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 2013

草本健康

Sustaining Health From Nature's Nourishing

Corporate Profile

功能好茶

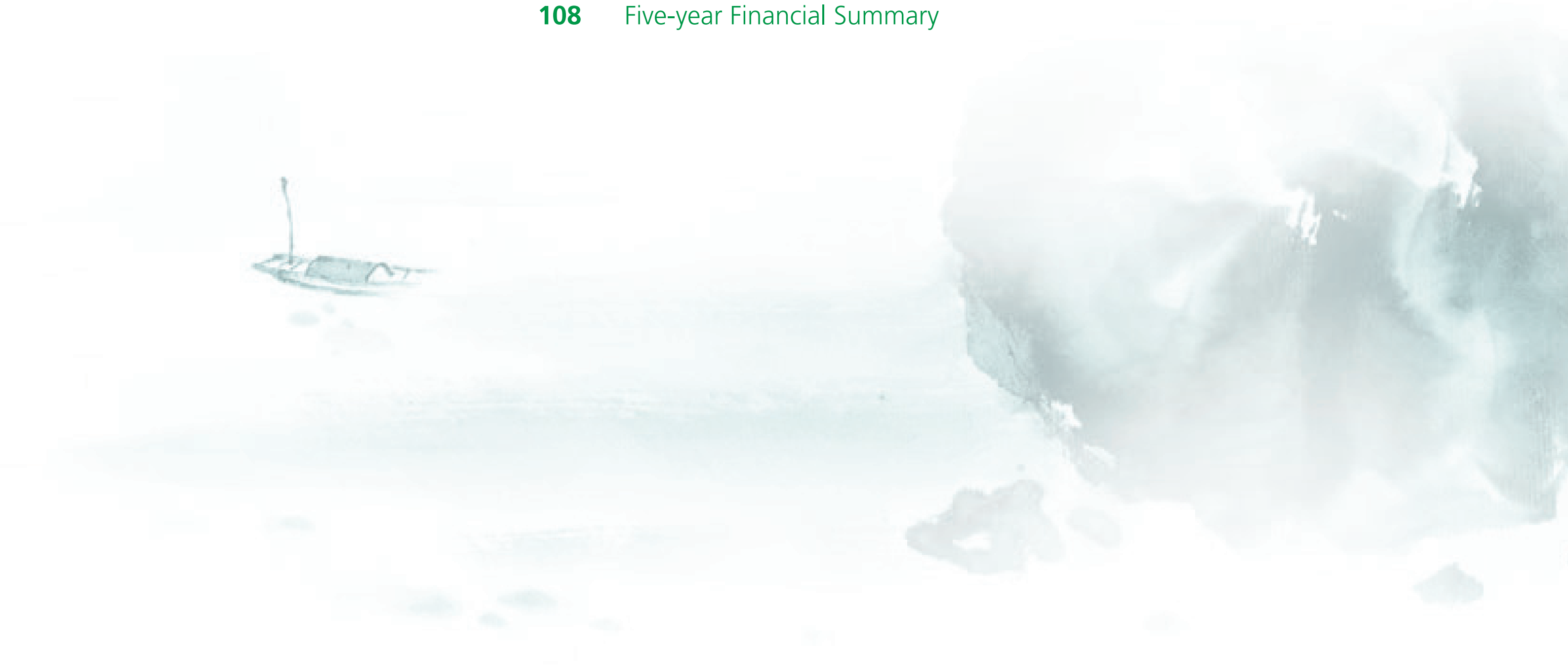
Besunyen Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") are the leading provider of therapeutic tea in China, mainly engaging in the business of the development, production, sales and promotion of therapeutic tea.

In 2013, the majority of the Group's turnover comes from the Group's two bestselling products, namely Besunyen Detox Tea and Besunyen Slimming Tea. According to a survey conducted by an independent third party research organisation, these two products were the leading therapeutic tea products sold through retail pharmacies in China in the laxative and slimming products markets in terms of retail sales value in 2013, with a market share of 22.7% and 38.2% 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 at 31 December 2013, the Group's distribution network covers 148 distributors and 630 sub-distributors in 31 provinces, autonomous regions and centrally administered municipalities in China. Through these distributors and sub-distributors, we are able to serve around 125,000 retail terminals, of which 94% are retail pharmacies.

Contents



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*

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Certified Public Accountants
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15/F, Tower 1, China Central Place
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COMPLIANCE ADVISER

Somerley Capital Limited
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29 Queen's Road Central
Hong Kong

Chairman and CEO's Report

"The Group will strive to sustainably develop the market of Besunyen Detox Tea and Besunyen Slimming Tea and increase the sales volume of the two products. We will also maintain the Besunyen brand's leading status in the market, and continue to research, improve and develop high-quality herbal therapeutic teas with a health purpose, in order to fulfil 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 2013.

The current global economic growth remains slow amid ever-changing growth factors. Recovery from the global economic crisis has been a difficult and complicated process. Vulnerability, uncertainty and imbalance have become main features of global economic development and different nations have been making corresponding adjustments. The inactive global economic growth in 2013 was due to reasons such as the sustained economic recession among member states of the European Union and developed nations such as the United States, though the situation has improved from previous years. World economies remained in a stage of slow recovery despite stimulus policies during the year, and the overall economic condition was relatively stagnant and maintained a momentum of "weak growth".

2013 was a year of volatility for China. In terms of the economy, China actively reduced its growth rate, and faced challenges in economic transformation and structural adjustment. In 2013, China's economy continued to experience an economic slowdown which has persisted for years. Since 2012, China's economic growth has entered into a new stage — the rapid growth rate of over 9% for ten years started to reduce to approximately 7%. If the economic slowdown in 2012 was regarded as an isolated incident, then 2013 clearly confirmed the momentum of such slowdown in China's economy. The decision-makers of the Chinese government are well-prepared to face such a long-term change in China's economy. A moderate slowdown is not only accepted; in fact, China's growth rate is being intentionally contained. When asked about the speed of economic development, President Xi Jinping revealed that "it is a matter of willingness rather than capability to accelerate the growth". Premier of the State Council Li Keqiang also stated on several occasions that China's economy has entered into a stage of medium to high speed growth, but this speed is still considered high among major global economies.

Besunyen Detox Tea and Besunyen Slimming Tea — New packaging design displayed on shelves of retail outlets in Beijing

The revenue of the Group was RMB487.5 million in 2013, representing an increase of 2.6% as compared to the revenue of RMB475.2 million in 2012. Gross profit increased from RMB392.1 million to RMB406.1 million, representing an increase of 3.6%. Meanwhile, the gross profit margin increased from 82.5% in 2012 to 83.3% in 2013. On the other hand, the total operating expenses (including selling and marketing expenses, administrative expenses, research and development costs) of the Group in 2013 were RMB503.4 million, representing a decrease of 27.1% as compared to RMB690.1 million in 2012. There was impairment loss of RMB3.3 million in 2013 (2012: RMB8.8 million) in respect of intangible assets. Due to the said factors, the Group recorded a net loss of RMB90.0 million in 2013 as compared to a net loss of RMB342.2 million in 2012.

We are confident in China's economic growth momentum over the longer run, which we believe will continue to drive 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 leading competitive advantages, such as a strong national brand name, a national distribution and sales network, as well as innovative research and development. We will continue to maintain our well-established business strategy and business policy of satisfying consumers' demand for high-quality health food products.

INDUSTRY, MARKET AND COMPETITIONS

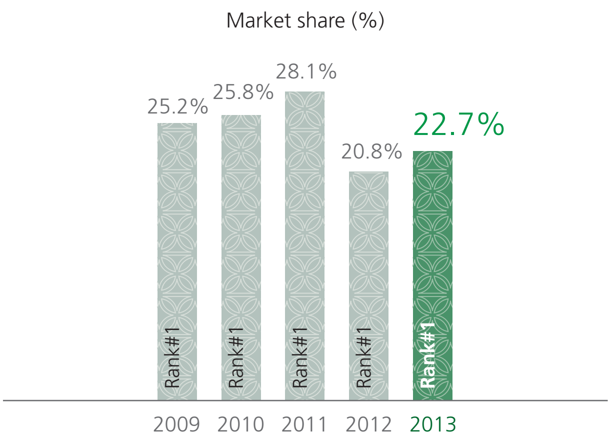
According to the professional analysis of Baidu Encyclopedia (百度百科), the prevalence of constipation among the Chinese population is 27%, representing approximately 360 million people. Constipation affects people of all age groups. Female patients outnumber male patients, while elderly patients outnumber prime-aged adult patients. High recurrence of severe constipation may even affect quality of life. In addition, there are approximately 75 million people in China who are obese and 235 million people who are over-weight, amounting to 310 million people in total. Therefore, aperient, laxative and slimming health products are becoming more important and necessary to consumers.

Chairman and CEO's Report

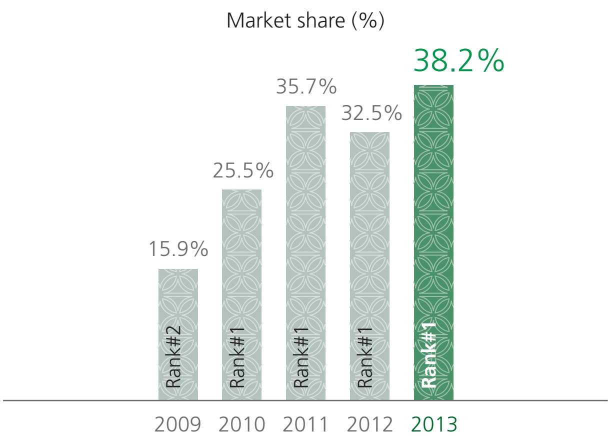
Inheriting the essence of traditional Chinese medicine and integrating the healthy ingredients of tea leaves, and according to the Chinese medicinal concept of "medicine and food from the same source", Besunyen developed therapeutic tea products with laxative and slimming effects. Due to consumers' hot pursuit of safe and reliable green and natural herbal products, products of Besunyen have continuously received approval from consumers. According to the statistics of 2013 Big Varieties Health Products Sales TOP20 (Retail Market) (二零一三年保健品大品種銷售TOP20 (零售市場)) released by Sinohealth Intelligence (Group) Co., Ltd. on 1 March 2014, the Group's Besunyen Detox Tea and Besunyen Slimming Tea ranked the 10th and 13th, respectively.

Besunyen Detox Tea and Besunyen Slimming Tea compete with other aperient, laxative and slimming products, including health food products, over-the-counter (OTC) drugs and other forms of related products. The two products of the Group are particularly competitive compared to other related products sold in retail pharmacies. According to the sampling survey report on retail pharmacies in China issued by China Southern Medicine Economy Research Institute ("SMERI") on 24 February 2014, Besunyen Detox Tea continued to be No. 1 in market share of aperient and laxative products in terms of retail sales value for six consecutive years, enjoying a market share of 22.7% in 2013 which is a 1.9% growth year-on-year. Regarding the market share of slimming products, Besunyen Slimming Tea has been No. 1 for four consecutive years, enjoying a market share of 38.2% in 2013, which is a 5.7% growth year-on-year.

