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 2014

Corporate Profile

Besunyen Holdings Company Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") is a leading provider of therapeutic teas in China, mainly engaging in the development, production, sale and promotion of therapeutic teas. For the last 14 years, the Group has always been focused on the business of the Besunyen Detox Tea and Besunyen Slimming Tea (the "**Two Teas**"). The Two Teas recorded an accumulated sales volume of over 3 billion bags, with an accumulated sales of over RMB4.5 billion as of the end of 2014.

The production base of the Group is located in Fangshan District, Beijing. The production plant and the production process are in compliance with the requirements of the national GMP standards. As for production, the C24 tea bag packaging machine introduced from IMA, an Italian company, is the key equipment used, production lines assembled thereunder are of state of the art level.

The therapeutic teas, the proprietary R&D products of the Group, are formulated on the basis of natural Chinese herbal-based medicine and tea leaves, providing safe, effective, price-competitive and convenient-to-use healthcare products for those with mild or recurring health problems, as well as those seeking to maintain healthy body and lifestyle.

In 2014, substantially all of the Group's revenue was derived from the sale of the Group's two bestselling products, namely Besunyen Detox Tea and Besunyen Slimming Tea. According to the findings of a survey conducted by an independent third party research institute, in 2014, these two products were the number one leading therapeutic tea product in the laxative and slimming products markets in China respectively, and in terms of retail sales value, accounted for 21.67% and 42.69% of market share of laxative and slimming products sold through retail pharmacies in China respectively.

The Group divides our sales regions across the country into 13 large regions and 44 districts, spanning across 31 provinces, autonomous regions and municipals. As at 31 December 2014, the Group had a total of 102 distributors and 480 sub-distributors, and served about 125,000 over-the-counter ("**OTC**") pharmacies and retail terminals in shopping malls and supermarkets via the distributors, sub-distributors and the sales team directly under the Group. Moreover, by means of the dynamics of brand attraction and channels' promotion, the sale of the Two Teas has a coverage of about 400,000 OTC pharmacies across the country.

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. Wang Jing
Mr. Ren Guangming

AUDIT COMMITTEE

Mr. Wang Jing *(Chairman)*
Mr. Huang Jingsheng
Mr. Ren Guangming

REMUNERATION COMMITTEE

Mr. Huang Jingsheng *(Chairman)*
Mr. Zhao Yihong
Mr. Wang Jing
Mr. Ren Guangming

NOMINATION COMMITTEE

Mr. Ren Guangming *(Chairman)*
Mr. Zhao Yihong
Mr. Huang Jingsheng
Mr. Wang Jing

COMPANY SECRETARY

Mr. Au Lap Ming, *CPA, ACIS, ACS*

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Certified Public Accountants
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The Landmark
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Hong Kong

As to PRC Law:
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158 Fuxing Men Nei Ave
Xicheng District
Beijing
China

COMPLIANCE ADVISER

Somerley Capital Limited
20/F., China Building
29 Queen's Road Central
Hong Kong

Chairman and CEO's Report

"For 14 years since establishment, the Group has been dedicated to the business of the Besunyen Detox Tea and Besunyen Slimming Tea as well as focused on and devoted in the market and sales channels of the two teas respectively, so as to enable the Two Teas to maintain a leading position in the therapeutic tea segments in China. We have continuously conducted research and development for new products under the series by tagging along with the concept of "herbal, healthy, quality functional tea", with a view to cater for the need of the consumers pursuing for healthy and quality life. Meanwhile, benefiting from the Chinese government's efforts in promoting the grand healthcare services industry, the Group plans to expand into the medical industry and integrate with businesses in the healthcare industry by way of merger and acquisition or cooperation, in a bid to diversify the product structure and broaden the sales channels, strengthen the competitive position of Besunyen in the industry and bring more profit to the Group and the shareholders."

Dear shareholders,

On behalf of the Board of Directors, I am pleased to present to you the audited annual results of the Group for the year ended 31 December 2014.

In respect of the global industrial landscape, Southeast Asian and North American countries have edges over China in terms of land and labor costs, which has inevitably driven the latest wave of industrial shift. On the other hand, the United States have identified their industrial hollowing-out problem during the economic crisis and the government launched various industrial policies to support the manufacturing sector, and the United States companies have moved their plants back home one after another. The manufacturing sector of China, the once "world factory", has hit its bottom. It is now facing the challenges of upgrading, transforming and restructuring to high-end manufacturing.

The Bank of China issued the *Economic and Financial Outlook Report 2015* in Beijing on 2 December 2014, which gave a review on China's macro-economic trend in 2014, pointed out that against the backdrop of "superimposition of three stages" and subject to factors such as demands weakening, excessive production capacity and property market restructuring. The economy of China continued to slow down in 2014. Although GDP exceeded RMB60 trillion for the first time, the year on year growth only stood at 7.4%, significantly lower than the average annual increase rate of around 10% for the 36 years since the reform and opening-up.

As mentioned in the "*Several Opinions on Promoting the Development of the Healthcare Services Industry*" issued by the State Council on 1 November 2013, by 2020, China would basically establish a well-structured healthcare services industry system providing diversified and lifelong services, build up a number of well-known brands and healthcare services industry clusters operating in a benign cycle, and achieve international competitiveness to a certain extent, such that the public demands in healthcare services can be satisfied basically. The total market size of the healthcare services industry would exceed RMB8 trillion, and would become an important driver for sustainable economic and social developments.

Chairman and CEO's Report

The revenue of the Group in 2014 was RMB563.9 million, representing an increase of 15.7% as compared with the revenue of RMB487.5 million in 2013. Gross profit increased from RMB406.1 million in 2013 to RMB475.3 million in 2014, representing an increase of 17.0%. At the same time, the gross profit margin increased from 83.3% in 2013 to 84.3% in 2014. On the other hand, the total operating expenses in 2014 (including selling and marketing expenses, administrative expenses and research and development costs) were RMB466.0 million, representing a decrease of 7.4% as compared with RMB503.4 million 2013. No impairment loss on intangible assets was recognised in 2014 (2013: RMB3.3 million). For the above-mentioned reasons, the Group recorded a net profit of RMB45.0 million in 2014, while the net losses in 2013 were RMB90.0 million.

Building on the growth level under the "new normal" as stated by Chairman Xi, we firmly believe that China's economy will maintain a steady growth. At the same time, benefiting from the national policies in favor of the grand health industry, there will be ample opportunity for development of healthcare products. In addition, as a result of the improving national income level and the increasing awareness of self healthcare, the demands in healthcare products increased significantly. Moreover, Chinese society has approached the age of aging, the apparent and potential demands in healthcare products are considerable. Under this extremely favorable external environment for healthcare products, as a leading brand and supplier of therapeutic teas in China, the Group will continue to sufficiently leverage on Besunyen's brand awareness across the country, national channels and terminals network advantages, to complete innovative research and development and introduce strategic partners, with a view to enhance the core competent of our brand, and will continue to cater for the demands of consumers in healthcare products, so as to create reasonable profit returns for our shareholders in the long run.

INDUSTRY, MARKET AND COMPETITION

According to a study in the United States, the estimated average reported constipation prevalence rate in the United States ranges between 12%–19%, just after the number of occurrence of hypertension. The Digestion Department of Internal Medicine of the Sixth Affiliated Hospital of the Sun Yat-sen University stated that "the domestic prevalence rate of constipation is very high, which is 6% among natural population, while the prevalence rate of chronic constipation in the 60+ group is as high as 22%." Constipation related issues could be very serious, dry stool will lead to constipation difficulties, resulting in increased intra-abdominal pressure, higher blood pressure, and induce ischemic angina, cardiac arrhythmia, myocardial infarction and cerebral infarction.

ZHAO Yihong
Chairman and CEO

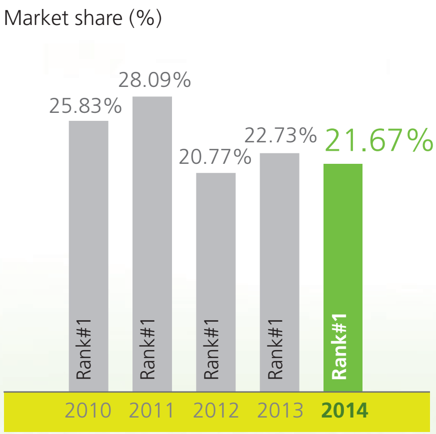
Chairman and CEO's Report

The Institute for Health Metrics and Evaluation of Washington University had analyzed 1,700 investigation reports, covering 188 countries and regions during 1980 to 2013, and the study found that currently 2.1 billion out of the approximately 7 billion population in the world were obese. During the 33 years, the overweight or obese male population had increased from 28.8% to 36.9% and the overweight or obese female population had increased from 29.8% to 38%. The United States is the country with the highest overweight or obese population, amounting to 160 million in aggregate, in which 86.90 million fall within the obese population, accounting for 13% of the total number of obese in the world. In China, the overweight population has reached 22.4% and the obese population has also reached 62 million, accounting for 9% of the world and ranks number two globally.

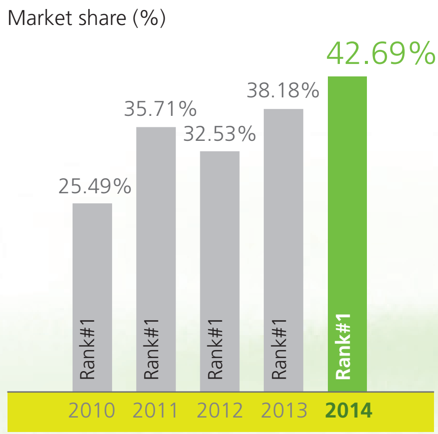
Obesity is not only an isolate disease, but also a high-risk factor underlying type 2 diabetes, cardiovascular diseases, hypertension, stroke and various cancers. It has been classified by the World Health Organization as one of the top 10 high-risk disease inducing factors. Obesity not only affects the quality of life, but also imposes heavy burden to the public health services system of the society.

