMB'000 |
|---|---|
| Total consideration satisfied by other payables (Notes (i) and (ii)) | 5,128 |

Analysis of assets and liabilities over which control was lost:

| | RMB'000 |
|---|---|
| Property, plant and equipment | 3,392 |
| Prepaid lease payments | 4,380 |
| Trade and other receivables | 3,225 |
| Bank balances and cash | 498 |
| Attributable goodwill (Note 17) | 5,305 |
| Payable for acquisition of a subsidiary | (4,121) |
| Other liabilities | (851) |
| Net assets disposed of | 11,828 |
| Loss on disposal of a subsidiary: | |
| Satisfied by other payables (Notes (i) and (ii)) | 5,128 |
| Net assets disposed of | (11,828) |
| Loss on disposal | (6,700) |
| Net cash outflow arising on disposal: | |
| Bank balances and cash disposed of | (498) |

Notes:

(i) On 28 June 2012, Beijing Outsell, Zhuhai Qi Jia, the former shareholders of Zhuhai Qi Jia and the acquirer of Zhuhai Qi Jia, an independent third party, signed a four-party agreement. Pursuant to the terms of the agreement, a payable to Zhuhai Qi Jia amounting to RMB3,128,000 was transferred to the acquirer as settlement of part of the total consideration.

(ii) On the same date, Beijing Outsell, Zhuhai Qi Jia, the former shareholders of Zhuhai Qi Jia and the acquirer of Zhuhai Qi Jia, an independent third party, signed another four-party agreement. Pursuant to the terms of the agreement, a payable for acquisition of a subsidiary amounting to RMB2,000,000 (Note 23) was transferred to the acquirer as settlement of the remaining part of the total consideration.

## 32. Operating Leases

### The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2012:

| | Year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Premises | **10,501** | 8,219 |

At the end of the reporting period, the Group's commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Within one year | **6,311** | 4,945 |
| In the second to fifth year inclusive | **7,859** | 823 |
| | **14,170** | 5,768 |

Operating lease payments represent rental payable by the Group for certain of its office and staff quarters. Rentals are fixed for an average of 2.2 years.

### The Group as lessor

Property rental income earned during the year was RMB4,126,000 (2011: Nil). The properties are expected to generate rental yields of 5% on an ongoing basis. All of the properties held have committed tenants for the next 2 to 4 years. At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Within one year | **15,366** | – |
| In the second to fifth year inclusive | **44,945** | – |
| After five years | **3,979** | – |
| | **64,290** | – |

## 33. Capital Commitments

| | At 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of<br>– property, plant and equipment | **32,546** | 67,787 |

## 34. Related Party Transactions

The Group has the following significant transactions with related parties:

| Name of related party | Nature of transactions | For the year ended 31 December | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **RMB'000** | RMB'000 |
| Besunyen Investment Co., Ltd. (i) | Rental expense | **1,259** | 1,200 |

(i) Mr. Zhao Yihong controls the entity.

The details of remuneration of key management personnel, representing emoluments of directors and the five highest paid individuals the Company paid during the year ended 31 December 2012, are set out in note 9.

## 35. Statement of Financial Position of the Company

| | Notes | At 31 December 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investment in a subsidiary | | **111,989** | 111,989 |
| Amounts due from subsidiaries | (a) | **1,012,124** | 913,978 |
| | | **1,124,113** | 1,025,967 |
| CURRENT ASSETS | | | |
| Deposits, prepayments and other receivables | | **562** | 810 |
| Bank balances and cash | | **68,576** | 215,464 |
| | | **69,138** | 216,274 |
| CURRENT LIABILITIES | | | |
| Other payables and accrued expenses | | **3,106** | 1,535 |
| | | **3,106** | 1,535 |
| NET CURRENT ASSETS | | **66,032** | 214,739 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,190,145** | 1,240,706 |
| CAPITAL AND RESERVES | | | |
| Share capital | 26 | **89** | 95 |
| Reserves | (b) | **1,190,056** | 1,240,611 |
| | | **1,190,145** | 1,240,706 |
| | | **1,190,145** | 1,240,706 |

## 35. Statement of Financial Position of the Company *(Continued)*

Notes:

(a) The amounts due from subsidiaries are unsecured, non-trade related and interest free. Such interest-free advances are measured at amortised cost using the effective interest method at an interest rate of 5.4% per annum.