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)



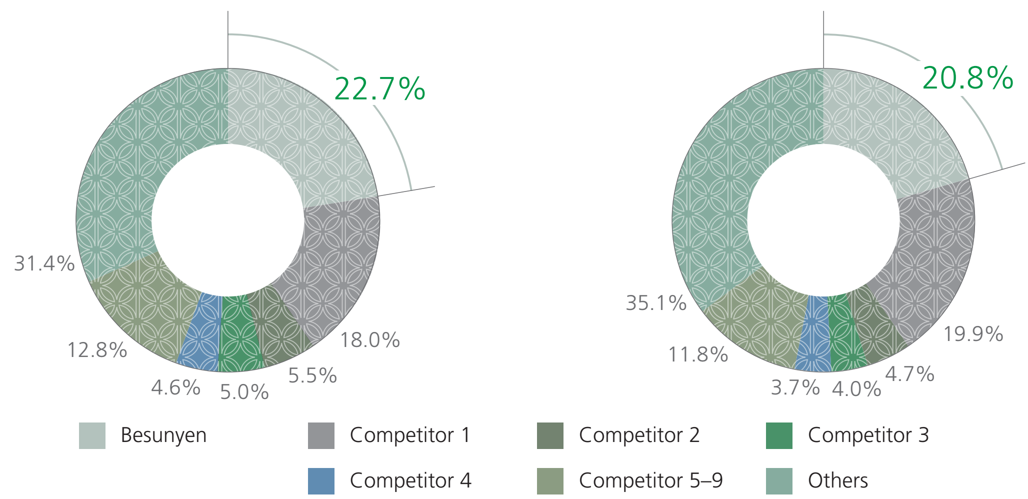
Market share and ranking of Besunyen Slimming Tea among slimming products sold through retail pharmacies in the China market (Note) (calculated based on retail sales value)



Note: China market refers to the Chinese market excluding Hong Kong, Macau and Taiwan
Source: SMERI, February 2014

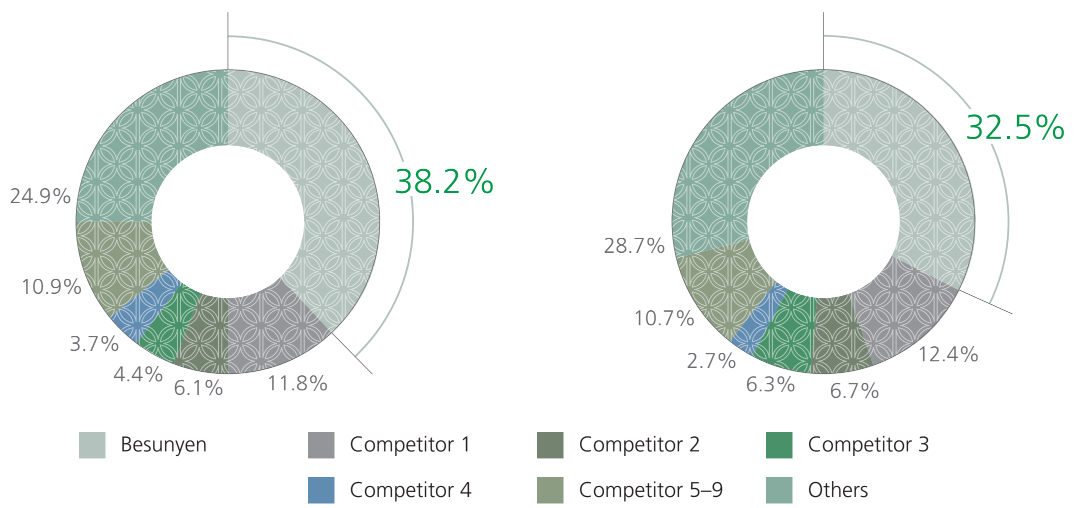
Market share and ranking of Besunyen Detox Tea among laxative products sold through retail pharmacies in the China market(Note) (calculated based on retail sales value)

Market share of laxative products in 2013 / Market share of laxative products in 2012



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)

Market share of slimming products in 2013 / Market share of slimming products in 2012



Note: China market refers to the Chinese market excluding Hong Kong, Macau and Taiwan
Source: SMERI, February 2014

Print advertisement of Besunyen Slimming Tea and Besunyen Detox Tea

BUSINESS REVIEW

In 2013, the Besunyen brand maintained its leading status in the Chinese therapeutic tea products market. During the year, we had the following business developments:

Optimising sales network of traditional channels

The Group has started to integrate its distributor network proactively since 2012 for the purpose of optimising and simplifying its management procedures in order to promptly respond to the market and serve consumers at the terminal of service channels, as well as reduce channel management costs. As at the end of 2013, optimisation of sales network of traditional channels was basically completed and the Group gradually provided more resources to high-quality distributors and retail terminals which have stable sales and which maintain sustainable room of growth. The Group also terminated co-operations with distributors with unsatisfactory performances and suspended services to retail terminals with poor sales results. As at the end of 2013, the number of the Group's first class distributors was streamlined to 148 and the number of sub-distributors was streamlined to 630. Through our distributors and sub-distributors, we were able to serve around 125,000 retail terminals, of which 94% are retail pharmacies. Meanwhile, the Group continued to expand its sales network in the retail pharmacy, large scale supermarket and chain store terminals.

Integration of traditional channels sales team

In mid-2013, focusing on the distribution of its nationwide sales network and based on the principle of providing more high-quality resources to sales terminals which contribute outstanding results to the Company, the Group simplified its operation procedures, streamlined its organisations and posts, and clearly defined the duties of all posts. Utilising a highly efficient management approach, the Group abandoned the traditional pyramid management model and now adopts a fast track management model which is able to adapt to the internet generation. During the year, sales management system of the Group has been integrated from 7 districts and 27 provincial offices into 13 regions, and the sales team was gradually optimised from 1,584 members at the beginning of the year to 685 members at the end of the year.

Exploring e-commerce business

Currently, the Group is proactively exploring an electronic marketing model suitable for the Company's products. The Group's products are sold on its own retail website 7cha.com, as well as other professional B2C websites. The online platform does not only display and sell the Group's core products which have good sales performance in physical stores, but also puts persistent efforts in promoting the sales of newly-launched products of the Company and products which are specially designed for the online shoppers.

1. Besunyen was awarded "2013 Corporate Social Responsibility Outstanding Small and Medium Enterprise in China" by Xinhua Net

2. Mr. Zhao Yihong's speech at the 2013 Chinese Teabag Brands Seminar hosted by the You Nong Centre of Ministry of Agriculture of the PRC

The Company integrated e-commerce sales team in the second half of 2013. As of 31 December 2013, the Group has been formally operating its official Sina Weibo and WeChat public account "Besunyen". E-commerce team also cooperated with sales teams of traditional channels for several times to launch a series of online marketing activities. The Company attempts to interact with more young and fashionable groups of users through new media so as to fuel the development of e-commerce. This may also promote Besunyen's brand awareness among young consumers.

While strengthening traditional offline sales channels, it is expected that the Company's retail network will be expanded by the online-offline interactive marketing established by e-commerce team, which will in turn drive the growth of the Company's income and profit.

Ongoing improvement of brand quality management

Currently, the Group has production factories of approximately 13,600 square meters which comply with Good Manufacturing Practices (GMP) standards and 1,400 square meters of Class 100,000 clean area in compliance with GMP standards. The Group also adopted 18 Italian IMA automatic production lines which meets advanced international standards. The Group places a great deal of emphasis on the management and control of both food production source safety and the overall production process. A strict management system has been continuously complied with for the purchase and use of all raw materials. In February 2013, the pharmaceutical company of the Group obtained a GMP certificate issued by China Food and Drug Administration ("CFDA"). During 2013, the Group's production base located in Fangshan, Beijing received and passed all the regular inspections by various relevant government authorities.

Fostering long-term brand building efforts and strengthening leading position in the industry

To strengthen Besunyen's brand awareness and reputation, the Group frequently launched various promotion and interactive activities in 2013 through different media outlets including TV, print media, outdoor media, internet new media and direct promotion. In particular, the Group focused its marketing efforts on the popular TV channels, such as CCTV2 and Hubei Satellite TV. The Group sponsored a large scale inspirational reality show on slimming "The Biggest Loser" (超級減肥王) on CCTV2; the Group also sponsored a popular program "King Wang" (大王小王) on Hubei Satellite TV; we co-operated with a local TV channel in Chengdu and launched a program called "Dancing Carnival" (舞動嘉年華) which was well received; the Group also thoroughly implanted advertisements of Besunyen Slimming Tea in "Let's Get Married" (咱們結婚吧), a contemporary romance TV series jointly broadcasted by satellite TV channels such as CCTV and Hubei Satellite TV. The Group sponsored an advertising campaign of "2014 Mini Spring Festival Gala" (二零一四年小年夜春晚) which was jointly held by TV channels in 23 cities at the end of December 2013 to further promote the image of the Company.

In October 2013, Besunyen was awarded the "China Advertising Great Wall Award" (中國廣告長城獎) and the "Renowned Brand Award" (知名品牌獎) by the China Advertising Association (中國廣告協會). In December, Besunyen Slimming Tea and Besunyen Detox Tea obtained "The 13th China International Healthcare Exhibition Outstanding Product Award" (第13屆中國國際保健博覽會優秀產品獎). Beijing Outsell, a wholly-owned subsidiary of the Company, was awarded "The 13th China International Healthcare Exhibition Outstanding Product Enterprise" (第13屆中國國際保健博覽會優秀企業獎). Besunyen brand was also pitched as one of the "Top 10 Credible China Health Care Product Brands" (中國保健品十大公信力品牌) by The China Health Care Association (中國保健協會). Besunyen was also awarded "2013 China Corporate Social Responsibility — Outstanding SME Award" (2013年度中國企業社會責任傑出中小企業獎) by Xinhua Net. These honors SME Award are the best praise and recognition of the principle "only produce outstanding healthcare products" which Besunyen has been insisting on for years.

The Group further developed its market status in the industry of teabag beverages. In October 2013, the Group was invited by You Nong Centre of Ministry of Agriculture of the PRC and the organising committee of 2013 Chinese Tea Exhibition (二零一三年中國茶葉博覽會), which was hosted by the said centre, to prepare and organise the first Chinese Teabag Brands Seminar (中國袋泡茶品牌論壇). The seminar was broadcasted by nearly 100 mainstream domestic media outlets. The seminar received positive response and recognition from society as well as gained praises in the industry. Various experts affirmed that "Chinese teabag brand building will experience breakthrough development under the lead of Besunyen".

Upgrading product image, changing new package and adjusting price of slimming tea

2013 was a year of striving and seeking changes and breakthroughs for Besunyen. Regarding marketing strategies, we emphasised on and rebuilt Besunyen brand's intrinsic value and leading position in the industry so as to promote its brand value. Regarding brand positioning, with "Eastern tea-making technique" (東方茶術) as the symbol and "high-quality functional tea, Besunyen" (功能好茶，碧生源) as the theme of advertising, we aimed at attracting consumers' intensive attention. In order to clearly position the brand and to deliver what the brand represents, the Group comprehensively amended the graphic designs on packages. Pictures of herbs, being the raw materials of our products, are elements of the new packages aiming at delivering the concept that our products are made of natural herbs. Presenting brand-new packages to consumers may also build a good brand image in their mind.

The price of Besunyen Slimming Tea has been remarkably lower than that of Besunyen Detox Tea for a long period of time. However, slimming tea consumers' price sensitivity towards slimming products is relatively low. Benefitting from Besunyen's leading position in the industry, the Group has a significant pricing advantage for both Besunyen Slimming Tea and Besunyen Detox Tea. Therefore, with an aim to realise the actual brand value of Besunyen Slimming Tea and to react to the higher consumers psychology orientation, the pricing of Besunyen Slimming Tea has been adjusted to the same level as that of Besunyen Detox Tea, which is close to the psychology orientation of consumers, since 1 January 2014. This also eliminates the price difference between the two products.