Inheriting the essence of traditional Chinese medicine, combining with the healthy elements of tea leaves and following the concept of "medicine food homology", Besunyen develops therapeutic tea products with laxative and slimming effects. As consumers are increasingly pursuing for safe and reliable green and natural herbal products, products of Besunyen have received continuous acceptance from consumers for 14 years. According to the "statistics of 2013 Big Varieties Health Products Sales TOP 20 (Retail Market) (二零一三年保健品大品種銷售TOP 20 (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 number 10 and 13, respectively.

Market share and ranking of Besunyen Detox Tea among all laxative products sold through retail pharmacies in China market (Note) for the last 5 years (calculated on retail sales)



Market share and ranking of Besunyen Slimming Tea among all slimming products sold through retail pharmacies in China market (Note) for the last 5 years (calculated on retail sales)



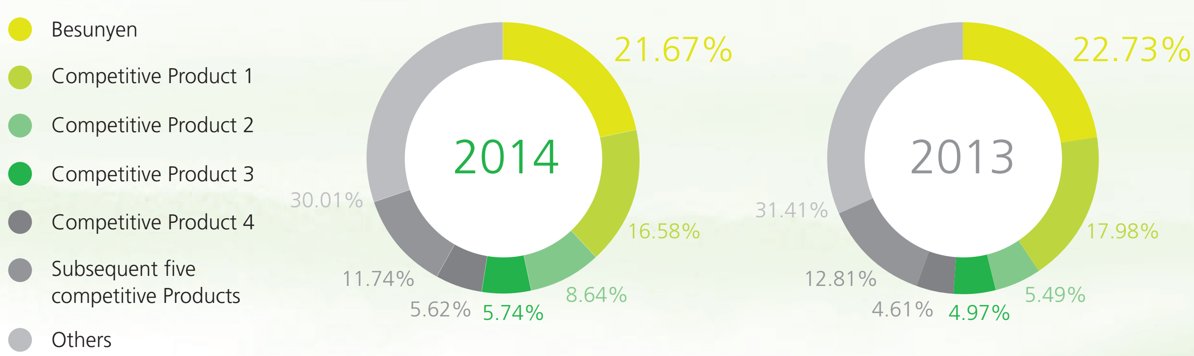
Note: China market refers to the Chinese market excluding Hong Kong, Macau and Taiwan

Source: SMERI, February 2015

Besunyen Detox Tea and Besunyen Slimming Tea compete with similar products in the market, including healthcare products, medicines or other types of products. In particular, they enjoy absolute leading brand competitive advantages over related products sold in retail pharmacies. According to an investigation report on retail pharmacies in China issued by China Southern Medicine Economy Research Institute ("**SMERI**") on 15 February 2015, Besunyen Detox Tea continued to rank top in the market segment of aperient and laxative products in terms of retail sales for seven consecutive years, despite the fact that its market share was 21.67% in 2014, representing a year-on-year decrease of 1 percentage point. Besunyen Slimming Tea continued to rank top in the market segment of slimming products for five consecutive years, enjoying a market share of 42.69% in 2014, representing a year-on-year increase of 4.5 percentage points.

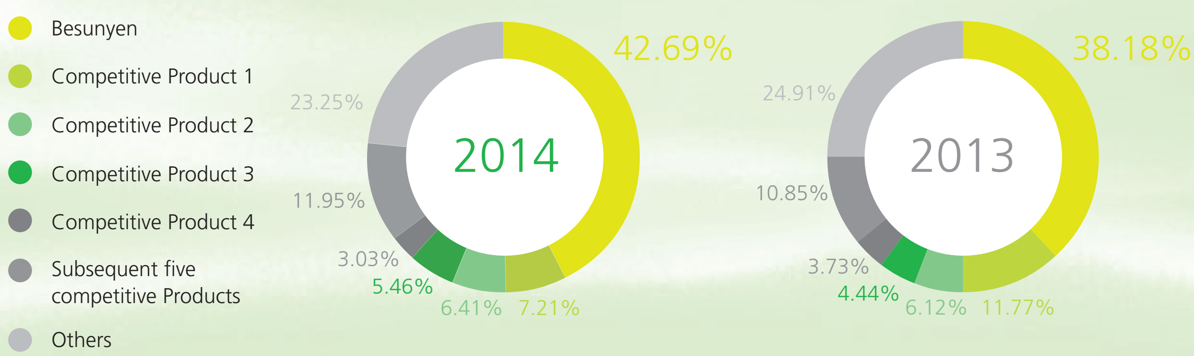
Market share and ranking of Besunyen Detox Tea among all laxative products sold through retail pharmacies in China market (Note) (calculated on retail sales)

Market share of laxative products in 2014 | **Market share of laxative products in 2013**



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

Market share of slimming products in 2014 | **Market share of slimming products in 2013**



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

Source: SMERI, February 2015

Chairman and CEO's Report

BUSINESS REVIEW

Building on the solid foundation laid down by our remarkable operation and management restructuring efforts in 2013, the Group adopted systematic and strategic management initiatives in 2014. By reshaping our brand, upgrading product packages, enhancing channels' confidence, expanding our sphere of influence among terminals and facilitating the justifications for customers' to select the products of Besunyen, Besunyen not only has consolidated its market, but also rapidly reversed and enhanced our overall operational effectiveness. Set forth below is our status of business development during the year:

Package Upgrading and Price Increase

Repositioning and Package Upgrading

2014 was a year about reshaping and pursuing for changes and breakthrough for Besunyen. By 14 years of accumulation, the "effectiveness" gene in the Besunyen brand had taken its shape. This core value supported the long term competitiveness of Besunyen. In respect of marketing, we emphasized on and reshaped the substance of Besunyen's brand and its leading position in the industry so as to enhance the value of our brand. In respect of brand positioning, we reinforced the idea of "oriental tea-making technique" and advocated for the "quality functional tea, Besunyen" advertisement theme to attract highly focused attention from consumers. By activating internal and external resources, we had transformed from a traditional healthcare product oriented model to a product value oriented model; presented our identity of and value as oriental functional tea specialist for consumers' recognition; and established our identity and position as a leader in oriental functional tea as well as fostered the development of Besunyen Detox Tea and Besunyen Slimming Tea.

For a clear portrait of our brand positioning and advocation, the Group comprehensively revised the graphic designs of our packages on 1 January 2014. The packages adopted pictures of herbs, the raw materials of our products, as the new elements to adequately present the natural herb concept for the brand as well as to optimise the gene of the brand so that the presentation of our brand logo became more concise, fresh and trendy. We had uplifted the identity of Besunyen to a higher level by provoking changes in our brand value so that Besunyen would become the representative brand among functional teas. This would facilitate the justifications for consumers to buy and reinforce consumers' belief so that Besunyen would come out on top of their list of preferred products. We had reshaped the brand and upgraded the packages, while strategically enhancing the competitive advantages of Besunyen, thereby enabling the sales performance of Besunyen to record a positive and rapid growth in 2014.

Preliminary Alignment of the Price of Besunyen Slimming Tea with Psychological Price Level

The price of Besunyen Slimming Tea has long been lower than that of Besunyen Detox Tea, however, the consumer group of slimming tea is less price sensitive towards the slimming products. While brand value is reflected in the price of a product and the psychological awareness of the consumers, undoubtedly, the price of Besunyen Slimming Tea used to represent a discount over the psychological price level of the consumers. In addition, the key production elements, raw materials and staff costs, experienced cost inflation in the recent years due to price increase in commodities. Therefore, with a view to align with the psychological price level of the consumers and the production costs, the price of Besunyen Slimming Tea had been increased to the same level as Besunyen Detox Tea on 1 January 2014.

Improving Brand Image and Establishing Leading Position

Title Sponsor for Besunyen Divas Hit the Road(《碧生源花兒與少年》) Program on Hunan Satellite TV

After the strategies on brand reshaping and package upgrading were determined in early 2014, the advertisement strategy and advertisement creation were decided immediately. A series of TV commercials, from the notification of "new packages on shelves" to the proposition of "quality functional tea, Besunyen" to the credential declaration of "sales volume exceeds 3 billion bags in 14 years", were shot successfully. Media strategy and media placement became top priorities for the year. For the purpose of strengthening the brand recognition and credibility of Besunyen, the Group continued to embark on various promotional and interactive activities through various media, including TV, print media, outdoor media, public transportation mobile media, as well as internet and new media. Among which, our sponsorship for the hit show "*Besunyen Divas Hit the Road*"（《碧生源花兒與少年》） on Hunan Satellite TV and the popular show "*King Wang*"（《大王小王》）on Hubei Satellite TV received extremely positive feedback, thereby achieving deep placement of the advertisements of Besunyen Detox Tea and Besunyen Slimming Tea. *Besunyen Divas Hit the Road* broadcasted 8 episodes for 1 episode per week consecutively from 25 April 2014 onwards, with the rating points hitting 2.5%, the highest rating points for the same time slot among all satellite TV channels across the country.

Hosting of European Family Trip

With a view to amplify the advertising effect of broadcasting *Besunyen Divas Hit the Road*, we had launched large scale public relations activities of "*European Family Trip*" on Mango TV and various websites, and activated social media platforms such as Weibo and WeChat so as to roll out our marketing plan for comprehensive and close contact with channel distributors, sub-distributors, terminal retailers and consumers. A series of promotional activities were also carried out at the same time, such as the lucky draw for a family trip to Europe, buying products to get free T-shirt, online game of Divas Hit the Road, forwarding Weibo and WeChat messages to participate in lucky draws. The objectives of the above were to amplify the effect of the TV advertisement, create WeMedia broadcast and integrate the online and offline interactive communications.

Hosting of the Besunyen Cup Charity Advertising Contest

In the spring of 2014, the Twelfth (2013–2014) Chinese University Students Advertisement Art Show Academy Award "Besunyen Cup Charity Advertising Contest" hosted by the China Advertising Association conducted the assessment and selection of the graphic works on the theme of charity at the headquarters of Besunyen. Hundreds of university students from about a dozen universities participated in the contest with more than one hundred thousand works submitted. Through the appraisal, we delivered the Besunyen's concepts of "Herbal", "Healthy", "Functional" and "Oriental" to the university students, which built a good brand image of Besunyen in the minds of young people.