(b) A movement of reserves is as follows:

| | Share premium RMB'000 | Share-based payment reserve RMB'000 | Capital redemption reserve RMB'000 | Treasury reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2011 | 1,387,351 | 36,643 | – | – | (188,775) | 1,235,219 |
| Profit and total comprehensive income for the year | – | – | – | – | 28,045 | 28,045 |
| Exercise of share options | 5,995 | (1,819) | – | – | – | 4,176 |
| Share-based payments | – | 14,802 | – | – | – | 14,802 |
| Dividends | (41,631) | – | – | – | – | (41,631) |
| At 31 December 2011 | 1,351,715 | 49,626 | – | – | (160,730) | 1,240,611 |
| Profit and total comprehensive income for the year | – | – | – | – | 43,908 | 43,908 |
| Share repurchased and cancelled | (64,506) | – | 6 | – | (6) | (64,506) |
| Purchase of share under restricted share award scheme | – | – | – | (39,312) | – | (39,312) |
| Exercise of restricted share under restricted share award scheme | – | (3,587) | – | 4,350 | (763) | – |
| Transfer of share-based payment reserve upon forfeiture of share options | – | (4,390) | – | – | 4,390 | – |
| Share-based payments | – | 9,355 | – | – | – | 9,355 |
| **At 31 December 2012** | **1,287,209** | **51,004** | **6** | **(34,962)** | **(113,201)** | **1,190,056** |

## 36. Particulars of Subsidiaries

At the end of the reporting period, the Company had the following subsidiaries:

| Name of subsidiary | Date and place of incorporation/ registration | Issued and fully paid share capital/ registered capital | Equity interest attributable to the Group As at 31 December 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| Beijing Besunyen Trading Co., Ltd. (Note i) 北京碧生源商貿有限公司 | 25 May 2008 The PRC | RMB5,000,000 | **100%** | 100% | Sales of therapeutic tea products |
| Beijing Besunyen Food and Beverage Co., Ltd. (formerly known as Beijing Benefit Food and Beverage Co., Ltd.) 北京碧生源食品飲料有限公司 | 29 June 2007 The PRC | RMB20,000,000 | **100%** | 100% | Sales of therapeutic tea products |
| Beijing Outsell 北京澳特舒爾保健品開發有限公司 | 26 September 2000 The PRC | RMB829,413,849 | **100%** | 100% | Manufacture and sales of therapeutic tea products |
| Beijing Outsell Trading Co., Ltd. (Note i) 北京澳特舒爾商貿有限公司 | 26 May 2008 The PRC | RMB5,000,000 | **100%** | 100% | Sales of therapeutic tea products |
| Besunyen BVI (formerly known as Tea-Care Holding Co. Universal Ltd) | 11 August 2009 BVI | USD1 | **100%** | 100% | Investment holding |
| Besunyen (Hong Kong) Co., Limited (formerly known as Outsell Herbal Tea Limited)("Besunyen HK") 碧生源(香港)有限公司 | 10 June 2009 Hong Kong | HKD1 | **100%** | 100% | Investment holding |
| Ever Assure Limited | 23 April 2010 Hong Kong | HKD1 | **100%** | 100% | Investment holding |
| Guangzhou Outsell Trading Co., Ltd. ("GZ Trading") (Note i) 廣州澳特舒爾商貿有限公司 | 19 September 2008 The PRC | RMB5,000,000 | **100%** | 100% | Sales of therapeutic tea products |
| Jian Shi Xing 健士星生物技術研發(上海)有限公司 | 10 March 2008 The PRC | USD3,000,000 | **100%** | 100% | Research and development of tea and Chinese medicinal herbal products |