Social services

The Group has been proactively supporting social service activities. In April 2013, the Besunyen relief team reached the earthquake stricken area in Ya'an and participated in frontline relief work. In June 2013, an assistance scheme "Besunyen Public Fund" (緣公益) was officially set up to deliver positive energy to the society. In the same month, the Group also participated in a campaign called "Keep the Earth Blue" (留住藍色地球) initiated by National

1. Besunyen sponsored the 2014 Mini Spring Festival Gala, which was jointly organized by TV channels of 23 cities

2. Besunyen sponsored a popular TV program "King Wang" (大王小王)

Development and Reform Commission to help popularise the environmental protection concept of low carbon emission. In January 2014, the Company was awarded the "2013 China Corporate Social Responsibility — Outstanding SME Award" by Xinhua Net.

PROSPECTS

Future development plan of the Group

According to "World Economic Situation and Prospects 2014" issued by the United Nations, it is forecasted that global economy will grow by 3% in 2014 and further increase to 3.3% in 2015. The global economy will recover in the coming two years as compared to the growth rate of only approximately 2.1% in 2013.

The annual Central Economic Working Conference was held in December 2013. One of its keynotes was to insist on advancement within economic stability as well as reform and innovation. For the speed of economic growth, the Central Economic Working Conference clearly indicated that "development should not be simplified as an increase in GDP" and "reasonable growth in GDP should be maintained and adjustments facilitated in economic structure". To achieve the target, China will continue to implement proactive fiscal policies and stable currency policies in 2014. Such a macro policy keynote is the same as that in 2013. As international economic environment may further recover, the external economic environment of China is expected to also improve. However, we will remain prudent towards the sales results of the Group in 2014. To maintain our long-term competitive advantages, we will continue to make investment in sales channels, brand building as well as new product research and development based on our own schedule. Meanwhile, we will closely monitor our expenses to ensure every single cent of expense will maximise the benefit of the Group.

New products

Based on our market position and experience in the healthcare industry in China, and utilising the resource advantages we have accumulated for years in the industry, the Group will put more emphasis on the development of healthcare functional products from 2014 onwards. This includes healthcare products which have the functions of alleviating physical fatigue, promoting immunity and/or relieving nutritional anemia which aim to satisfy the needs of people who pursue healthy lifestyles. With the new food safety laws and changes in regulations on healthcare product market in China, the Group will particularly focus on the future of the healthcare foods market. In order to adapt to the future requirements under the regulations of healthcare products, we have proactively prepared for the registration of over ten different kinds of therapeutic tea. In addition, the Group is putting more efforts at promoting the technique and standard of the OTC medicine teabag Maishuping which helps stabilise blood pressure so as to lay a solid foundation for its official launch to the market.

Our Group's sales network has the advantage of the potential to cover the entirety of China. In order to develop this potential, we are currently eagerly selecting high-quality health product varieties, as well as engaging in relevant discussions regarding agency collaborations. This is also to increase the Company's revenue through energising the force of our business channels.

Strengthening brand image

In December 2013, the Trademark Office of State Administration for Industry & Commerce of the PRC issued its "Approval of the Recognition of 'Besunyen and device' as a Well-known Trademark". According to the relevant provisions of the "Trademark Law", "Implementing Regulations of the Trademark Law" and "Provisions for the Determination and Protection of Well-known Trademarks", and following further review and examination, the International Classification of Goods and Services for the Purposes of the Registration of Trademarks has determined that the registered trademark consisting of "Besunyen and device", as used by Beijing Outsell on products classified under Class 30 as teas and tea substitutes, is a well-known trademark.

As the requirements on production, sales and promotion of healthcare foods in China has become more stringent, and with our possession of knowledge required for the success in the healthcare product market, the brand reputation of Besunyen has been enhancing. The green healthcare products provided by the Group as well as our existing high-quality national distribution and sales network enables us to be positioned in a unique leading position in competition with other market players. We aim at developing "Besunyen" as a renowned brand in China, establishing our strong image of providing functional teas with the fundamental concept of herbal health, and enabling our consumers to experience the efficiency of our products within a green lifestyle.

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 2013!

Chairman and CEO
Zhao Yihong

Hong Kong, 14 March 2014

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	
	2013	2012
	RMB'000	RMB'000
Revenue	**487,500**	475,182
Cost of sales	**(81,397)**	(83,063)
Gross profit	**406,103**	392,119
Other income	**35,777**	22,118
Other gains and losses	**(1,420)**	(4,315)
Selling and marketing expenses	**(384,312)**	(562,721)
Administrative expenses	**(100,595)**	(112,068)
Research and development costs	**(18,484)**	(15,279)
Other expenses	**(30,692)**	(6,263)
Impairment loss recognised in respect of intangible assets	**(3,323)**	(8,844)
Impairment loss recognised in respect of property, plant and equipment	**—**	(41,744)
Loss on disposal of a subsidiary	**—**	(6,700)
Loss before tax	**(96,946)**	(343,697)
Income tax credit	**6,970**	1,510
Loss and total comprehensive expenses for the year	**(89,976)**	(342,187)
Loss per share		
Basic (RMB)	**(0.06)**	(0.22)
Diluted (RMB)	**(0.06)**	(0.22)

Revenue

	For the year ended 31 December			
	2013		2012	
	RMB'000	**Percentage of the total**	RMB'000	Percentage of the total
Revenue:				
Besunyen detox tea	**246,898**	**50.6%**	192,991	40.6%
Besunyen slimming tea	**235,805**	**48.4%**	268,311	56.5%
Other tea products	**4,797**	**1.0%**	13,880	2.9%
Total	**487,500**	**100.0%**	475,182	100.0%

With a steady improvement from the decline in 2012, the Group's revenue slightly increased by 2.6% from RMB475.2 million in 2012 to RMB487.5 million in 2013. Among which, the revenue of Besunyen Detox Tea increased by 27.9% from RMB193.0 million in 2012 to RMB246.9 million in 2013, mainly due to the increase of sales volume from 135.3 million tea bags in 2012 to 174.4 million tea bags in 2013. The revenue of Besunyen Slimming Tea decreased by 12.1%, from RMB268.3 million in 2012 to RMB235.8 million in 2013, mainly due to the decrease in sales volume from 252.7 million tea bags in 2012 to 215.1 million tea bags in 2013.

In 2013, through the Group's dedicated and positive efforts in marketing and promotion, Besunyen's brand image was enhanced by the increasing consumers' recognition. The average selling price ("ASP") (revenue divided by sales volume) of Besunyen Detox Tea and Besunyen Slimming Tea were RMB1.43 per bag and RMB1.06 per bag respectively in 2012, and RMB1.42 per bag and RMB1.10 per bag respectively in 2013. Although the ASP of Besunyen Detox Tea remained stable, the ASP of Besunyen Slimming Tea increased by 3.8%.

Cost of Sales and Gross Profit

	For the year ended 31 December			
	2013		2012	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Total cost of sales	**81,397**	**16.7%**	83,063	17.5%
Gross profit	**406,103**	**83.3%**	392,119	82.5%

Cost of sales of the Group decreased by 2.0%, from RMB83.1 million in 2012 to RMB81.4 million in 2013. Cost of sales as a percentage of revenue decreased from 17.5% in 2012 to 16.7% in 2013. The decrease was mainly due to the reduction in production cost.

As a result of the increase in revenue by 2.6% and decrease in cost of sales by 2.0% in 2013 as compared to 2012, gross profit of the Group increased by 3.6% from RMB392.1 million in 2012 to RMB406.1 million in 2013. Gross profit margin of the Group increased from 82.5% in 2012 to 83.3% in 2013.

Other Income

RMB35.8 million of other income in 2013 (2012: RMB22.1 million) mainly comprises of an interest income amounting to RMB10.9 million (2012: RMB10.0 million), a government grant of RMB4.9 million (2012: RMB5.7 million) provided by the Chinese government to support the Group's operation, and rental income from investment properties of RMB18.0 million (2012: RMB4.1 million).

Selling and Marketing Expenses

	For the year ended 31 December			
	2013		2012	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Advertising expenses	**211,816**	**43.4%**	311,782	65.6%
Other marketing and promotional expenses	**50,990**	**10.5%**	93,911	19.8%
Staff cost	**82,058**	**16.8%**	108,106	22.8%
Others	**39,448**	**8.1%**	48,922	10.3%
Total	**384,312**	**78.8%**	562,721	118.4%

Selling and marketing expenses of the Group decreased by 31.7% from RMB562.7 million in 2012 to RMB384.3 million in 2013. Advertising expenses, other marketing and promotional expenses, staff costs and others decreased by 32.1%, 45.7%, 24.1% and 19.4% respectively in 2013 as compared to 2012.

Although total selling and marketing expenses decreased by 31.7%, selling and marketing expenses as a percentage of revenue decreased substantially from 118.4% in 2012 to 78.8% in 2013, which was a result of the 2.6% increase in revenue as compared to 2012.

Advertising expenses in 2013 decreased substantially by 32.1% as compared to 2012. During 2013, the Group's advertising spending covered TV and other commercials as well as brand sponsorship activities, including television, print media, outdoor media, the internet new media and direct marketing. In particular, the Group carried out marketing activities on popular TV channels such as CCTV2 and Hubei Satellite TV. Among which, the Group sponsored "The Biggest Loser" (超級減肥王) on CCTV2, a large scale inspirational reality show about slimming; the Group also sponsored a popular program "King Wang" (大王小王) on Hubei Satellite TV; we also co-operated with a local TV channel in Chengdu and launched a program called "Dancing Carnival" (舞動嘉年華), all of which were well received. National recognition of the "Besunyen" brand has been enhanced with lower expenses.

The decrease in staff costs in relation to sales and marketing of the Group was mainly attributable to the proactive integration and enhancement of the sales team in 2013.

The decrease in other marketing and promotional expenses (including point-of-sale terminals expenses, promotional expenses and expenses on gifts, etc.) is mainly attributable to the Group's control and reduction of sales activities in point-of-sale terminals.

Administrative Expenses

	For the year ended 31 December			
	2013		2012	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Staff costs	41,551	8.5%	53,869	11.3%
Office expenses	21,451	4.4%	27,610	5.8%
Professional fees	21,202	4.3%	19,767	4.2%
Depreciation and amortisation	13,116	2.7%	8,593	1.8%
Others	3,275	0.7%	2,229	0.5%
Total	100,595	20.6%	112,068	23.6%

Administrative expenses of the Group decreased by 10.2% from RMB112.1 million in 2012 to RMB100.6 million in 2013. Administrative expenses as a percentage of revenue decreased from 23.6% in 2012 to 20.6% in 2013, mainly due to the Company's effort in strengthening internal management.

Research and Development Costs

	For the year ended 31 December			
	2013		2012	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Research and development costs	18,484	3.8%	15,279	3.2%

The Group's research and development costs increased by 21.0% from RMB15.3 million in 2012 to RMB18.5 million in 2013. Research and development costs as a percentage of revenue remained fairly stable for both years.

Impairment Loss recognised in respect of Intangible Assets

	For the year ended 31 December			
	2013		2012	
	RMB'000	Percentage of revenue	RMB'000	Percentage of revenue
Impairment loss recognised in respect of intangible assets	3,323	0.7%	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 2013, the Group recognised impairment loss of RMB3.3 million (2012: RMB8.8 million) in respect of pharmaceutical intangible assets, as standards of drug inspection of Maishuping were subject to amendments.