Chairman and CEO's Report

Participating in the IAA World Congress

The 43rd "IAA World Congress" was held at China National Convention Center in Beijing in mid-May 2014. Besunyen was the only product-oriented exhibitor at the congress. On the sub-forum of the congress, Besunyen announced its plan to submit an application of the world's intangible cultural heritage for the "Oriental tea-making technique" (東方茶術), a move aiming at promoting the traditional tea culture and leading the development of the whole industry.

Official Cooperation Partner of the Chinese Figure Skating Team

Besunyen cares about the sports affairs of China and was invited by the General Administration of Sport of China for cooperation to act as the official cooperation partner of the Chinese Figure Skating Team. On the basis of this cooperation, Besunyen is entitled to use the title of the "Official Cooperation Partner of the Chinese Figure Skating Team" and the combined logo with and the collective images of the Chinese Figure Skating Team in (among others) advertisement, packages and promotion events. The figure skating team fully represents the elegance postures and healthy images of the athletes, which is in line with the positioning of the Besunyen brand. At the same time, the capability of the Chinese Figure Skating Team ranks number one in Asia and is first-class in the world, which resonance to the leading position of Besunyen in the therapeutic tea arena, thus the cooperation can achieve "win-win" effect.

Close Cooperation with Channel Allies

The Group divided our sales regions across the country into 13 large regions and 44 districts, spanning across 31 provinces, autonomous regions and municipals, and served about 125,000 OTC pharmacies and retail terminals in shopping malls and supermarkets via the distributors, sub-distributors and the sales team directly under the Group. Moreover, by means of the dynamics of brand attraction and channels' promotion, the sale of the Besunyen Detox Tea and Besunyen Slimming Tea has a coverage of about 400,000 pharmacies across the country.

Hosting of the "Back Home" Program for Distributors

In 2014, with a view to provide a better understanding of the Company and products for distributors, the Group initiated the "BACK HOME" (「回家」) program, specifically inviting customers, including distributors, sub-distributors and OTC chain stores, to visit Besunyen's headquarters, Besunyen Building located in West 4th Ring Road North, Beijing, and production base located in Fangshan, Beijing. There were a total of 200 visitors paid visits to our Company during the year. We had received a total of 110 customers, including distributors, sub-distributors and OTC chain stores. Through the "BACK HOME" program, the Company and customers, including distributors, sub-distributors and OTC chains, cultivated deeper mutual trust. The Company also took this opportunity to conduct in-depth discussion and analysis with the customers in respect of the mode of cooperation, inventory management and retail channel management.

Channels Enhancement: Supporting the Excellence while Eliminating the Inferior

In 2014, in order to maintain the stability of the channels and manage the product pricing system of the Company effectively, the Company formulated clear distributors and sub-distributors standards, focused the resources of our Group in the key distributors that have delivered more contributions to the Company. Through restructuring and integrating the distributors and sub-distributors channels, the Company's products could flow in a targeted direction as designed by the Company, further enhancing our control in the product pricing system and the sales channels. As of 31 December 2014, the number of distributors of the Group decreased from 148 at the end of 2013 to

102, while the number of sub-distributors decreased from 630 at the end of 2013 to 480. Through this series of "supporting the excellence while eliminating the inferior" management initiatives, the Company had not only enhanced the management of the channels but also further supported the development of distributors that had contributed more to the Company, such that the Company, distributors and sub-distributors could grow together, thereby establishing a sound, mutually supportive and closely cooperative relationship and facilitating the growth in sales effectively.

System: Mobile Phone Terminal System in Place

Thanks to the advanced technologies, the Group fully put in place a mobile terminal management system for our sales staff in August 2014, covering 13 regions and 44 districts across the country. Market information, such as the name of outlet, time, location, transaction data, goods displayed and POP management, of the customers visited by our sales staff are logged into the mobile phones and uploaded to the sales management center in the headquarters on real time basis. The data effectively facilities improvements of sales management of the Company after being organised and analyzed.

Alliance: Strategic Alliance with Chain Stores

As a result of the introduction of the new *Good Supply Practice for Pharmaceutical Products* ("**GSP**") of China, chain store model gaining momentum in pharmacies operation, the number of chain pharmacies increased from 159,200 in 2013 to 243,800 in 2014, representing a growth rate of 53%. In anticipation of this structural change of the pharmacy chain industrial format, the Group took the initiative to join hand with the top 100 OTC chains at the beginning of the 2014. And the Group participated in the China Drug Retailing Information Conference held in Hainan on 14 August 2014 to have face to face contacts and exchanges with the management of national large scale pharmaceutical retail chains. The Group formed strategic alliance and conducted close cooperation with 103 large scale pharmacy chains, covering 23,000 pharmacy chain terminals.

Online-offline Interactive E-commerce

In proactive reaction to the trend of the go online thinking and the changes in shopping habits of the post 1990's new generation, the Group has been continuously exploring digital marketing models for the Company's products as we deemed fit, availing the products of the Group on our self-owned retail website 7cha.com, as well as other professional B2C websites. The online platform not only displays and sells the Group's core products well received in physical stores, but also focuses on promoting the Company's newly-launched products and products specifically designed for online shoppers.

During the second half of 2014, the Company restructured and integrated the e-commerce sales team. As of 31 December 2014, the Group's official Sina Weibo and WeChat public accounts "Besunyen" had already commenced official operation. The e-commerce team had also worked with our traditional channels sales team for a number of times to embark on a series of online marketing activities. The Company tried to leverage on the new media to interact with more young and trendy user groups, so as to facilitate the development of e-commerce, and enhance the brand awareness of Besunyen among the young consumer groups.

While strengthening the traditional offline sales channels, it is expected that the e-commerce team would expand the Company's retail network by the establishment of an online-offline interactive marketing model, in turn delivering income and profit growth for the Company.

Talents Admission and Share Option Incentives

Engagement of Chief Operating Officer

After the strategic restructuring of the Group calling for "horizontalization of organisation, optimization of structure and rationalization of procedures" in 2013, our organisation and staff had been streamlined. 2014 was a critical year for Besunyen to internally implement in-depth management initiatives to enhance efficiency and externally grasp the opportunities arising from the grand health industry. And therefore, upon approval from the Board, we engaged Ms. Zhao Yuanhua as the chief operating officer of Besunyen in August 2014. Ms. Zhao is responsible for the management of production, marketing, sales, e-commerce and human resources. She will work towards a more systematic and efficient operation mechanism of the Group.

Campus Recruitment and Talent Pool Training

For the purpose of training up a pool of talents, the Group visited several colleges and universities in China in June 2014 for recruitment of fresh graduates. After one month's isolated training, they were designated to the Beijing sales department to receive two months of practical sales and sales techniques training. Upon completion of the training, these post-1990s youngsters were designed to different regions in the country to engage in the basic sales operations, who would become sales skeleton of the Company in the future.

For the purpose of enhancing the operational abilities and management skills of middle and senior management, management members of different levels had been sent to join trainings such as Trout positioning, leadership diamond, High Brain and trainings for directors and secretary to the Board of listed companies since February 2014.

Joining Hands with the Harvard Business School in Case Study and Course Program

In August 2014, the Group had the honor to be selected as one of the teaching plans in the case study analysis program of Harvard Business School among the 156 cooperation partners of Harvard Business School in 13 countries all over the world. The professor from Harvard Business School who was responsible for the case study materials visited the Beijing headquarter of the Group twice to interview with the senior management of Besunyen, so as to obtain first-hand and genuine operational and management data. The case study on the 14 years of Besunyen's operations would be adopted as a live scenario-based teaching material for discussion and analysis by students of Harvard Business School during their classes.

At the same time, another group of six Harvard Business School students participated in the "FIELD" (Field Immersion Experiences for Leadership Development) course jointly organised by the Group and the School. The course aims at train-up of business leaders by acquisition of practical experience through on-site participation in operation and management. This is a mandatory course for the first-year students of Harvard Business School. From October 2014 onwards, the senior management of the Group and the team of students from Harvard conducted distant interactive discussions on the project content, after which the student team arrived at our Besunyen Beijing headquarters on January 2015 to undergo a 10-day on-site internship. The students put forward their ideas after conducting consumer research and study in China. Subsequently, they presented their ultimate project proposal. At the same time, the students acquired from Besunyen abundant practical experience and intellectual knowledge in operation and management of enterprise, which could not be acquired by discussion in classroom.

Share Equity Incentives

In October 2014, with a view to incentivize the management staff, the Group introduced a stock option incentive policy upon approval by the Board. A total of 44,860,000 share options had been granted under the share option scheme to 91 participants, including Directors, staff and advisors.

Quality Products with Professional Accreditation

Evidence-based Medicine and Scientific Study

On 27 June 2014, the fifth Healthplex & Nutraceutical China exhibition was officially convened in Shanghai, and the "Result of Evidence-based Medicine on Besunyen Functional Tea Bag (碧生源功能袋泡茶循證醫學結果)" by the Evidence-based Medicine Project Seminar of Healthcare Food was announced at the exhibition. According to the initial experimental results, Besunyen Detox Tea and Besunyen Slimming Tea are effective, safe and applicable. The seminar provided scientific answers regarding the effectiveness and safety of Besunyen products through evidence-based medicine method to consumers and healthcare food industry.

This Evidence-based Medicine Project regarding Healthcare Food was a large scale scientific and systematic research project on healthcare food sponsored by China Health Care Association. Institutions participated in the experiments include Shanghai Municipal Center for Decease Control & Prevention, the Second Military Medical University, Institute of Chinese Materia Medica under China Academy of Chinese Medical Sciences (中國醫學科學院中藥研究所), etc. Besunyen Detox Tea and Besunyen Slimming Tea received the accreditations from the Project of Evidence-based Medicine regarding Healthcare Food, once again demonstrated the effectiveness of the Group's products.