## 36. Particulars of Subsidiaries *(Continued)*

| Name of subsidiary | Date and place of incorporation/ registration | Issued and fully paid share capital/ registered capital | Equity interest attributable to the Group As at 31 December 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| Zhuhai Qi Jia (Note ii) 珠海奇佳藥業有限公司 | 6 July 2001 The PRC | RMB12,000,000 | – | 100% | Manufacture and sales of therapeutic tea products |
| Beijing Pincha Online E-Commerce Co., Ltd. (Note i) 北京品茶在綫電子商務有限公司 | 30 June 2010 The PRC | RMB6,000,000 | **100%** | 100% | Sales of therapeutic tea products wholesale and retail sales of pre-packaged products |
| Jiang Xi Besunyen Trading Co., Ltd. (Note i) 江西碧生源商貿有限公司 | 3 March 2011 The PRC | RMB2,000,000 | **100%** | 100% | Sales of therapeutic tea products |
| Hei Longjiang Besunyen Trading Co., Ltd. (Note i) 黑龍江碧生源商貿有限公司 | 24 February 2011 The PRC | RMB5,000,000 | **100%** | 100% | Sales of therapeutic tea products |
| Beijing Besunyen Pharmaceutical Co., Ltd. (Note i) 北京碧生源藥業有限公司 | 11 January 2011 The PRC | RMB10,000,000 | **100%** | 100% | Extraction of Herbal and Medical Tea |

The form of business structure of all the above subsidiaries is limited company and the Company indirectly owns the equity interests of all of the above subsidiaries except Besunyen BVI.

(i) These companies are limited liability companies and operate in the PRC and have been wholly owned by Beijing Outsell since establishment.

(ii) In 2012, the Group disposed of its entire equity interest in Zhuhai Qi Jia.

(iii) None of the subsidiaries have issued any debt securities at the end of the reporting period.

# Five-year Financial Summary

## Consolidated Statements of Comprehensive Income

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Turnover | 358,231 | 646,535 | 874,216 | 840,409 | **475,182** |
| Gross profit | 298,117 | 578,134 | 783,081 | 737,639 | **392,119** |
| Operating profit (loss) | 123,386 | 219,864 | 230,867 | 9,560 | **(286,409)** |
| Loss on disposal of a subsidiary | – | – | – | – | **(6,700)** |
| Impairment loss on goodwill | – | – | – | (15,480) | **–** |
| Impairment loss recognized in respect of intangible assets | – | – | – | – | **(8,844)** |
| Impairment loss recognized in respect of property, plant and equipment | – | – | – | (962) | **(41,744)** |
| Change in fair value on redeemable convertible preferred shares | – | (33,497) | (121,361) | – | **–** |
| Profit (loss) before tax | 122,033 | 177,713 | 101,146 | (6,882) | **(343,697)** |
| Profit (loss) and total comprehensive income (expenses) for the year | 121,979 | 141,707 | 59,655 | (40,876) | **(342,187)** |
| EBITDA | 127,318 | 225,752 | 250,659 | 27,322 | **(304,291)** |
| Earnings (loss) per share | | | | | |
| Basic | 0.11 | 0.13 | 0.05 | (0.02) | **(0.22)** |
| Diluted | N/A | 0.13 | 0.05 | (0.02) | **(0.22)** |

## Consolidated Statement of Financial Position

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Non-current assets | 105,993 | 250,130 | 450,957 | 857,898 | **833,836** |
| Net current assets (liabilities) | 90,951 | 210,449 | 1,305,501 | 832,871 | **417,255** |
| Total assets less current liabilities | 196,944 | 460,579 | 1,756,458 | 1,690,769 | **1,251,091** |
| Non-current liabilities | 37,000 | 161,065 | 20,673 | 18,603 | **15,581** |
| Net assets | 159,944 | 299,514 | 1,735,695 | 1,672,166 | **1,235,510** |
| Share capital | 61,994 | 63 | 95 | 95 | **89** |
| Reserves | 97,950 | 299,451 | 1,735,600 | 1,672,071 | **1,235,421** |
| Total equity | 159,944 | 299,514 | 1,735,695 | 1,672,166 | **1,235,510** |

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