Impairment Loss recognised in respect of Property, Plant and Equipment

	For the year ended 31 December			
	2013		2012	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Impairment loss recognised in respect of property, plant and equipment	—	—	41,744	8.8%

The directors of the Company conducted a review of the cash-generating unit of healthcare products including property, plant and equipment in view of the Group's current operating results. No impairment loss (2012: RMB41.7 million) in respect of property, plant and equipment has been recognised in the current year.

Taxation

Income tax credit of the Group increased from RMB1.5 million in 2012 to RMB7.0 million in 2013. This was mainly due to refund of overpaid tax for the previous year resulted from the change in tax deduction for advertising fees from 15% to 30% as a percentage of net revenue of Beijing Outsell.

Loss and Total Comprehensive Expense for the Year of the Group

Due to the aforementioned factors, the loss and total comprehensive expense of the Group sharply decreased from loss of RMB342.2 million in 2012 to loss of RMB90.0 million in 2013.

Use of the Net Proceeds from the IPO

The net proceeds from the IPO amounted to approximately RMB1,033.2 million. The use of proceeds has been consistent with the disclosure in the prospectus of the Company, and the respective use of the net proceeds until 31 December 2013 is as follows:

	Net Proceeds from IPO		
	Available	**Used**	**Unused**
	RMB'000	RMB'000	RMB'000
Acquisition of new production equipment and building new production facilities	364,913	222,498	142,415
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	49,952	96,233
Improvement of ERP and overall IT system	43,855	7,338	36,517
Loan repayment	73,000	73,000	—
Working capital	58,474	58,474	—
Total	1,033,183	685,536	347,647

Liquidity and Capital Resources

In 2013, 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	
	2013	2012
	RMB'000	RMB'000
Net cash from operating activities	**8,968**	28,778
Net cash used in investing activities	**(244,883)**	(78,508)
Net cash used in financing activities	**—**	(103,824)
Net decrease in cash and cash equivalents (before effect of foreign exchange rate changes)	**(235,915)**	(153,554)
Effect of foreign exchange rate changes	**(824)**	(1,509)
Decrease in cash and cash equivalents (after effect of foreign exchange rate changes)	**(236,739)**	(155,063)

In 2013, net cash from operating activities of the Group was RMB9.0 million (2012: RMB28.8 million net cash inflow) and net loss was RMB90.0 million. The difference was mainly caused by a decrease in trade receivables and bills receivables amounting to RMB35.4 million, and a decrease in deposits, prepayments and other receivables amounting to RMB9.2 million, but offset by a decrease in other payables and accrued expenses amounting to RMB5.1 million. Net cash used in investing activities of the Group was RMB244.9 million (2012: RMB78.5 million), and it was mainly due to an increase in term deposits. The Group did not conduct any financing activities in 2013. The net cash used in financing activities of the Group in 2012 of RMB103.8 million was mainly for repurchase of shares.

Bank Balances and Cash and Bank Loans

As of 31 December 2013, the bank balance and cash of the Group totalled RMB207.6 million (as at 31 December 2012: RMB447.5 million), representing a decrease of RMB239.9 million as compared to the previous year. It was mainly due to the term deposits with initial term over three months of RMB201.0 million as at 31 December 2013 (as at 31 December 2012: Nil). Around 96.5% of the bank balance and cash of the Group was in Renminbi. In addition, as at 31 December 2013, the Group did not have any bank borrowings (as at 31 December 2012: Nil) and any unused bank credit lines (as at 31 December 2012: Nil).

Capital Expenditure

In 2013, capital expenditure of the Group was RMB35.8 million (2012: RMB89.7 million), which mainly included payment for purchases of properties, plants and production equipment as well as land-use rights. The following table sets forth capital expenditure by the Group for the years ended 31 December as indicated:

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Property, plant and equipment	**33,794**	82,756
Intangible assets	**11**	770
Land-use rights	**2,000**	6,210
Total	**35,805**	89,736

Investment Properties

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

	As of 31 December	
	2013	2012
	RMB'000	RMB'000
Investment properties	**324,805**	267,393

The Group owns certain office premises at Besunyen Building of Linglong Tiandi located at No. 160 West 4th Ring Road North, Haidian District, Beijing 100036 and Changcheng Building located in Shanghai. The Group does not hold the permanent titles of these properties. The Group will not fully use up all of the units of these properties and has leased the unused units to independent third parties until the Group needs to take up such units for the expansion of its operations in the future. The properties held for lease are classified as investment properties.

As at 31 December 2013, carrying value of the investment properties amounted to RMB324.8 million (31 December 2012: RMB267.4 million). 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 2013, the Group had estimated the fair values 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 as indicated:

	As of 31 December	
	2013	2012
	RMB'000	RMB'000
Raw materials and packing materials	**2,724**	4,205
Work in progress	**1,139**	784
Finished goods	**1,811**	3,119
Total inventories	**5,674**	8,108

The turnover days of the Group's inventories in 2013 (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 31 days (2012: 36 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 to the Group, 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, then 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	
	2013	2012
	RMB'000	RMB'000
Trade receivables	**14,552**	15,317
Bills receivables	**200**	34,832
Less: allowance for doubtful debts	**(568)**	(267)
Total	**14,184**	49,882

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	
	2013	2012
Trade and bills receivables turnover days[(1)]	**19**	94
of which, trade receivables turnover days	**11**	13

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

Trade and bills receivables turnover days of the Group decreased from 94 days in 2012 to 19 days in 2013. It was mainly due to the sharp decrease in bills receivables as at 31 December 2013. Since 2013, 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 significantly decreasing by RMB34.6 million, which is from RMB34.8 million as of 31 December 2012 to RMB0.2 million as of 31 December 2013. In the meantime, the Group adopted a more prudent credit policy and the trade receivables turnover days decreased from 13 days for the year ended 31 December 2012 to 11 days for the year ended 31 December 2013.

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

	As of 31 December	
	2013	2012
	RMB'000	RMB'000
0–90 days	**12,407**	47,759
91–180 days	**1,392**	1,858
181–365 days	**385**	265
Total	**14,184**	49,882

Included in the Group's trade and bills receivables are debtors with an aggregate carrying amount of approximately RMB385,000 (2012: RMB265,000) which are past due at 31 December 2013, for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.

Trade and Bills 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 and bill payables analysis as of the dates indicated:

	As of 31 December	
	2013	2012
	RMB'000	RMB'000
Trade payables	**3,601**	2,750
Bills Payables	**8,131**	—
Bills Payables for purchase of property, plant and equipment	**5,500**	—
	17,232	2,750

The following table sets forth the turnover days of the Group's trade payables during the years ended 31 December as indicated (calculated by dividing the average amount of trade payables 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):

	For the year ended 31 December	
	2013	2012
Trade and bills payables turnover days	**45**	22
of which, trade payables turnover days	**14**	22

Trade and bills payables turnover days of the Group increased from 22 days in 2012 to 45 days in 2013. It was mainly due to the sharp increase in bills payables as of 31 December 2013. Since 2013, the Group encourages more bill settlements, which resulted in the amount of bills payables of the Group significantly increased from RMB nil as at 31 December 2012 to RMB13.6 million as at 31 December 2013. In the meantime, the Group strengthened its supplier management and maintenance of relationship with suppliers. Trade payables turnover days decreased from 22 days for the year ended 31 December 2012 to 14 days for the year ended 31 December 2013.

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

	As of 31 December	
	2013	2012
	RMB'000	RMB'000
0–90 days	**3,519**	2,570
91–180 days	**82**	180
	3,601	2,750

Risks in Foreign Exchange Rate

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

For the year ended 31 December 2013, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools (2012: Nil).

Material Acquisition or Disposal

No material acquisition or disposal was undertaken by the Group for the year ended 31 December 2013.

Pledge of Assets

As at 31 December 2013, the Group had no pledge of assets (as at 31 December 2012: Nil).

Gearing Ratio

As at 31 December 2013, the Group had gearing ratio (total liabilities divided by total assets, in percentage) of 12.45% (as at 31 December 2012: 10.91%).

Contingent Liabilities and Guarantees

As at 31 December 2013, the Group had no material contingent liabilities or guarantees (as at 31 December 2012: Nil).

Off-Balance Sheet Commitments and Arrangements

As of 31 December 2013, the Group had no off-balance sheet commitments or arrangements (as at 31 December 2012: Nil).

Capital Commitments

As of 31 December 2013, the Group had no capital commitment (as at 31 December 2012: RMB32.5 million).

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 31 December 2013, the Group had about 1,015 employees in mainland China and Hong Kong (2012: 2,085 staff members), which includes 178 promotional staff employed by employment agents (2012: 384). For the year ended 31 December 2013, the total labour costs (including Directors' remunerations and non-cash share-based compensation) was approximately RMB135.5 million (2012: RMB185.4 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 on 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 employees' 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 2011, 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 2013.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. ZHAO Yihong, aged 47, 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 24 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 45, 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 62, 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 has served as a director of Grandhope Biotech Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300238) and an independent director of Focus Media Holding Limited (a company previously listed on NASDAQ, stock code: FMCN). Mr. Zhuo is an independent director of 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) and 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). 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 56, 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 previously 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 54, 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 31 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), Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ) and YOU On Demand Holdings, Inc. (a company listed on NASDAQ, stock code: YOD). 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 73, 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.

Ms. WANG Juan, aged 38, is our Chief Financial Officer. Ms. Wang joined our Group in December 2013 and has over 17 years of experience in accounting, finance and tax. Between 1997 and 2000, Ms. Wang worked for PricewaterhouseCoopers in China and lastly as a senior tax consultant. Between 2008 and September 2013, Ms. Wang served as deputy chief financial officer of Beijing Media Corporation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1000). Ms. Wang graduated from the Department of Accounting of Capital University of Economics and Business with a bachelor's degree in economics in 1997. Ms. Wang is a member of the Institute of Certified Management Accountants.

Mr. YU Hongjiang, aged 49, 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 Co., Ltd.. Mr. Yu joined our Group in July 2000 and has more than 23 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. He obtained an Executive MBA degree from the National School of Development at Peking University in 2013.

Mr. WIN Jeiching, aged 63, is our Vice President principally in charge of our marketing. Mr. Win re-joined our Group in October 2013 and has more than 30 years of experience in sales and marketing. Previously, he served as a general manager at Beijing Outsell between November 2004 to August 2005. Between 1978 to 1988, Mr. Win worked for President Enterprises Group in Taiwan and lastly as a manager in the milk power division. Between 1992 to 1994, Mr. Win served as a general manager at Taiwan Coca Cola Nestle Refreshment. Between 1995 to 1998, he served as a general manager at the beverage group at Ting Hsin International Group. Between 1999 to October 2004, Mr. Win served as a general manager at Xiamen Huierkang Group. Between September 2005 to June 2007, he served as a director and vice president of Shanghai Hyperlink Market Research. Between July 2007 to 2011, Mr. Win served as a general manager at Coffice Foods (Shanghai) Co., Ltd. Mr. Win graduated from Taiwan National Chung Hsing University in 1977 with a bachelor's degree in agricultural economics. He obtained a master degree in business administration from the University of California, Riverside in the US in 1990.

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 Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange for the year ended 31 December 2013, except for code provision A.2.1 of the 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 maximise the interests of the shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 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 2013.

BOARD OF DIRECTORS

The Board comprises 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, 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 24 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 of 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 for 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 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.