GMP Regulations

The Group has approximately 13,600 square meters of production plant that is GMP-compliant (healthcare products), with approximately 1,400 square meters of 100,000 grade clean area constructed up to GMP (healthcare products) standards. The Group also adopted 18 production lines assembled under the state of art Italian IMA-C24 fully automatic tea bag packaging machine in the world. The machine is equipped with the specifically designed "cotton thread nautical knot for tea bag and tag fixing" technology for hygienic and safety purpose. The Group put much emphasis on the management and control of both the source for safety food production and the entire production process. Procurement and utilization of all raw materials has been consistently in compliance with national requirements.

Awards and Honors

Well-known Trademarks in China

In December 2013, the Trademark Office of State Administration for Industry & Commerce of the PRC ("**Trademark Office**") issued its "*Approval of the Recognition of 'Besunyen and device' trademark 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*", the Trademark Office has recognised the registered trademark of "Besunyen and device", as used by Beijing Outsell on products classified under the International Classification of Goods and Services for the Purposes of the Registration of Trademarks Class 30, tea leaves and tea leaves substitutes, as a well-known trademark after review and examination.

Chairman and CEO's Report

Beijing Famous Brand Enterprise

The Group has received the following awards and honors:

The Beijing Administration for Industry & Commerce recognised Besunyen as "Famous Trademark" in 2010

The Beijing Quality Association issued "Famous Brand" to Besunyen in 2012

Beijing Annals • Industry Volume

Besunyen's name was entered into the 1999–2010 "Beijing Annals • Industry Volume • Healthcare Chapter" by Beijing Municipal government in 2013. The contributions from Besunyen to the industrial development of Beijing municipal will remain in the official document ever after.

Top Ten Brand with Public Credibility

As at 30 March 2014, the Fifth China Credible Healthcare Products Forum and the Fifth Credible Healthcare Products and Brands Selection Activity Commendation Conference were officially held in Beijing. The senior officials from National Health and Family Planning Commission (NHFPC), the China Food and Drug Administration (SFDA), China Health Care Association, the State Administration for Industry & Commerce, the Ministry of Commerce, General Administration of Quality Supervision, Inspection and Quarantine and other relevant departments participated in the conference. Besunyen had been granted the honor of the Credible Healthcare Product Brand for the Fifth Forum in this selection activity. The products under Besunyen, including the two traditional teas had been granted the honor of the Credible Healthcare Product for the Fifth Forum. The Chairman of China Health Care Association, Mr. Zhang Fenglou, presented the "Top 10 Credible China Healthcare Product Brands " award to Besunyen. Since Besunyen had already received the award in three consecutive sessions of the Forum (2010, 2012 and 2014), Besunyen also received the honorable title of "Famous Brand for China Healthcare Industry".

Accredited High and New Technology Enterprise

The wholly-owned subsidiary of the Group, Beijing Outsell received the High and New Technology Enterprise Certificate issued by the Beijing Municipal Science & Technology Commission on 30 October 2014 for an effective term of three years.

Charity Works

Received the Ninth Annual People's Corporate Social Responsibility Award — the Case of the Year Award

On 3 July 2014, the establishment ceremony of "Besunyen Charity Fund" jointly established by Besunyen and the Beijing Charity Association was held in the Besunyen Building located in West 4th Ring Road North, Beijing. Besunyen had donated RMB5 million (payable during a period of 10 years for RMB0.5 million per year) into the fund for charity affair, such as conducting social relief activities, providing services to the people in need, serving as complementary aids to the social security system.

The People.com hosted the Ceremony for the ninth Annual People's Corporate Social Responsibility Award Ceremony on 18 December 2014, during which the "Besunyen Charity Fund" received the ninth Annual People's Corporate Social Responsibility Award — the Case of the Year Award.

Received the "China Corporate Social Responsibility — Best Charity Demonstration Award"

On 15 January 2015, the "*Seventh China Corporate Social Responsibility Summit and the Release of China Corporate Social Responsibility Report Whitepaper 2014*" was officially held. Besunyen received the "China Corporate Social Responsibility — Best Charity Demonstration Award 2014" in the submit. We were increasingly committed to the performance of social responsibility, at the same time, the performance of social responsibility is the key to realize sustainable development. As a leading enterprise in therapeutic tea products in China, Besunyen actively participated in charity works for the last 14 years and launched various charity projects, such as the establishment of "Besunyen Special Charity Fund", participation in disaster and poverty relief and construction of water storage projects. Besunyen had continuously made charity contributions over the years.

PROSPECTS

Macro Economy

The Economic Forecasting Division of State Information Centre estimates that, as the property market continues to trend down, it is expected that China's 2015 economic growth rate will be slower than 2014, which translated to about 7.0% of GDP growth and 2.4% of CPI growth. From the perspective of "Troika", the foreign trade in 2015 may improve slightly from that of last year, and consumption is also expected to remain basically stable. Despite strengthened efforts in investment, the domestic financing ability is subject to policy limitations. Overall speaking, the economic growth rate will slowdown in 2015, but the possibility of tumbling down can be ruled out. The economy is going to remain in a "low growth + low inflation" landscape throughout the year.

Repositioning and Consumer Base Expansion

In 2015, the Group will expand the scope of the consumer population by repositioning, with the message dissemination having been upgraded from functional purpose in the past to preventive healthcare. In respect of media strategy and media mix, in addition to the official strategic partnership with the Figure Skating Team under the General Administration of Sport of China, the Group will also sponsor two classic programs, namely, the "*King Wang*" (大王小王) on Hubei Satellite TV and "*Doctor*" (我是大醫生) on Beijing Satellite TV. Combined with local televisions and radio stations across the country, it will form a three dimensional communication model with wide coverage and in-depth communication.

Focusing on Terminals and Strict Cost Control

The Group will adhere to the sales strategy of last year and will stay focused on implementing its marketing initiatives for Besunyen Detox Tea and Besunyen Slimming Tea. It will launch a new 40-bags tailor-made package in 2015 for exclusive supply to large scale chain pharmacies with key cooperation. At the same time, we will keep optimizing the sales channels, further enhance the management of sales terminals, closely monitor market inventories, take an active role in maintaining the relationship with sale terminals personnel. In addition, by leveraging on our cooperation with the China Figure Skating Team, positive promotion of the Company's products will be strengthened, while promoting the concept of a healthy living to the market as well as to the public. The Group expects to maintain a steady growth in terms of the Company's sales of the Two Teas in 2015 by the above-mentioned series of efforts. The Group will continue to prudently control the advertising expenses, and further expand advertising influence in the manner of media communications achieved by online and offline interaction, so as to obtain a cost-effective marketing communications effect with relatively economical measures, and will seek to deliver further contribution to the shareholders by increasing income and saving cost.

Chairman and CEO's Report

New Products Go With New Business

According to the statistics of China Chamber of Commerce for Import & Export of Medicines & Health Products (CCCMHPIE), the scale of China's grand healthcare industry was around RMB2 trillion in 2013. By the end of the "Twelfth Five-Year" in 2016, the scale of China's healthcare industry is expected to be about RMB3 trillion, ranking number one in the world. In the case of the United States, healthcare services is the largest industry in the United States, accounting for 17.6% of its GDP in 2009.

China's healthcare industry will undergo rapid development attributable to various reasons. In terms of consumer demands, as China's per capita nominal GDP exceeded US$6,000, the household spending in China has entered into a structural upgrading stage. The spending in services as represented by the healthcare spending will continue to expand, and the demands in healthcare spending will increase significantly. In terms of population, the elderly population in China reached 194 million in 2012, representing an aging level of 14.3%. The elderly population in China exceeded 200 million in 2013. The arrival of "The Age of Aging" will further release the market demands for healthcare industry.

The Group has always leveraged on our own resource advantages in the healthcare industry, and keeps abreast of the development of related healthcare functional products, aiming at meeting the demands for healthy living. With dedicated efforts in the grand healthcare industry including medical, medicine, equipment and traditional Chinese medicine by Chinese government, the Group will take the initiative to expand into the pharmaceutical and medical services industry to enhance Besunyen's competitive position in the industry by way of merger and acquisition or cooperation under the guidance of the relevant policies. In the short term, the Group will actively select the products which have market development potential in domestic and overseas markets by leveraging on the advantages of wide coverage nationwide sales network. The Group will quickly access the strategic market segments by way of agency, cooperation or joint venture, aiming at enriching product structure, enhancing the dynamic of sales channels and bringing higher profits for the Group.

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 2014!

Chairman and CEO
Zhao Yihong

Hong Kong, 6 March 2015

FINANCIAL REVIEW

Operating Results

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

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Revenue	**563,888**	487,500
Cost of sales	**(88,607)**	(81,397)
Gross profit	**475,281**	406,103
Other income	**49,290**	35,777
Other gains and losses	**(2,334)**	(1,420)
Selling and marketing expenses	**(358,813)**	(384,312)
Administrative expenses	**(92,393)**	(100,595)
Research and development costs	**(14,839)**	(18,484)
Other expenses	**(11,662)**	(30,692)
Impairment loss recognised in respect of intangible assets	**—**	(3,323)
Gain on disposal of a subsidiary	**9,977**	—
Profit (loss) before tax	**54,507**	(96,946)
Income tax (expense) credit	**(9,472)**	6,970
Profit (loss) and total comprehensive income (expense) for the year	**45,035**	(89,976)
Earnings (loss) per share		
Basic (RMB)	**0.03**	(0.06)
Diluted (RMB)	**0.03**	(0.06)

Revenue

	For the year ended 31 December			
	2014		2013	
	RMB'000	**Percentage of total**	RMB'000	Percentage of total
Revenue:				
Besunyen Detox Tea	**251,570**	**44.6%**	246,898	50.6%
Besunyen Slimming Tea	**307,738**	**54.6%**	235,805	48.4%
Other tea products	**4,580**	**0.8%**	4,797	1.0%
Total	**563,888**	**100.0%**	487,500	100.0%

The Group's revenue bottomed out gradually from 2013 onwards and increased by 15.7% from RMB487.5 million in 2013 to RMB563.9 million in 2014. Among which, the revenue of Besunyen Detox Tea increased by 1.9% from RMB246.9 million in 2013 to RMB251.6 million in 2014, mainly attributable to an increase in average selling price ("**ASP**") (revenue divided by sales volume), the sales volume decreased slightly from 174.4 million tea bags in 2013 to 172.8 million tea bags in 2014. The revenue of Besunyen Slimming Tea increased by 30.5% from RMB235.8 million in 2013 to RMB307.7 million in 2014, mainly attributable to an increase in selling price, the sales volume remained stable at 215.1 million tea bags as compared with 2013.