Each of the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company for a term of 3 years and is subject to retirement by rotation and eligible for re-election at least once every 3 years at the annual general meeting of the Company in accordance with article 16.18 of the articles of association of the Company.

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.

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 have been given to the Directors from time to time. During the year, the Company has organised for the Board a training session conducted by qualified professionals on the duties and continuing obligations of directors and senior management, including the requirements on inside information disclosure under the new statutory disclosure regime which took effect from 1 January 2013. Each existing Director received more than 10 hours of training in 2013.

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

The primary responsibilities of the Audit Committee include:

- monitoring the 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 2013, 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 2012 and 2013;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2012 auditor's report from Messrs. Deloitte Touche Tohmatsu;

(iv) reviewed and approved the 2012 annual report and audited financial statements, the 2012 annual results announcement, the 2013 interim report and the 2013 interim results announcement;

(v) reviewed and approved the report on the continuing connected transactions for the financial year ended 31 December 2012;

(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 2013, the fees being paid to Messrs. Deloitte Touche Tohmatsu and its member firm for audit services amounted to RMB3.15 million, and no non-audit service has been provided by Messrs. Deloitte Touche Tohmatsu and its member firm.

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.

The primary responsibilities of the Remuneration Committee include:

- reviewing and approving the management's remuneration proposals;

- determining, with delegated responsibility by the Board, the remuneration package of individual executive director and senior management; and

- advising the Directors and senior management on, as well as reviewing and approving, the compensation arrangement.

In the Remuneration Committee meetings held in 2013, 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.

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. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company has adopted a board diversity policy, which aims to set out the approach to achieve diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

In the Nomination Committee meeting held in 2013, the following works, inter alia, were performed by the Nomination Committee:

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

(ii) reviewed the board diversity policy adopted by the Company; 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:

	Meeting Attended/Held				
Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**General Meeting**
Executive Directors					
Mr. ZHAO Yihong	12/12	—	3/3	1/1	1/1
Ms. GAO Yan	12/12	—	—	—	0/1
Non-executive Directors					
Mr. ZHUO Fumin	8/12	—	—	—	0/1
Independent non-executive Directors					
Mr. HUANG Jingsheng	11/12	4/4	3/3	1/1	0/1
Mr. WONG Lap Tat Arthur	11/12	4/4	3/3	1/1	1/1
Mr. ZHANG Fenglou	11/12	4/4	3/3	1/1	0/1

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. Through the Company's Audit Committee, the Directors can regularly appraise 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 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 public investors, individual and institutional investors and analysts.

In 2012, the Group's 2011 annual report received two awards in the 2012 International ARC Awards. 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.

During the year, the Group's 2012 annual report won the Silver Prize for Traditional Annual Reports under the Health and Well-Being Products Companies category in the 2013 International ARC Awards.

SHAREHOLDERS' RIGHTS

Shareholders may request for convening an extraordinary general meeting 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 place of business in Hong Kong.

MEMORANDUM AND ARTICLES OF ASSOCIATION

There is no change in the Company's memorandum and articles of association during the year.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for each financial year, which gives 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 2013, 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 47 and 48 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 2013.

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 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 49 of this annual report.

The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2013.

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 108.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 13 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 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2013 amounted to RMB1,159 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 52 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013:

(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 57% of the purchases of the Group;

(c) the purchases attributable to the largest supplier of the Group accounted for 23% 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

Independent non-executive Directors

Mr. HUANG Jingsheng
Mr. Wong Lap Tat Arthur
Mr. ZHANG Fenglou

In accordance with article 16.18 of the articles of association of the Company, Mr. Zhao Yihong and Ms. Gao Yan will retire by rotation at the forthcoming annual general meeting, 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 10 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 which the Company or any of its subsidiaries was a party and which subsisted during the year or at the end of the year.

RETIREMENT BENEFIT PLANS

The retirement benefit plans are set out in note 29 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 2013, 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 to be 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 options granted under the Pre-IPO Share Option Scheme	Approximate percentage 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)	994,566,600(1)(L)	36,000,000(1)(L)	63.37%
Ms. GAO Yan	Beneficial owner and interest of her spouse(2)(3)	994,566,600(2)(L)	36,000,000(2)(L)	63.37%
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 options granted 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/options for the purposes of the SFO:

(i) 949,880,600 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 options granted under the Pre-IPO Share Option Scheme, which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse.

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

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

(ii) 949,880,600 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 options granted under the Pre-IPO Share Option Scheme, which are beneficially owned by Mr. Zhao.

(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 options granted 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 options granted under the Pre-IPO Share Option Scheme.

(6) Mr. Wong Lap Tat Arthur, independent non-executive Director, beneficially owns 500,000 options granted 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 2013. 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 2013 are set out in note 30 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 persons, and to encourage them to optimise 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 and 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 is 168,109,132, being 10% of the shares of the Company in issue immediately after the initial public offering (the "IPO") on the listing date (i.e. 29 September 2010) which is the effective date of such scheme and representing approximately 10.71% of the issued Shares as at the date of this annual report.

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 2013 and there were no outstanding share options under the Share Option Scheme as at 31 December 2013.

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 2013 are set out in note 30 to the consolidated financial statements of this annual report.

Save as disclosed above, during the year ended 31 December 2013, 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 2013, so far as known to any Director 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 total issued Shares (%)[3]
Foreshore Holding Group Limited[1]	949,880,600[L]	60.52%
KCS Trust Limited[1]	949,880,600[L]	60.52%
Sea Network Holdings Limited[1]	949,880,600[L]	60.52%
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 2013.

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

Save as disclosed above, as at 31 December 2013, 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. Due to office relocation from the Haidian Properties to the Group's self-owned office premises in Linglong Tiandi, Beijing, the BSYI Lease Agreements and the Supplemental BSYI Lease Agreement were terminated with effect from 25 March 2013. The aggregate fee paid under the BSYI Lease Agreements and the Supplemental BSYI Lease Agreement for the year ended 31 December 2013 was RMB321,000, which was not more than the annual cap of RMB1,378,000.

(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 formalise 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. On 25 March 2013, Pincha relocated its office from the Haidian Properties to Linglong Tiandi, Beijing. The revised annual caps and the actual amounts for the year ended 31 December 2013 are shown below:

	Revised annual cap (RMB)	**Actual amount** (RMB)
New Distribution Agreement	97,156,000	19,819,000
Further Supplemental Lease Agreement	2,466,000	933,000
Supplemental Structure Contract	3,538,000	388,000

The independent non-executive Directors have reviewed and confirmed that the continuing connected transactions for the year ended 31 December 2013 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 2013:

(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 2013.

Save as disclosed above, there is no related party transaction or continuing related party transaction as set out in note 36 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 contract of significance between the Company or any of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries subsisted during the year or at the end of the year; and

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

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

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2013.

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 2013.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 May 2014 to 9 May 2014, 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 annual general meeting (the "AGM") of the Company will be on 9 May 2014. 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 5 May 2014.

On behalf of the Board
ZHAO Yihong
Chairman

Hong Kong, 14 March 2014

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 49 to 107, which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 of the Company 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 of the Company, 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 2013, 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

14 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Notes	**RMB'000**	RMB'000
Revenue	5	**487,500**	475,182
Cost of sales		**(81,397)**	(83,063)
Gross profit		**406,103**	392,119
Other income	6	**35,777**	22,118
Other gains and losses	6	**(1,420)**	(4,315)
Selling and marketing expenses		**(384,312)**	(562,721)
Administrative expenses		**(100,595)**	(112,068)
Research and development costs		**(18,484)**	(15,279)
Other expenses		**(30,692)**	(6,263)
Impairment loss recognised in respect of intangible assets	16	**(3,323)**	(8,844)
Impairment loss recognised in respect of property, plant and equipment	13	**—**	(41,744)
Loss on disposal of a subsidiary	33	**—**	(6,700)
Loss before tax	7	**(96,946)**	(343,697)
Income tax credit	8	**6,970**	1,510
Loss and total comprehensive expense for the year		**(89,976)**	(342,187)
Loss per share			
Basic (RMB)	12	**(0.06)**	(0.22)
Diluted (RMB)	12	**(0.06)**	(0.22)

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	At 31 December 2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**423,583**	473,531
Prepaid lease payments	14	**60,202**	61,554
Investment properties	15	**324,805**	267,393
Intangible assets	16	**2,215**	5,027
Non-current deposits	17	**1,278**	11,094
Deferred tax assets	27	**14,496**	15,237
		826,579	833,836
CURRENT ASSETS			
Inventories	18	**5,674**	8,108
Trade and bills receivables	19	**14,184**	49,882
Deposits, prepayments and other receivables	20	**38,802**	47,553
Pledged bank deposits	22	**13,631**	—
Term deposits with initial term of over three months	23	**201,000**	—
Bank balances and cash	21	**207,578**	447,478
		480,869	553,021
Assets classified as held for sale	9	**7,600**	—
		488,469	553,021
CURRENT LIABILITIES			
Trade and bills payables	24	**17,232**	2,750
Other payables and accrued expenses	25	**115,974**	127,402
Tax payable		**2,794**	5,614
		136,000	135,766
Liabilities associated with assets classified as held for sale	9	**11,897**	—
		147,897	135,766
NET CURRENT ASSETS		**340,572**	417,255
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,167,151**	1,251,091

At 31 December 2013

	Notes	At 31 December 2013 RMB'000	2012 RMB'000
CAPITAL AND RESERVES			
Share capital	28	**89**	89
Reserves		**1,151,253**	1,235,421
		1,151,342	1,235,510
NON-CURRENT LIABILITIES			
Deferred government grant	26	**7,112**	7,898
Deferred tax liabilities	27	**7,104**	6,422
Other non-current liabilities		**1,593**	1,261
		15,809	15,581
		1,167,151	1,251,091

The consolidated financial statements on pages 49 to 107 were approved and authorised for issue by the Board of Directors on 14 March 2014 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 2013

	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	Accumulated losses RMB'000	Attributable to owners of the Company RMB'000
At 1 January 2012	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 30)	—	—	—	—	(39,312)	—	—	—	(39,312)
Vesting of restricted shares under restricted share award scheme (Note 30)	—	—	—	—	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**
Loss and total comprehensive expense for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(89,976)**	**(89,976)**
Share-based payments	**—**	**—**	**—**	**—**	**—**	**—**	**5,808**	**—**	**5,808**
Transfer of share-based payment reserve upon forfeiture of share options	**—**	**—**	**—**	**—**	**—**	**—**	**(1,642)**	**1,642**	**—**
Vesting of restricted shares under restricted share award scheme (Note 30)	**—**	**—**	**—**	**—**	**8,949**	**—**	**(3,893)**	**(5,056)**	**—**
At 31 December 2013	**89**	**1,287,209**	**230,864**	**6**	**(26,013)**	**61,360**	**51,277**	**(453,450)**	**1,151,342**

Note a: Special reserve represents the aggregate of (i) the difference between the nominal value of the Company's shares, issued upon the group reorganisation and the net assets of Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell") and Beijing Besunyen Food and Beverage Co., Ltd., 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 2013