In 2014, through the Group's dedicated and positive market promotion, Besunyen's brand image was enhanced, followed by improved consumer recognition. The ASP of Besunyen Detox Tea and Besunyen Slimming Tea were RMB1.42 and RMB1.10 per bag respectively in 2013, and RMB1.46 and RMB1.43 per bag respectively in 2014. The ASP of Besunyen Detox Tea increased by 2.8% and the ASP of Besunyen Slimming Tea increased by 30.0%.

Cost of Sales and Gross Profit

	For the year ended 31 December			
	2014		2013	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Total cost of sales	**88,607**	**15.7%**	81,397	16.7%
Gross profit	**475,281**	**84.3%**	406,103	83.3%

The Group's cost of sales increased by 8.9%, from RMB81.4 million in 2013 to RMB88.6 million in 2014. Cost of sales as a percentage of revenue decreased from 16.7% in 2013 to 15.7% in 2014. The decrease was mainly due to an increase in average selling price.

As a result of an increase in revenue by 15.7% and an increase in cost of sales by 8.9% in 2014 from 2013, the gross profit of the Group increased by 17.0% from RMB406.1 million in 2013 to RMB475.3 million in 2014. Gross profit margin of the Group increased from 83.3% in 2013 to 84.3% in 2014.

Other Income

RMB49.3 million of other income in 2014 (2013: RMB35.8 million) mainly comprises of interest income amounted to RMB16.7 million (2013: RMB10.9 million), a government grant of RMB12.8 million (2013: RMB4.9 million) provide by the Chinese government to support the business in which the Group engages, and rental income from investment properties of RMB19.7 million (2013: RMB18.0 million).

Selling and Marketing Expenses

	For the year ended 31 December			
	2014		2013	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Advertising expenses	**163,737**	**29.0%**	211,816	43.4%
Other marketing and promotional expenses	**77,227**	**13.7%**	50,990	10.5%
Staff cost	**84,784**	**15.0%**	82,058	16.8%
Others	**33,065**	**5.9%**	39,448	8.1%
Total	**358,813**	**63.6%**	384,312	78.8%

Selling and marketing expenses of the Group decreased by 6.6% from RMB384.3 million in 2013 to RMB358.8 million in 2014. In 2014 advertising expense and other expenses decreased by 22.7% and 16.2% respectively as compared with 2013, and other marketing and promotional expenses and staff cost increased by 51.5% and 3.3% respectively as compared with 2013.

As the revenue increased by 15.7%, and total selling and marketing expenses decreased by 6.6% from 2013, the percentage of selling and marketing expenses to revenue decreased significantly from 78.8% in 2013 to 63.6% in 2014.

Advertising expenses in 2014 decreased substantially by 22.7% as compared to 2013. During 2014, the Group embark on various promotional and interactive activities through various media, including TV, print media, outdoor media, public transportation mobile media as well as internet and new media. Among which, our sponsorship for the hit show "*Besunyen Divas Hit the Road*" (《碧生源花兒與少年》) on Hunan Satellite TV and the popular show "*King Wang*" (《大王小王》) on Hubei Satellite TV received extremely positive feedback, thereby achieving deep placement of the advertisements of the Two Teas. National recognition of the "Besunyen" brand has been enhanced with cost effectiveness.

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

Administrative Expenses

	For the year ended 31 December			
	2014		2013	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Staff costs	**32,358**	**5.7%**	41,551	8.5%
Office expenses	**18,497**	**3.3%**	21,451	4.4%
Professional fees	**31,006**	**5.5%**	21,202	4.3%
Depreciation and amortisation	**9,032**	**1.6%**	13,116	2.7%
Others	**1,500**	**0.3%**	3,275	0.7%
Total	**92,393**	**16.4%**	100,595	20.6%

Administrative expenses of the Group decreased by 8.2% from RMB100.6 million in 2013 to RMB92.4 million in 2014.

Administrative expenses as a percentage of revenue decreased from 20.6% in 2013 to 16.4% in 2014, mainly due to the Company's stepped up efforts in internal management.

Research and Development Costs

	For the year ended 31 December			
	2014		2013	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Research and development costs	**14,839**	**2.6%**	18,484	3.8%

The Group's research and development costs decreased by 19.7% from RMB18.5 million in 2013 to RMB14.8 million in 2014. Research and development costs as a percentage of revenue also decreased from 3.8% in 2013 to 2.6% in 2014.

Impairment Loss on Intangible Assets

	For the year ended 31 December			
	2014		2013	
	RMB'000	**Percentage of revenue**	RMB'000	Percentage of revenue
Impairment loss on intangible assets	**—**	**—**	3,323	0.7%

The Group conducts impairment tests on intangible assets annually or more frequently if there is any indication that the intangible assets may be impaired. No impairment loss on intangible assets had been recognised by the Group in 2014 (2013: RMB3.3 million).

Taxation

Income tax expenses of the Group turned from RMB7.0 million of credit in 2013 to RMB9.5 million of expenses in 2014, mainly attributable to an increase of taxable income of the Group.

Profit (Loss) and Total Comprehensive Income (Expense) for the Year of the Group

Due to the aforementioned factors, the profit (loss) and total comprehensive income (expense) for the year of the Group turned from a loss of RMB90.0 million in 2013 to a profit of RMB45.0 million in 2014.

Use of the Net Proceeds from the Initial Public Offering ("IPO")

The net proceeds from the IPO amounted to approximately RMB1,033.2 million. The net proceeds have been applied by the Company according to the manner disclosed in the use of proceeds in the prospectus. Therefore, the respective uses of the net proceeds up to 31 December 2014 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	267,658	97,255
Establishment of the East China Regional Headquarters	150,000	77,518	72,482
Beijing new office building	123,664	123,664	—
Expansion of distribution network, channels and brand building	73,092	73,092	—
Design and research and development of new products	146,185	60,495	85,690
Upgrading of ERP and overall IT system	43,855	8,702	35,153
Loan repayment	73,000	73,000	—
Working capital	58,474	58,474	—
Total	1,033,183	742,603	290,580

Liquidity and Capital Resources

In 2014, funds and capital expenditure required for the operation of the Group mainly derived from the cash flow generated from its internal operations as well as the proceeds from the IPO.

Cash Flows

The following table summarizes the net cash flows of the Group for the indicated years ended 31 December:

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Net cash from operating activities	**109,200**	8,968
Net cash from/(used in) investing activities	**173,332**	(244,883)
Net cash used in financing activities	**(15,620)**	—
Net increase/(decrease) in cash and cash equivalents (before accounting for the effect of foreign exchange rate changes)	**266,912**	(235,915)
Effect of foreign exchange rate changes	**102**	(824)
Increase/(decrease) in cash and cash equivalents (after accounting for the effect of foreign exchange rate changes)	**267,014**	(236,739)

In 2014, the Group's net cash from operating activities was RMB109.2 million (2013: RMB9.0 million of net cash inflow) compared to a net profit of RMB45.0 million (2013: RMB90.0 million of net loss). The difference was mainly attributable to the depreciation of investment properties of RMB10.6 million, the depreciation of property, plant and equipment of RMB30.6 million and an increase of RMB34.8 million in other payables and accrued expenses. Net cash from investing activities of the Group in 2014 was RMB173.3 million (2013: RMB244.9 million of net cash outflow), mainly due to redemption of short term investment. The net cash used in financing activities of the Group in 2014 was RMB15.6 million (2013: nil), mainly for the payment of dividends.

Bank Balances, Cash and Bank Borrowings

As of 31 December 2014, the bank balance and cash of the Group in aggregate was RMB477.8 million (31 December 2013: RMB207.6 million), representing an increase of RMB270.2 million as compared to the previous year. It was mainly due to the recovery in 2014 of the RMB201.0 million term deposits subsisted as at 31 December 2013. Approximately 98.8% of the Group's bank balance and cash was in Renminbi. Meanwhile, as of 31 December 2014, the Group did not has any bank borrowings (31 December 2013: nil) and unused bank facilities (31 December 2013: nil).

Capital Expenditure

In 2014, capital expenditure of the Group amounted to RMB54.3 million (2013: RMB35.8 million), which mainly included expenses in acquisitions of properties, plants and production equipment as well as land-use rights. The following table sets forth the capital expenditure by the Group for the indicated years ended 31 December:

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Property, plant and equipment	**46,524**	33,794
Intangible assets	**4,743**	11
Land-use rights	**3,000**	2,000
Total	**54,267**	35,805

Investment Properties

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

	At 31 December	
	2014	2013
	RMB'000	RMB'000
Investment properties	**394,012**	324,805

The Group owns certain office properties in Besunyen Building, Linglong Tiandi located in No. 160 West 4th Ring Road North, Haidian District, Beijing 100036, Changcheng Building located in No. 3000, Zhongshan Road North, Putuo District, Shanghai, and industrial property units located in South of Xia Po Dian Village, Doudian Town, Fangshan District, Beijing. At 31 December 2014, the Group is in the process of obtaining property certificates of the building with a total carrying value approximate to RMB323.9 million which is located in the PRC. The Group does not put all units of these properties into full use and has leased the unused units to independent third parties until the Group need to recover such units for business expansion in the future. The properties held for lease are classified as investment properties.

As at 31 December 2014, carrying amount of the investment properties amounted to RMB394.0 million (31 December 2013: RMB324.8 million). These investment properties are measured on the basis of cost method and depreciated on a straight-line basis over the estimated useful life of 30 years. As at 31 December 2014, the Group assessed the fair values of the investment properties based on a valuation carried out by an independent valuer unrelated to the Group and determined that the related fair values exceed the carrying amount of the investment properties. As such, no impairment is considered necessary.