	Notes	Year ended 31 December 2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES			
Loss before tax		**(96,946)**	(343,697)
Adjustments for:			
Allowance for doubtful debts		**301**	156
Amortisation of intangible assets		**594**	3,432
Depreciation of investment properties		**10,029**	3,024
Depreciation of property, plant and equipment		**34,175**	32,950
Exchange loss		**824**	1,509
(Gain) loss on disposal of property, plant and equipment		**(13)**	1,742
Impairment loss on intangible assets		**3,323**	8,844
Impairment loss on property, plant and equipment		**—**	41,744
Interest income		**(10,907)**	(9,991)
Loss on disposal of a subsidiary		**—**	6,700
Release of deferred government grant		**(786)**	(786)
Release of prepaid lease payments		**1,352**	1,445
Share-based compensation		**5,808**	9,355
Write down of inventory		**9,834**	2,857
Impairment of non-current deposit		**721**	—
Operating cash flows before movements in working capital		**(41,691)**	(240,716)
Increase in inventories		**(7,400)**	(2,466)
Decrease in deposits, prepayments and other receivables		**9,176**	81,547
Decrease in trade and bills receivables		**35,397**	248,765
Decrease in other payables and accrued expenses		**(5,091)**	(48,099)
Increase (decrease) in trade and bills payables		**8,982**	(4,498)
Increase in other non-current liabilities		**332**	1,261
Cash (used for) generated from operations		**(295)**	35,794
Income taxes paid		**(8,126)**	(11,866)
Income tax refund		**13,699**	—
Interest received		**3,690**	4,850
NET CASH FROM OPERATING ACTIVITIES		**8,968**	28,778

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

		Year ended 31 December	
		2013	2012
	Notes	**RMB'000**	RMB'000
INVESTING ACTIVITIES			
Purchase of short term investment		**(841,000)**	(460,000)
Placement of term deposits		**(201,000)**	—
Payments for property, plant and equipment		**(33,794)**	(82,756)
Net increase of pledged bank deposits		**(13,631)**	—
Payments for land use right		**(2,000)**	(6,210)
Payments for intangible assets		**(11)**	(770)
Net cash outflow arising from disposal of a subsidiary	33	**—**	(498)
Proceeds on redemption of short term investment		**845,159**	465,141
Withdraw of restricted cash		**—**	5,000
Proceeds from disposal of property, plant and equipment		**1,394**	1,585
NET CASH USED IN INVESTING ACTIVITIES		**(244,883)**	(78,508)
FINANCING ACTIVITIES			
Payments on repurchase of shares		**—**	(64,512)
Payments for shares under restricted share award scheme		**—**	(39,312)
NET CASH USED IN FINANCING ACTIVITIES		**—**	(103,824)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(235,915)**	(153,554)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**447,478**	602,541
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		**(824)**	(1,509)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**210,739**	447,478
REPRESENTED BY,			
Bank balances and cash		**207,578**	447,478
Bank balances and cash classified as held for sale	9	**3,161**	—
		210,739	447,478

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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 10/F., Besunyen Building, Linglong Tiandi, No.160 West 4th Ring Road North, Haidian District, Beijing 100036, PRC.

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 38.

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 new and revised IFRSs for the first time.

Amendments to IFRSs	Annual Improvements to IFRSs 2009 — 2011 Cycle
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income

Except as described below, the application of the new and revised IFRSs 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.

For the year ended 31 December 2013

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of IFRS 13 is broad: the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. For a non-financial asset, its fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application. In accordance with the transitional provisions of IFRS 13, the Group has not made any disclosure for the 2012 comparative period (please see notes 15 and 32 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to IAS 1, the Group's "consolidated statement of comprehensive income" is renamed as the "consolidated statement of profit or loss and other comprehensive income". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the Group has renamed the "consolidated statement of comprehensive income" to "consolidated statement of profit or loss and other comprehensive income". Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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.

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application — the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

Other than described below, the directors of the Company consider the application of the new and revised IFRSs would not have any material impact on the consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

For the year ended 31 December 2013

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 (Continued)

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.

The directors of the Company anticipate that the adoption of IFRS 9 in the future may not have significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2013.

IFRIC–21 Levies

IFRIC–21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of IFRIC–21 will have no material effect on the Group's 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 when the Company:

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

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

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

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

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

For the year ended 31 December 2013

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

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

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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leases below.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

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.

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 government grant 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 income 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.

For the year ended 31 December 2013

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 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 control over the Employees' Share Award Scheme Trust, the Group is required to consolidate the Employees' Share Award Scheme Trust under IFRS 10 *Consolidated 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 accumulated losses.

For the year ended 31 December 2013

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 profit or loss and other 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 effect 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.

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.

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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 a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 include 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, pledged bank deposits, term deposits with initial term of over three months 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.

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 the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade and bills payables, 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 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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, impairment loss may arise. As at 31 December 2013, the carrying amount of property, plant and equipment is RMB423,583,000 (net of accumulated impairment loss of RMB41,744,000) (2012: carrying amount of RMB473,531,000 net of accumulated impairment loss of RMB41,744,000). No impairment loss has been recognised in the current period (2012: impairment loss of RMB41,744,000 has been recognised).

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 2013, the carrying amount of trade receivables was RMB13,984,000 (net of allowance for doubtful debts of RMB568,000) (2012: carrying amount of RMB15,050,000, net of allowance for doubtful debts of RMB267,000).

Income taxes

As at 31 December 2013, a deferred tax asset of RMB14,496,000 (2012: RMB15,237,000) in relation to deductible temporary differences has been recognised on the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB236,211,000 (2012: RMB205,922,000) and deductible temporary differences of RMB62,501,000 (2012: RMB41,744,000) on the Group's consolidated statement of financial position due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

For the year ended 31 December 2013

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	
	2013	2012
	RMB'000	RMB'000
Detox tea	**246,898**	192,991
Slimming tea	**235,805**	268,311
Other tea products	**4,797**	13,880
	487,500	475,182

Major customers

No single customer contributed over 10% or more of total revenue of the Group for the years ended 31 December 2013 and 2012.

Geographical disclosures

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

For the year ended 31 December 2013

6. OTHER INCOME/OTHER GAINS AND LOSSES

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Other income		
Rental income from investment properties	**18,016**	4,126
Government grants (Note)	**4,923**	5,712
Interest income		
Bank interest income	**6,748**	4,850
Interest income from short term investment	**4,159**	5,141
Service income	**1,931**	2,289
	35,777	22,118
Other gains and losses		
Gain (loss) on disposal of property, plant and equipment	**13**	(1,742)
Net foreign exchange loss	**(824)**	(1,509)
Others	**(609)**	(1,064)
	(1,420)	(4,315)

Note:

The government grants amounted to RMB4,137,000 (2012: RMB4,926,000) represents various subsidies from the PRC government for supporting business operations of the Group. There were specific conditions attached to the government subsidies, the Group recognised the government subsidies in the consolidated statement of profit or loss and other comprehensive income when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

The amount for the year ended 31 December 2013 also includes a government grant of RMB786,000 (2012: RMB786,000) related to plant facilities constructed by the Group (see Note 26).

For the year ended 31 December 2013

7. LOSS BEFORE TAX

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Loss before tax for the year has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
— salaries and other allowances	**123,063**	165,262
— share-based compensation	**5,808**	9,355
— retirement benefit scheme contributions	**6,635**	10,807
Total staff costs	**135,506**	185,424
Gross rental income from investment properties	**(18,016)**	(4,126)
Less:		
Direct operating expense (including depreciation) incurred for investment properties that generated rental income during the year	**10,633**	3,741
Direct operating expense (including depreciation) incurred for investment properties that did not generate rental income during the year	**976**	450
	(6,407)	65
Amortisation of intangible assets (included in cost of sales)	**594**	3,432
Auditors' remuneration	**4,577**	4,471
Allowance for doubtful debts	**301**	156
Cost of inventories recognised as expense (include write-down of inventory amounted to RMB9,834,000 (2012: RMB2,857,000))	**81,397**	83,063
Depreciation of property, plant and equipment	**34,175**	32,950
Depreciation of investment properties	**10,029**	3,024
(Gain) loss on disposal of property, plant and equipment	**(13)**	1,742
Release of prepaid lease payments	**1,352**	1,445
Impairment of non-current deposits	**721**	—

For the year ended 31 December 2013

8. INCOME TAX CREDIT

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
The credit comprises		
Current tax:		
PRC Enterprise Income Tax	**5,648**	2,553
Over provision in prior year:		
PRC Enterprise Income Tax	**(14,041)**	(1,184)
	(8,393)	1,369
Deferred tax:		
current year (Note 27)	**1,423**	(2,879)
	(6,970)	(1,510)

The income tax credit for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Loss before tax	**96,946**	343,697
Tax at PRC Enterprise Income Tax rate of 25% (2012: 25%)	**(24,237)**	(85,924)
Effect of preferential tax rate granted	**(2,401)**	—
Tax effect of tax losses/deductible temporary differences not recognised	**16,124**	40,460
Utilisation of tax losses previously not recognised	**(3,362)**	(1,476)
Tax effect of expenses not deductible for tax purposes	**20,947**	49,741
Over provision in prior year (Note)	**(14,041)**	(1,184)
Others	**—**	(3,127)
Tax credit for the year	**(6,970)**	(1,510)

Note:

During the current year, the tax bureau approved a higher deduction amount of advertising expenses applicable for Beijing Outsell for 2011. The relevant tax refund was received in 2013.

8. INCOME TAX CREDIT *(Continued)*

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.

During 2013, Beijing Outsell obtained the approval from tax bureau in respect of the application of the preferential tax rate of 15% which applies to High and New Technology Enterprise for two years from 2012 to 2013.

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 2013.

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. DISPOSAL GROUP HELD FOR SALE

In December 2013, the directors of the Company initiated negotiations with an interested party to dispose of the Group's subsidiary — Ever Assure Limited ("Ever Assure"). The assets and liabilities attributable to Ever Assure, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position (see below). The net proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

The major classes of assets and liabilities of the disposal group classified as held for sale are as follows:

	31/12/2013 RMB'000
Property, plant and equipment	**1,806**
Other receivables	**2,633**
Bank balances and cash	**3,161**
Total assets classified as held for sale	**7,600**
Other payables and total liabilities associated with assets classified as held for sale	**11,897**
	11,897

On 14 March 2014, a sale and purchase agreement was signed to dispose of the above disposal group at a cash consideration of RMB5,680,000.

For the year ended 31 December 2013

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

Directors and Chief Executive

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

For the year ended 31 December 2013:

	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	172	2,320	758	51	3,301
Gao Yan	172	1,752	379	51	2,354
	344	4,072	1,137	102	5,655
Non-executive directors					
Zhuo Fumin	172	—	19	—	191
	172	—	19	—	191
Independent non-executive directors					
Arthur Wong Lap Tat	172	—	43	—	215
Huang Jingsheng	172	—	24	—	196
Zhang Fenglou (Note)	172	—	—	—	172
	516	—	67	—	583

For the year ended 31 December 2013

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors and Chief Executive *(Continued)*

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.

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

For the year ended 31 December 2013

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees

The five highest paid individuals of the Group for the year ended 31 December 2013 included two directors (2012: two). The emoluments of the remaining three individuals for the year ended 31 December 2013 (2012: three) are as follows:

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Salaries and other allowances	**4,429**	6,010
Share-based compensation	**4,384**	4,186
Retirement benefit scheme contributions	**51**	46
	8,864	10,242

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

	Number of employees Year ended 31 December	
	2013	2012
HK$1,000,001 to HK$1,500,000	**1**	—
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,500,001 to HK$3,000,000	**—**	1
HK$7,500,001 to HK$8,000,000	**1**	1

During the year ended 31 December 2013, no remuneration was paid by the Group to the directors of the Company 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 of the Company has waived any remuneration during either year.

11. DIVIDENDS

No dividend was proposed or paid for the years ended 31 December 2013 and 2012.