Inventories

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

	At 31 December	
	2014	2013
	RMB'000	RMB'000
Raw materials and packaging materials	**2,602**	2,724
Work in progress	**1,066**	1,139
Finished goods	**1,446**	1,811
Total inventories	**5,114**	5,674

The turnover days of the Group's inventories in 2014 (calculated by dividing the average 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 22 days (2013: 31 days). The Group takes initiative to monitor its inventories level, and seeks to maintain the inventories of raw materials, work in progress and finished goods at a relatively low level while maintaining sufficient inventories of raw materials and packaging materials for production requirements. Throughout the entire distribution and retailing process, the Group monitors and evaluates sales performance and product trends, so as to better forecast the inventories requirements.

Trade and Bills Receivables

The Group generally requests distributors to pay before delivery of goods. For certain major distributors which have long-term cooperation relationship with the Group, the Group may allow more favorable payment and settlement terms. For example, if these distributors could provide valid evidence of payment to the Group, such as reliable banker's acceptance bills which, although recorded as bills receivables in the balance sheet of the Group prior to maturity or transfer by the Group to others, the Group considers that the risk is insignificant and in substance equivalent to payments, as such, the Group could deliver the goods. 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 distributors with good credit worthiness providing wholesaling services to supermarkets and convenience store chains (general industry practice allows credit sales). For distributors not entitled to a contracted credit period, they may apply for credit in respect of their procurement on an individual basis, and the Group would grant approval on a case by case basis considering market development needs, payment capabilities of the distributors and their payment records.

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

	At 31 December	
	2014	2013
	RMB'000	RMB'000
Trade receivables	**2,703**	14,552
Bills receivables	**11,616**	200
Less: allowance for doubtful debts	**(198)**	(568)
Total	**14,121**	14,184

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

	For the year ended 31 December	
	2014	2013
Trade and bills receivables turnover days[(1)]	**7**	19
of which, trade receivables turnover days	**5**	11

(1) Since the prepayment from distributors in the form of bills receivables amounted to RMB4.7 million as at 31 December 2014 was recognised as revenue only when the products are produced and delivered to the distributors after 31 December 2014, therefore, the amount was deducted from the year end balance of bills receivables in the calculation of the turnover days.

The turnover days of the trade and bills receivables of the Group decreased from 19 days in 2013 to 7 days in 2014. It was mainly due to a significant decrease in receivables as of 31 December 2014. The Group adopted a more prudent credit policy and the trade receivables turnover days decreased from 11 days for the year ended 31 December 2013 to 5 days for the year ended 31 December 2014.

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

	At 31 December	
	2014	2013
	RMB'000	RMB'000
0–90 days	**13,795**	12,407
91–180 days	**174**	1,392
181–365 days	**152**	385
Total	**14,121**	14,184

Included in the Group's trade and bills receivables are debtors with an aggregate carrying amount of approximately RMB152,000 (2013: RMB385,000) which are past due at 31 December 2014, 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 favorable credit terms of up to 90 days.

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

	At 31 December	
	2014	2013
	RMB'000	RMB'000
Trade payables	**1,733**	3,601
Trade bills payables	**8,648**	8,131
Bills payables for purchase of property, plant and equipment	**—**	5,500
	10,381	17,232

The following table sets forth the turnover days of the Group's trade payables during the indicated years ended 31 December (calculated by dividing the average 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	
	2014	2013
Trade and bills payables turnover days	**57**	45
of which, trade payables turnover days	**11**	14

The turnover days of the trade and bills payables of the Group increased from 45 days in 2013 to 57 days in 2014, mainly due to a sharp increase in bills payables as of 31 December 2014. Since 2014, the Group made payments by bill settlements as far as practicable, which resulted in the amount of bills payables of the Group slightly increased from RMB8.1 million as at 31 December 2013 to RMB8.6 million as at 31 December 2014. Meanwhile, the Group strengthened its supplier management and maintenance of relationship with suppliers. Trade payables turnover days decreased from 14 days for the year ended 31 December 2013 to 11 days for the year ended 31 December 2014.

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

	At 31 December	
	2014	2013
	RMB'000	RMB'000
0–90 days	**1,409**	3,519
91–180 days	**191**	82
181–365 days	**51**	—
Over 1 year	**82**	—
Total	**1,733**	3,601

Risks in Foreign Exchange Rate

Substantially all operating income, cost of sales and expenses as well as administrative expenses of the Group are denominated in RMB. 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 RMB. Since RMB 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 2014, the Group did not purchase any foreign exchange and interest rate derivative products or relevant hedging tools (2013: nil).

Material Acquisition or Disposal

No material acquisition or disposal had been undertaken by the Group for the year ended 31 December 2014.

Pledge of Assets

As of 31 December 2014, the Group had no pledged assets (as at 31 December 2013: nil).

Gearing Ratio

As of 31 December 2014, the Group's gearing ratio (total liabilities divided by total assets, in percentage) was 12.87% (as at 31 December 2013: 12.45%).

Contingent Liabilities and Guarantees

As of 31 December 2014, the Group had no material contingent liabilities or guarantees (as at 31 December 2013: nil).

Capital Commitments

As of 31 December 2014, the Group had capital commitments of RMB6.4 million (as at 31 December 2013: nil).

Human Resources Management

The Group regards high-quality employees as its most important resource. As at 31 December 2014, the Group had 1,014 employees in mainland China and Hong Kong (2013: 1,015 employees), which included 156 promotional staff employed by employment agents (2013: 178). For the year ended 31 December 2014, the staff costs (including Directors' remunerations and non-cash compensation) was approximately RMB131.1 million (2013: RMB135.5 million). Employee remuneration is determined with reference to individual performance, work experience, qualification and current industry practice. Apart from basic remuneration and statutory pension benefit scheme, employee benefits also include discretionary bonus and share options.

The Group places emphasis on the recruitment, motivation and retention of suitable talents. Directors and some of the middle and senior management are entitled to share options under the share option scheme of the Company. On the other hand, the employees' share option scheme aims at incentivize staff, encourage them to work diligently to enhance the value and foster better long-term development of the Group. The Company has also adopted a restricted share award scheme to grant restricted shares to eligible employees.

The Group invests considerable efforts in the continuous education and training for our staff, so as to keep enhancing the knowledge, skill and team spirit of our staff. The Group often provides internal and external training courses to relevant staff as required.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. ZHAO Yihong, aged 48, 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 in 2000 and embarked on the business of production and sale of therapeutic tea products, and has played a vital role in the development of our Group. Mr. Zhao has 25 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 completed the China New Entrepreneur Development Program, a joint program sponsored by the Enterprise Research Institution, DRC-ERI and the Stanford Center for Professional Development, in 2006 and obtained an executive master of business administration degree from The Hong Kong University of Science and Technology in 2012. 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 46, 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 63, 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. Mr. Zhuo has been serving as a management partner of GGV Capital, a venture capital fund, since 2008. 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 healthcare sectors. 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 57, 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. Since July 2014, Mr. Huang has been serving as a managing executive director of Harvard Center Shanghai Co. Ltd. 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. Between September 2011 and June 2014, Mr. Huang was a partner of TPG Capital, a private equity firm. 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. WANG Jing, aged 42, was appointed as an independent non-executive Director of the Company in April 2014. He is the chairman of the audit committee and a member of the remuneration committee and the nomination committee of the Company. Mr. Wang has over 19 years of experience in auditing. Since 2013, Mr. Wang has been serving as a senior partner of Reanda Certified Public Accountants LLP. From 1996 to 2012, Mr. Wang worked for various accounting firms, including Zhonghe Zhengxin Certified Public Accountants Limited and Ascenda Certified Public Accountants Limited. During which, he was in charge of the audit works of various PRC-listed companies and sizeable State-owned enterprises. Mr. Wang is also a committee member of Members' Rights Protection Commission and IPO Specialist Auditors Commission of Beijing Institute of Certified Public Accountants. Mr. Wang graduated from Capital University of Economics and Business with a bachelor's degree in economics in 1996. He is a member of The Chinese Institute of Certified Public Accountants.

Mr. REN Guangming, aged 50, was appointed as an independent non-executive Director of the Company in April 2014. He is the chairman of the nomination committee and a member of the audit committee and the remuneration committee of the Company. Mr. Ren has over 27 years of experience in regulatory authorities and enterprise management. Since May 2012, Mr. Ren is the chairman of 北京星軌科技有限公司 (Beijing Xinggui Technology Co. Ltd.*). From August 2001 to April 2012, Mr. Ren worked for Hong Kong Exchanges and Clearing Limited Beijing Representative Office and served as the chief representative for a long time. From February 2000 to July 2001, he served as a manager of PCCW Beijing. From 1987 to January 2000, Mr. Ren served in Hong Kong and Macao Affairs Office of the State Council of the PRC, including working in the research institute, the economy department and Sino-British Joint Liaison Group Chinese Representative Office. Currently, he is an independent director of United Electronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002642) and NavInfo Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002405). Mr. Ren graduated from Nankai University with a bachelor's double-degree in world history and economics in 1987. He obtained a master's degree in business administration from China Center for Economic Research of the Peking University in 2001.

SENIOR MANAGEMENT

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

Ms. ZHAO Yuanhua, aged 50, is our Chief Operating Officer. Ms. Zhao joined our Group in August 2014 and has over 19 years of experience in sales and marketing. Between October 2000 and January 2013, she worked for Mongolia Mengniu Dairy (Group) Company Limited ("**Mengniu Group**"), the main operating subsidiary of China Mengniu Dairy Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 2319), including serving as a director of sales, a director of marketing, and a director of sales and marketing, of the UHT milk liquid division of Mengniu Group, and lastly as a vice president of sales and marketing of Mengniu Group. Ms. Zhao graduated from Baotou University of Iron and Steel Technology (now known as Inner Mongolia University of Science and Technology) with a bachelor's degree in technology in 1988. She obtained a master's degree in business administration from China Europe International Business School in 2010.