12. LOSS PER SHARE

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Loss attributable to owners of the Company:		
Loss for the purpose of calculating basic and diluted loss per share	**(89,976)**	(342,187)

	Year ended 31 December	
	2013	2012
	'000	'000
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**1,523,256**	1,565,102

The calculation of diluted loss per share for both years ended 31 December 2013 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 calculation of diluted loss per share for both years ended 31 December 2013 and 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 30) during both years ended 31 December 2013 and 2012.

For the year ended 31 December 2013

13. 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 2012	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
Additions	8,164	9,101	143	1,327	1,105	35,015	54,855
Transfer to investment properties	(69,662)	—	—	—	—	—	(69,662)
Transfer	14,065	27,393	—	—	—	(41,458)	—
Reclassified as held for sale	—	(2,730)	(528)	(233)	(1,009)	—	(4,500)
Disposals/write-off	—	(3,386)	(1,057)	(36)	(1,075)	—	(5,554)
At 31 December 2013	242,519	215,058	13,616	4,656	13,913	82,208	571,970
DEPRECIATION AND IMPAIRMENT							
At 1 January 2012	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
Provided for the year	10,870	16,999	2,702	762	2,842	—	34,175
Transfer to investment properties	(2,221)	—	—	—	—	—	(2,221)
Reclassified as held for sale	—	(1,410)	(336)	(222)	(726)	—	(2,694)
Eliminated on disposals/write-off	—	(2,190)	(987)	(16)	(980)	—	(4,173)
At 31 December 2013	39,322	88,164	9,779	2,857	8,265	—	148,387
NET BOOK VALUES							
At 31 December 2012	259,279	109,915	6,658	1,265	7,763	88,651	473,531
At 31 December 2013	203,197	126,894	3,837	1,799	5,648	82,208	423,583

During the year ended 31 December 2013, the Group acquired property, plant and equipment amounting to RMB54,855,000 (2012: RMB162,317,000), including an amount of RMB8,518,000 (2012: RMB79,561,000) transferred from non-current deposit paid.

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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 2013, the Group is in the process of obtaining property certificates of the leasehold land and buildings with a carrying value approximate to RMB73,264,000 (2012: RMB91,126,000) which is located in the PRC.

During the year, the directors of the Company conducted a review of the cash-generating unit (CGU) of Healthcare Product Unit including property, plant and equipment in view of the Group's current operating results. No impairment loss (2012: RMB41,744,000) in respect of property, plant and equipment has been recognised in the current year.

The basis of the recoverable amount of the CGU of Healthcare Product Unit and its major underlying assumptions are summarised below:

The recoverable amount of the CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 20% (2012: 20%). The cash flows beyond the 5-year period are extrapolated using a steady 5% growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development.

For the year ended 31 December 2013

14. 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	
	2013	2012
	RMB'000	RMB'000
Current assets		
(included in deposits, prepayment and other receivables)	**1,352**	1,352
Non-current assets	**60,202**	61,554
	61,554	62,906

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.

15. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2012	—
Transfer from property, plant and equipment	36,224
Transfer from non-current deposit	234,193
At 31 December 2012	270,417
Transfer from property, plant and equipment	67,441
At 31 December 2013	337,858
DEPRECIATION	
At 1 January 2012	—
Provided for the year	3,024
At 31 December 2012	3,024
Provided for the year	10,029
At 31 December 2013	13,053
CARRYING VALUES	
At 31 December 2012	267,393
At 31 December 2013	324,805

15. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties at 31 December 2013 is RMB345,300,000 (2012: RMB277,200,000). The fair value has been arrived at based on a valuation carried out by DTZ Debenham Tie Leung Limited, an independent valuer not connected with the Group. The valuation was determined on the basis of capitalization of the net rental income with due provisions for reversionary income potential of the respective properties. The key inputs are term yield, reversionary yield, and market unit rent of individual unit.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 3 RMB'000	**Fair value as at 31/12/2013** RMB'000
Commercial property units located in Beijing	252,283	263,000
Commercial property units located in Shanghai	72,522	82,300

At 31 December 2013, the Group is in the process of obtaining a property certificate of the leasehold land and building with a carrying value approximate to RMB252,283,000 which is located in the PRC (2012: RMB231,757,000).

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.

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16. INTANGIBLE ASSETS

	Trademarks	Patents	Product development costs	Contract backlog	Customers base	Non-compete agreement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2012	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
Additions	1,105	—	—	—	—	—	1,105
Reclassified as held for sale	—	(9,410)	—	(200)	(2,430)	(2,260)	(14,300)
At 31 December 2013	11,476	7,287	3,483	—	—	—	22,246
AMORTISATION AND IMPAIRMENT							
At 1 January 2012	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
Provided for the year	154	440	—	—	—	—	594
Impairment loss recognised in the year	—	3,323	—	—	—	—	3,323
Reclassified as held for sale	—	(9,410)	—	(200)	(2,430)	(2,260)	(14,300)
At 31 December 2013	9,501	7,047	3,483	—	—	—	20,031
CARRYING VALUES							
At 31 December 2012	1,024	4,003	—	—	—	—	5,027
At 31 December 2013	1,975	240	—	—	—	—	2,215

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

16. INTANGIBLE ASSETS *(Continued)*

All of the Group's intangible assets other than product development costs were acquired from third parties or through acquisition of subsidiaries.

During the year, the directors of the Company conducted a review of the intangible assets and impairment loss of RMB3,323,000 (2012: RMB8,844,000) has been recognised in respect of certain patents as no future economic benefits are expected from using those patents.

17. NON-CURRENT DEPOSITS

	At 31 December	
	2013	2012
	RMB'000	RMB'000
Deposits for purchase of property, plant and equipment and investment properties	**1,217**	9,218
Deposits for purchase of intangible assets	**61**	1,876
	1,278	11,094

18. INVENTORIES

	At 31 December	
	2013	2012
	RMB'000	RMB'000
Raw materials	**2,724**	4,205
Work in progress	**1,139**	784
Finished goods	**1,811**	3,119
	5,674	8,108

19. TRADE AND BILLS RECEIVABLES

	At 31 December	
	2013	2012
	RMB'000	RMB'000
Trade receivables	**14,552**	15,317
Bills receivables	**200**	34,832
Less: allowance for doubtful debts	**(568)**	(267)
	14,184	49,882

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.

	At 31 December	
	2013	2012
	RMB'000	RMB'000
0–90 days	**12,407**	47,759
91–180 days	**1,392**	1,858
181–365 days	**385**	265
	14,184	49,882

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 RMB385,000 (2012: RMB265,000) which are past due at 31 December 2013, 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	
	2013	2012
	RMB'000	RMB'000
181–365 days	**385**	265

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 32.

For the year ended 31 December 2013

19. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2013 **RMB'000**	2012 RMB'000
At the beginning of the year	**267**	111
Impairment loss recognised on receivables	**301**	156
At the end of the year	**568**	267

19A. TRANSFER OF FINANCIAL ASSETS

The Group has transferred bills receivables amounted to RMB7,719,000 (2012: RMB1,432,000) to its suppliers to settle its payables through endorsing the bills to its suppliers as at 31 December 2013. 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 RMB7,719,000 (2012: 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.

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20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December	
	2013	2012
	RMB'000	RMB'000
Prepaid advertising	**20,286**	19,022
Other prepayments	**7,742**	14,523
Other receivables	**5,884**	5,647
Interest receivables	**3,058**	—
Prepaid lease payments	**1,352**	1,352
Prepayment to suppliers	**480**	7,009
	38,802	47,553

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 an average interest rate of 1.27% per annum as at 31 December 2013 (2012: 1.14%).

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	
	2013	2012
	RMB'000	RMB'000
United States Dollars ("USD")	**2,897**	14,726
Hong Kong Dollars ("HKD")	**4,398**	20,266

22. PLEDGED BANK DEPOSITS

Pledged bank deposits represent amounts deposited with banks as security for the bank acceptance bills issued to its suppliers for the purchase of raw materials and property, plant and equipment. Pledged bank deposits carry an average interest rate of 2.86% per annum as at 31 December 2013.

23. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

Term deposits with initial term of over three months represent short-term bank deposits and carry an average interest rates of 3.19% per annum as at 31 December 2013.

For the year ended 31 December 2013

24. TRADE AND BILLS PAYABLES

	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000
Trade payables	**3,601**	2,750
Trade bills payables	**8,131**	—
Bills payables for purchase of property, plant and equipment	**5,500**	—
	17,232	2,750

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 time frame. The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000
0 to 90 days	**3,519**	2,570
91 to 180 days	**82**	180
	3,601	2,750

The following is an aged analysis of trade bills payables presented based on issuance date at the end of the reporting period:

	At 31 December 2013 RMB'000	At 31 December 2012 RMB'000
0 to 90 days	**8,131**	—

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25. OTHER PAYABLES AND ACCRUED EXPENSES

	At 31 December	
	2013	2012
	RMB'000	RMB'000
Other payables	**25,322**	4,838
Accrued sales rebate	**18,951**	19,288
Other tax payables	**17,687**	16,817
Accrued payroll	**14,655**	17,955
Prepayments from customers	**13,940**	45,773
Accrued expenses	**13,468**	12,785
Payable for land use right	**3,000**	5,000
Payable for advertising expenses	**1,165**	4,160
Deferred government grant (Note 26)	**786**	786
Others	**7,000**	—
	115,974	127,402

26. DEFERRED GOVERNMENT GRANT

	At 31 December	
	2013	2012
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current liabilities (included in other payables and accrued expenses)	**786**	786
Non-current liabilities	**7,112**	7,898
	7,898	8,684

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 statement of profit or loss and other comprehensive income within a year is classified as a current liability.

27. DEFERRED TAX

The following are the major deferred tax (liability) asset recognised and movements thereon during the year ended 31 December 2013:

	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	Interests receivable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	(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
Credit (charge) to profit or loss during the year	—	62	—	—	(197)	(606)	(682)	(1,423)
At 31 December 2013	—	12,522	—	(6,422)	1,974	—	(682)	7,392

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

	2013	2012
	RMB'000	RMB'000
Deferred tax assets	**14,496**	15,237
Deferred tax liabilities	**(7,104)**	(6,422)
	7,392	8,815

At the end of the reporting period, the Group had unused tax losses of RMB236,211,000 (2012: RMB205,922,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of RMB236,211,000 (2012: RMB205,922,000) and deductible temporary differences of RMB62,501,000 (2012: RMB41,744,000) in respect of impairment loss and certain accrued expenses due to the unpredictability of future profit streams. Tax losses of RMB236,211,000 (2012: RMB205,922,000) will expire in various years before 2018 (2012: 2017). Deferred tax liabilities on the undistributed profits of the PRC subsidiaries of approximately RMB84,039,000 (2012: RMB118,035,000) which was generated after 1 January, 2008, have not been recognised as of 31 December, 2013, 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. There was no other significant unprovided deferred tax liability at 31 December 2013 and 2012.

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28. SHARE CAPITAL

	Number of shares	Amount US$	Shown in the Financial Statements as RMB'000
Ordinary shares of USD0.00000833333 each			
Authorised:			
At 1 January 2012, 31 December 2012 and 31 December 2013	6,000,000,000	50,000	341
Issued and fully paid:			
At 1 January 2012	1,684,728,820	14,040	95
Share repurchased and cancelled (Note a)	(115,307,000)	(961)	(6)
At 31 December 2012 and 31 December 2013	1,569,421,820	13,079	89

Notes:

(a) 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 HK$	Price per share Lowest HK$	Aggregate consideration paid 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.

(b) At 31 December 2013, 40,362,567 ordinary shares (2012: 54,249,162) of par value of US$0.00000833333 each were held by the Company's restricted share award scheme as set out in Note 30. 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 HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
January	61,000,000	0.89	0.69	48,291

29. 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.

30. 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

30. SHARE-BASED PAYMENTS *(Continued)*

Share option schemes (Continued)

The following table discloses the movement of the Company's share options held by the directors of the Company, employees and consultant for the year ended 31 December 2013:

	Date of grant	Option type	Vesting period	Outstanding at 1/1/2013	Forfeited during the year	Exercised during the year	Outstanding at 31/12/2013
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
				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
				1,000,000	—	—	1,000,000
Employees and consultant							
In aggregate	6.5.2010	1st	3.5 Years	39,540,000	(4,470,000)	—	35,070,000
	6.5.2010	2nd	4 Years	6,270,000	(950,000)	—	5,320,000
	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	(120,000)	—	280,000
				50,910,000	(5,540,000)	—	45,370,000
	Total			88,310,000	(5,540,000)	—	82,770,000
Weighted average exercise price (RMB)				1.23	1.23	—	1.23
Exercisable at the end of the year							79,845,000

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30. SHARE-BASED PAYMENTS *(Continued)*

Share option schemes (Continued)

The following table discloses the movement of the Company's share options held by the directors of the Company, 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	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	28.6.2010	7th	3.9 Years	500,000	(500,000)	—	—
				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

There were no options exercised during the years ended 31 December 2013 and 2012.

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30. SHARE-BASED PAYMENTS *(Continued)*

Share option schemes (Continued)

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 was 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 was 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 was 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 was 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 was exercisable during the period from 6 May 2011 and ending on the expiry of the option period;

(ii) up to 60% of the option was 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 was exercisable during the period from 6 May 2013 and ending on the expiry of the option period.

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 was 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 was 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 was exercisable during the period from the third anniversary of the commencement date and ending on the expiry of the option period; and

30. SHARE-BASED PAYMENTS *(Continued)*

Share option schemes (Continued)

(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 RMB1,915,000 for the year ended 31 December 2013 (2012: RMB5,768,000) 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 selected 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 being awarded 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.

On 10 April 2013, 11,339,880 shares were granted by the Company to a Selected Participant without consideration, and vested on 13 May 2013. On 28 June 2013, 2,546,715 shares were granted by the Company to a Selected Participant without consideration, and vested on 2 September 2013.

As of 31 December 2013, 40,362,567 shares (2012: 54,249,162 shares) were hold by the Trust and not yet granted to Selected Participants.

The Group recognised a total expense of RMB3,893,000 for the year ended 31 December 2013 (2012: RMB3,587,000) in relation to the restricted shares granted under the restricted share award scheme by reference to the share price of the Company on the grant dates.

When the restricted shares were vested and awarded to employees, the amount of RMB8,949,000 (2012: RMB4,350,000) previously recognised in treasury share reserve was released and transferred to share-based payment reserve and accumulated losses. The amount transferred to accumulated losses represents the difference between the amount recognised as share-based payment and the cost for repurchasing the restricted shares, amounting to RMB5,056,000 (2012: RMB763,000).

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30. 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 2013 and outstanding at 31 December 2013:

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	—
Granted during the year	13,886,595
Vested during the year	(13,886,595)
Outstanding as at 31 December 2013	—

The closing prices of the Company's shares immediately before 10 April 2013 and 28 June 2013, the dates of grant of the restricted shares, were HK$0.340 and HK$0.305, respectively.

The closing prices of the Company's shares immediately before 13 May 2013 and 2 September 2013, the dates on which the restricted shares were vested, were HK$0.360 and HK$0.355.

31. 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 and reserves.

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 of the Company, the Group will balance its overall capital structure through the payment of dividends, repurchase of shares or issue of new shares.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December	
	2013	2012
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)	**445,335**	503,007
Loans and receivables (including bank balances and cash) classified as assets held for sale	**5,794**	—
	451,129	503,007
Financial liabilities		
Liabilities measured at amortised cost	**46,719**	16,748
Other non-current liabilities	**1,593**	1,261
Liabilities measured at amortised cost classified as liabilities associated with assets classified as held for sale	**155**	—
	48,467	18,009

Financial risk management objectives

The Group's major financial instruments include trade and bills receivables, other receivables, bank balances and cash, pledged bank deposit, term deposit with initial term of over three months, trade and bills 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.

32. FINANCIAL INSTRUMENTS *(Continued)*

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	
	2013	2012
	RMB'000	RMB'000
USD		
Assets	**2,897**	14,726
HKD		
Assets	**4,398**	20,266

Sensitivity analysis

The Group is mainly exposed to USD and HKD. The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against USD and HKD. 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 USD and HKD. For a 5% weakening of Renminbi against USD and HKD, there would be an equal and opposite impact on the profit.

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Loss for the year (USD)	**(145)**	(736)
Loss for the year (HKD)	**(220)**	(1,013)

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 the Group's fair value interest rate risk relates primarily to its fixed rate term 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.

32. 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 2013, the five largest debtors accounted for approximately 53% (2012: 32%) of the Group's total trade and bills receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on 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.

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32. 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.

	On demand or less than 1 month RMB'000	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 and bills payables	**3,601**	**13,631**	**—**	**—**	**17,232**	**17,232**
Other payables	**29,487**	**—**	**—**	**—**	**29,487**	**29,487**
Other non-current liabilities	**—**	**—**	**—**	**1,593**	**1,593**	**1,593**
At 31 December 2013	**33,088**	**13,631**	**—**	**1,593**	**48,312**	**48,312**
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

Fair value

The Group has no financial instruments measured at fair value on a non-recurring basis.

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.

33. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2012, the Group entered into a sale agreement to dispose of its entire equity interest in Zhuhai Qi Jia Medical Industry Co., Ltd ("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.

For the year ended 31 December 2013

33. DISPOSAL OF A SUBSIDIARY *(Continued)*

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	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 was transferred to the acquirer as settlement of the remaining part of the total consideration.

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34. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2013:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Premises	**7,318**	10,501

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	
	2013	2012
	RMB'000	RMB'000
Within one year	**3,294**	6,311
In the second to fifth year inclusive	**1,945**	7,859
	5,239	14,170

Operating lease payments represent rental payable by the Group for certain of its office and staff quarters. Rentals are fixed for an average of 1.6 years.

The Group as lessor

Property rental income earned during the year was RMB18,016,000 (2012: RMB4,126,000). 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 6 years. At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	At 31 December	
	2013	2012
	RMB'000	RMB'000
Within one year	**18,965**	15,366
In the second to fifth year inclusive	**42,761**	44,945
After five years	**987**	3,979
	62,713	64,290

For the year ended 31 December 2013

35. CAPITAL COMMITMENTS

	At 31 December 2013 RMB'000	2012 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of — property, plant and equipment	—	32,546

36. 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 2013 RMB'000	2012 RMB'000
Besunyen Investment Co., Ltd. (i)	Rental expense	**321**	1,259

(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 2013, are set out in Note 10.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	At 31 December 2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Investment in a subsidiary		**203,484**	111,989
Amounts due from subsidiaries	(a)	**941,441**	1,012,124
		1,144,925	1,124,113
CURRENT ASSETS			
Deposits, prepayments and other receivables		**531**	562
Bank balances and cash		**65,848**	68,576
		66,379	69,138
CURRENT LIABILITIES			
Other payables and accrued expenses		**5,210**	3,106
		5,210	3,106
NET CURRENT ASSETS		**61,169**	66,032
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,206,094**	1,190,145
CAPITAL AND RESERVES			
Share capital	28	**89**	89
Reserves	(b)	**1,206,005**	1,190,056
		1,206,094	1,190,145

Notes:

(a) The amounts due from subsidiaries amounted to RMB685,371,000 (2012: RMB748,133,000) are unsecured, non-trade related and interest free. In the opinion of the directors of the Company, the amounts are not expected to be recovered within the coming twelve months from the end of the reporting period and are therefore classified as non-current. Such interest-free advances are measured at amortised cost using the effective interest method at an interest rate of 6.15% per annum. The remaining balances amounts to RMB256,070,000 (2012: RMB263,991,000) are unsecured, non-trade related and interest bearing at 5.6% per annum with contract terms of two years.

(b) Movement of reserves is as follows:

	Share premium RMB'000	Share-based payment reserve RMB'000	Capital redemption reserve RMB'000	Treasury share reserve under restricted share award scheme RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2012	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 shares under restricted share award scheme	—	—	—	(39,312)	—	(39,312)
Vesting of restricted shares 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
Loss and total comprehensive expense for the year	—	—	—	—	10,141	10,141
Vesting of restricted shares under restricted share award scheme	—	(3,893)	—	8,949	(5,056)	—
Transfer of share-based payment reserve upon forfeiture of share options	—	(1,642)	—	—	1,642	—
Share-based payments	—	5,808	—	—	—	5,808
At 31 December 2013	1,287,209	51,277	6	(26,013)	(106,474)	1,206,005

For the year ended 31 December 2013

38. PARTICULARS OF SUBSIDIARIES

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

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting power hold by the Group As at 31 December 2013	2012	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	RMB100,000,000	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. ("Outsell Trade") (Note ii) 北京澳特舒爾商貿有限公司	26 May 2008 The PRC	RMB5,000,000	—	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) 碧生源（香港）有限公司	10 June 2009 Hong Kong	HKD1	100%	100%	Investment holding
Ever Assure 恆利安有限公司	23 April 2010 Hong Kong	HKD1	100%	100%	Investment holding
Guangzhou Outsell Trading Co., Ltd. (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 Biotech Research and Development (Shanghai) Co., Ltd. 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
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 2013, Outsell Trade, a wholly owned subsidiary of Beijing Outsell was deregistered.

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

(iv) The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Five-year Financial Summary

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	646,535	874,216	840,409	475,182	**487,500**
Gross profit	578,134	783,081	737,639	392,119	**406,103**
Operating profit (loss)	219,864	230,867	9,560	(286,409)	**(93,623)**
Loss on disposal of a subsidiary	—	—	—	(6,700)	**—**
Impairment loss on goodwill	—	—	(15,480)	—	**—**
Impairment loss recognized in respect of intangible assets	—	—	—	(8,844)	**(3,323)**
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	177,713	101,146	(6,882)	(343,697)	**(96,946)**
Profit (loss) and total comprehensive income (expenses) for the year	141,707	59,655	(40,876)	(342,187)	**(89,976)**
EBITDA	225,752	250,659	27,322	(304,291)	**(52,148)**
Earnings (loss) per share					
Basic	0.13	0.05	(0.02)	(0.22)	**(0.06)**
Diluted	0.13	0.05	(0.02)	(0.22)	**(0.06)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	250,130	450,957	857,898	833,836	**826,579**
Net current assets	210,449	1,305,501	832,871	417,255	**340,572**
Total assets less current liabilities	460,579	1,756,458	1,690,769	1,251,091	**1,167,151**
Non-current liabilities	161,065	20,673	18,603	15,581	**15,809**
Net assets	299,514	1,735,695	1,672,166	1,235,510	**1,151,342**
Share capital	63	95	95	89	**89**
Reserves	299,451	1,735,600	1,672,071	1,235,421	**1,151,253**
Total equity	299,514	1,735,695	1,672,166	1,235,510	**1,151,342**

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