Ms. WANG Juan, aged 39, is our Chief Financial Officer. Ms. Wang joined our Group in December 2013 and has over 18 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.

* *For identification purpose only*

Mr. YU Hongjiang, aged 50, is our Vice President principally in charge of our audit and legal. Mr. Yu is also a director and the legal representative of Besunyen Food and Beverage. Mr. Yu joined our Group in July 2000 and has more than 24 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. LIN Ruhai, aged 46, is our Vice President principally in charge of our public relationships, new products development and administrative functions of the President's office. Mr. Lin joined our Group in September 2012 and has over 25 years of experience in the media and health industry. He has served as a manager of China Opto-electro Industries Co., Ltd., China North Industries Group Corporation and a TV program producer in Hunan TV & Broadcast Intermediary. Between 2002 and 2005, Mr. Lin served as the Deputy Managing Director of Beijing Orient Power Advertising Co., Ltd. Between 2006 and 2012, he served as a vice secretary-general of the Healthcare Consultancy Services Working Committee under the China Health Care Association. Mr. Lin has been serving as a part-time vice secretary-general of the China Health Care Association after joining our Group.

Mr. WIN Jeiching, aged 64, is our Vice President principally in charge of our introduction of new business and new products from overseas. Mr. Win re-joined our Group in October 2013 and has more than 31 years of experience in sales and marketing. Previously, he served as a general manager at Beijing Outsell between November 2004 and August 2005. Between 1978 and 1988, Mr. Win worked for President Enterprises Group in Taiwan and lastly as a manager in the milk powder division. Between 1992 and 1994, Mr. Win served as a general manager at Taiwan Coca Cola Nestle Refreshment. Between 1995 and 1998, he served as a general manager at the beverage group at Ting Hsin International Group. Between 1999 and October 2004, Mr. Win served as a general manager at Xiamen Huierkang Group. Between September 2005 and June 2007, he served as a director and vice president of Shanghai Hyperlink Market Research. Between July 2007 and 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 2014, 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 2014.

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. WANG Jing and Mr. REN Guangming. Biographical details of the Directors are set out under the section headed "Directors and Senior Management Profile" of this annual report on pages 28 to 31.

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 25 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 Company's executive committee is a permanent institution of the Company, which is the highest operation management institution established by the Company to implement the directives and decisions determined by the Board consistently. It is responsible for the planning and implementation of the Company's development strategies and directions. It reports the strategic and business strategies of the Group to the Board, and formulates detailed implementation plans according to the approval by the Board.

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 substantial management experience as well as 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 two executive Directors comprehensive training courses conducted by qualified professionals on topics including Listing Rules compliance, director's duties and corporate governance matters. Each existing Director received more than 10 hours of training in 2014.

At least four regular Board meetings have been held during the year, with additional meetings 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. WANG Jing, a Director with the appropriate professional qualifications and serving as the chairman of the Audit Committee, Mr. HUANG Jingsheng and Mr. REN Guangming.

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 2014, 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 2013 and 2014;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2013 auditor's report from Messrs. Deloitte Touche Tohmatsu;

(iv) reviewed and approved the 2013 annual report and audited financial statements, the 2013 annual results announcement, the 2014 interim report and the 2014 interim results announcement;

(v) reviewed and approved the report on the continuing connected transactions for the financial year ended 31 December 2013;

(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 2014, the fees having been paid to Messrs. Deloitte Touche Tohmatsu and its member firm for audit services amounted to RMB2.0 million, and for non-audit services amounted to RMB0.5 million.

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. WANG Jing and Mr. REN Guangming 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 2014, 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. REN Guangming, who serves as the chairman of the Nomination Committee, Mr. HUANG Jingsheng and Mr. WANG Jing 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 meetings held in 2014, 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 meetings 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	9/9	—	4/4	2/2	2/2
Ms. GAO Yan	9/9	—	—	—	1/2
Non-executive Directors					
Mr. ZHUO Fumin	9/9	—	—	—	2/2
Independent non-executive Directors					
Mr. HUANG Jingsheng	9/9	5/5	4/4	2/2	1/2
Mr. WONG Lap Tat Arthur (resigned on 23 April 2014)	2/2	2/2	2/2	1/1	0/0
Mr. ZHANG Fenglou (resigned on 30 May 2014)	2/3	2/2	2/2	1/1	0/1
Mr. WANG Jing (appointed on 23 April 2014)	7/7	3/3	2/2	1/1	2/2
Mr. REN Guangming (appointed on 23 April 2014)	7/7*	3/3	2/2	1/1	2/2

* This includes one meeting attended by proxy.

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.

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 2014, 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 50 and 51 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 2014.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the manufacture and sales of therapeutic tea products. The particulars of the Company's principal 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 2014 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 52 of this annual report.

The Board has resolved to recommend for payment of a final dividend of HK2 cents per share (HK$31,388,000 in aggregate) for the year ended 31 December 2014, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. An announcement containing information in relation to the record date and the period of closure of register of members for attending the forthcoming annual general meeting of the Company and for receiving the proposed final dividend for the year ended 31 December 2014, will be published separately when the date of the forthcoming annual general meeting of the Company is fixed.

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 116.

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 2014 amounted to RMB1,200 million.

Under the Companies Law of the Cayman Islands, the share premium 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 55 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014:

(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 54% of the purchases of the Group;

(c) the purchases attributable to the largest supplier of the Group accounted for 18% 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 (resigned on 23 April 2014)
Mr. ZHANG Fenglou (resigned on 30 May 2014)
Mr. WANG Jing (appointed on 23 April 2014)
Mr. REN Guangming (appointed on 23 April 2014)

In accordance with article 16.18 of the articles of association of the Company, Mr. Zhuo Fumin and Mr. Huang Jingsheng 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 his/her qualifications, duties and responsibilities with the Group and prevailing market conditions.

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 2014, so far as known to the Director, 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/options	Number of options granted under the Pre-IPO Share Option Scheme	Number of options granted under the Share Option Scheme	Approximate percentage of total issued Shares (%)[8]
Mr. ZHAO Yihong	Beneficial owner, interest of his spouse, founder of a discretionary trust and interest of corporation controlled by the Director[1][3]	1,006,376,640[1][L]	36,000,000[1][L]	5,000,000[1][L]	64.12%
Ms. GAO Yan	Beneficial owner and interest of her spouse[2][3]	1,006,376,640[2][L]	36,000,000[2][L]	5,000,000[2][L]	64.12%
Mr. ZHUO Fumin	Beneficial owner and interest of his spouse	1,136,000[4][L]	400,000[4][L]	600,000[4][L]	0.07%
Mr. HUANG Jingsheng	Beneficial owner	1,100,000[5][L]	500,000[5][L]	600,000[5][L]	0.07%
Mr. WANG Jing	Beneficial owner	600,000[6][L]	—	600,000[6][L]	0.04%
Mr. REN Guangming	Beneficial owner	600,000[7][L]	—	600,000[7][L]	0.04%

(1) Mr. Zhao Yihong, executive Director, beneficially owns 24,000,000 options granted under the Pre-IPO Share Option Scheme, 4,000,000 options granted under the Share Option Scheme and 1,741,000 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) 13,755,040 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 and 1,000,000 options granted under the 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 and 1,000,000 options granted under the 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) 1,741,000 Shares 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) 13,755,040 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 and 4,000,000 options granted under the 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 and 600,000 options granted under the 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 and 600,000 options granted under the Share Option Scheme.

(6) Mr. Wang Jing, independent non-executive Director, beneficially owns 600,000 options granted under the Share Option Scheme.

(7) Mr. Ren Guangming, independent non-executive Director, beneficially owns 600,000 options granted under the Share Option Scheme.

(8) This is calculated based on 1,569,421,820 Shares, being the number of Shares in issue as at 31 December 2014. The percentage of interest in the columns includes the options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.

* 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 2014 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 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 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.

Details of the share options outstanding and movements during the year ended 31 December 2014 are set out in note 30 to the consolidated financial statements of this annual report.

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 2014 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 2014, 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 2014, so far as known to the Directors, 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 2014.

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

Save as disclosed above, as at 31 December 2014, 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

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 a property 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 to Linglong Tiandi, Beijing. The revised annual caps and the actual amounts for the year ended 31 December 2014 are shown below:

	Revised annual cap (RMB)	**Actual amount** (RMB)
New Distribution Agreement	165,094,000	12,755,000
Further Supplemental Lease Agreement	2,466,000	797,000
Supplemental Structure Contract	7,438,000	527,000

The independent non-executive Directors have reviewed and confirmed that the continuing connected transactions for the year ended 31 December 2014 were entered into:

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

(ii) on normal commercial terms or better; and

(iii) according to the 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.56 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 that nothing has come to their attention that causes them to believe that the continuing connected transactions set out above for the year ended 31 December 2014:

(a) have not been approved by the Board;

(b) were not, in all material respects, in accordance with the pricing policies of the Group;

(c) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(d) have exceeded the relevant cap amounts for the financial year ended 31 December 2014.

For the continuing connected transactions set out above for the year ended 31 December 2014, the Group has followed the pricing policies of the Group.

Save as disclosed above, for the year ended 31 December 2014, 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.

Continuing Connected Transactions since 1 January 2015

As the term of each of the Structure Contracts (as supplemented by the Supplemental Structure Contract), the Distribution Agreement (as supplemented by the Supplemental Distribution Agreement and the New Distribution Agreement) and the Lease Agreement (as supplemented by the Supplemental Lease agreement and the Further Supplemental Lease Agreement) entered into among Beijing Outsell, Mr. Zhao Yihong and Pincha (as the case may be), as well as the annual caps for the continuing connected transactions thereunder will expire on 31 December 2014, on 27 October 2014 (i) Beijing Outsell entered into new structure contracts (the "**New Structure Contracts**") with Mr. Zhao Yihong and Pincha for a term of 24 years from 1 January 2015 to 31 December 2038; and (ii) Beijing Outsell and Pincha entered into a new distribution agreement and a new lease agreement (together with the New Structure Contracts, collectively referred to as the "**New Agreements**"), each for a term of three years from 1 January 2015 to 31 December 2017. As one or more of the applicable percentage ratios in respect of the aggregate annual caps for the continuing connected transactions contemplated under the New Agreements exceed 5%, both the entering into of such agreements and the respective proposed annual caps for the continuing connected transactions contemplated thereunder are subject to independent shareholders' approval requirement in addition to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules. On 15 December 2014, the independent shareholders of the Company approved the New Agreements as well as the respective proposed annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2017.

The risks associated with the contractual arrangements

a) If the PRC government finds that the New Structure Contracts that establish the structure for conducting the Group's e-commerce activities in the PRC do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the New Structure Contracts and the relinquishment of the Group's interest in Pincha;

b) The contractual arrangements under the New Structure Contracts may not be as effective in providing operational control as direct ownership. Pincha or its sole shareholder, Mr. Zhao, may fail to perform their obligations under the New Structure Contracts;

c) Mr. Zhao may have conflicts of interest with the Group, which may materially and adversely affect the business of the Group;

d) Certain terms of the agreements underlying the New Structure Contracts may not be enforceable under PRC laws;

e) The Group may lose the ability to use and enjoy assets held by Pincha if Pincha declares bankruptcy or becomes subject to a dissolution or liquidation proceeding;

f) The contractual arrangements between Beijing Outsell and Pincha under the New Structure Contracts may be subject to scrutiny by the PRC tax authorities, and any finding that the Group or Pincha owes additional taxes could reduce the consolidated net income of the Group; and

g) If Beijing Outsell exercises the option to acquire equity interests in Pincha, such equity transfer may subject the Group to substantial costs.

The actions taken by the Group to mitigate the risks

The Group will adopt the following measures to ensure legal and regulatory compliance and to ensure the implementation of the contractual arrangements under the New Structure Contracts, as well as to ensure that Mr. Zhao, who is also an executive Director and the Chairman of the Company, will comply with the New Structure Contracts (including all the confirmations or undertakings made by Mr. Zhao and his spouse in connection with the New Structure Contracts):

a) the Group has implemented corporate governance measures to manage any conflict of interest between the Group and Mr. Zhao or any of his associates; if required, legal advisors and/or other professionals will be retained to assist the Group to deal with specific issues arising from the New Structure Contracts and to ensure that the operation and implementation of the New Structure Contracts as a whole will comply with applicable laws and regulations;

b) relevant business units and operation divisions of the Group will report regularly, which will be no less frequently than on a monthly basis, to the senior management of the Company in relation to compliance and performance conditions under the New Structure Contracts and other related matters;

c) each of Mr. Zhao and any of his associates shall abstain from voting on any resolution in relation to the New Structure Contracts or any contract involving a conflict of interest with the New Structure Contracts, at any Board meeting or general meeting of the Company, in which he or any of his associates may have conflict of interest, and all such resolutions shall be passed unanimously or by the affirmative vote of a simple majority (as the case may be) of the Board or the general meeting of the Company, otherwise the relevant resolution would be considered as disapproved;

d) the three independent non-executive Directors will continue to play an independent role in the Board by reviewing the effective implementation of the procedures and controls referred to above; and

e) the independent non-executive Directors will also review the compliance of the contractual arrangements under the New Structure Contracts on an annual basis and their confirmation will be disclosed in the annual report of the Company.

In addition, the Group has already implemented corporate governance measures to manage any conflict of interest between the Group and the Directors.

For details of the risks associated with the contractual arrangements and the actions taken by the Group to mitigate the risks, please refer to pages 15 to 20 of the circular of the Company dated 17 November 2014. For details of the transactions, please refer to the announcements of the Company dated 27 October 2014 and 15 December 2014, and the circular of the Company dated 17 November 2014.

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 32 of this annual report.

CORPORATE GOVERNANCE PRACTICE

For details of the corporate governance practice, please refer to the Corporate Governance Report from pages 32 to 37 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 2014.

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 21 of this annual report.

DONATION

The Company made charitable donations of RMB2,325,000 in aggregate during the year ended 31 December 2014.

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 2014.

The Company has engaged Deloitte Touche Tohmatsu to act as the auditor of the Company since 2007.

On behalf of the Board
ZHAO Yihong
Chairman

Hong Kong, 6 March 2015

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 52 to 115, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of 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 about 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 consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014, and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

6 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	NOTES	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue	5	**563,888**	487,500
Cost of sales		**(88,607)**	(81,397)
Gross profit		**475,281**	406,103
Other income	6	**49,290**	35,777
Other gains and losses	6	**(2,334)**	(1,420)
Selling and marketing expenses		**(358,813)**	(384,312)
Administrative expenses		**(92,393)**	(100,595)
Research and development costs		**(14,839)**	(18,484)
Other expenses		**(11,662)**	(30,692)
Impairment loss recognised in respect of intangible assets	16	**—**	(3,323)
Gain on disposal of a subsidiary	9	**9,977**	—
Profit (loss) before tax	7	**54,507**	(96,946)
Income tax (expense) credit	8	**(9,472)**	6,970
Profit (loss) and total comprehensive income (expense) for the year		**45,035**	(89,976)
Earnings (loss) per share			
Basic (RMB)	12	**0.03**	(0.06)
Diluted (RMB)	12	**0.03**	(0.06)

Consolidated Statement of Financial Position

At 31 December 2014

	NOTES	At 31 December 2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**352,056**	423,583
Prepaid lease payments	14	**58,850**	60,202
Investment properties	15	**394,012**	324,805
Intangible assets	16	**1,933**	2,215
Non-current deposits	17	**5,439**	1,278
Deferred tax assets	27	**12,850**	14,496
		825,140	826,579
CURRENT ASSETS			
Inventories	18	**5,114**	5,674
Trade and bills receivables	19	**14,121**	14,184
Deposits, prepayments and other receivables	20	**34,805**	38,802
Pledged bank deposits	22	**813**	13,631
Term deposits with initial term of over three months	23	**—**	201,000
Bank balances and cash	21	**477,753**	207,578
		532,606	480,869
Assets classified as held for sale	9	**—**	7,600
		532,606	488,469
CURRENT LIABILITIES			
Trade and bills payables	24	**10,381**	17,232
Other payables and accrued expenses	25	**147,771**	115,974
Tax payable		**1,707**	2,794
		159,859	136,000
Liabilities associated with assets classified as held for sale	9	**—**	11,897
		159,859	147,897
NET CURRENT ASSETS		**372,747**	340,572
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,197,887**	1,167,151

Consolidated Statement of Financial Position

At 31 December 2014

	NOTES	At 31 December 2014 RMB'000	2013 RMB'000
CAPITAL AND RESERVES			
Share capital	28	**89**	89
Reserves		**1,182,946**	1,151,253
		1,183,035	1,151,342
NON-CURRENT LIABILITIES			
Deferred government grant	26	**6,326**	7,112
Deferred tax liabilities	27	**6,833**	7,104
Other non-current liabilities		**1,693**	1,593
		14,852	15,809
		1,197,887	1,167,151

The consolidated financial statements on pages 52 to 115 were approved and authorised for issue by the Board of Directors on 6 March 2015 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 2014

	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 2013	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
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	45,035	45,035
Dividends	—	(15,620)	—	—	—	—	—	—	(15,620)
Transfer of surplus reserve	—	—	—	—	—	534	—	(534)	—
Share-based payments	—	—	—	—	—	—	2,278	—	2,278
Transfer of share-based payment reserve upon forfeiture of share options	—	—	—	—	—	—	(2,586)	2,586	—
Vesting of restricted shares under restricted share award scheme (Note 30)	—	—	—	—	1,544	—	(887)	(657)	—
At 31 December 2014	89	1,271,589	230,864	6	(24,469)	61,894	50,082	(407,020)	1,183,035

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 tax, 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 2014

	NOTES	Year ended 31 December 2014 RMB'000	2013 RMB'000
OPERATING ACTIVITIES			
Profit (loss) before tax		**54,507**	(96,946)
Adjustments for:			
Amortisation of intangible assets		**304**	594
Depreciation of investment properties		**10,608**	10,029
Depreciation of property, plant and equipment		**30,589**	34,175
Exchange (gain) loss		**(102)**	824
Gain on disposal of a subsidiary		**(9,977)**	—
Impairment loss on intangible assets		**—**	3,323
Impairment of non-current deposit		**39**	721
Interest income		**(16,728)**	(10,907)
Loss (gain) on disposal of property, plant and equipment		**233**	(13)
Release of deferred government grant		**(786)**	(786)
Release of prepaid lease payments		**1,352**	1,352
(Reversal of) allowance for doubtful debts		**(370)**	301
Share-based compensation		**2,278**	5,808
Write down of inventory		**681**	9,834
Operating cash flows before movements in working capital		**72,628**	(41,691)
(Decrease) increase in trade and bills payables		**(1,351)**	8,982
Decrease in deposits, prepayments and other receivables		**3,875**	9,176
Decrease in trade and bills receivables		**433**	35,397
Increase (decrease) in other payables and accrued expenses		**34,797**	(5,091)
Increase in inventories		**(121)**	(7,400)
Increase in other non-current liabilities		**100**	332
Cash generated from (used for) operations		**110,361**	(295)
Income taxes paid		**(9,184)**	(8,126)
Income tax refund		**—**	13,699
Interest received		**8,023**	3,690
NET CASH FROM OPERATING ACTIVITIES		**109,200**	8,968

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	NOTES	Year ended 31 December 2014 RMB'000	2013 RMB'000
INVESTING ACTIVITIES			
Purchase of short term investment		**(1,062,000)**	(841,000)
Payments for property, plant and equipment		**(46,524)**	(33,794)
Placement of pledged bank deposits		**(33,360)**	(13,631)
Payments for intangible assets		**(4,743)**	(11)
Payments for land use right		**(3,000)**	(2,000)
Placement of term deposits		**—**	(201,000)
Proceeds on redemption of short term investment		**1,070,827**	845,159
Withdrawal of term deposits		**201,000**	—
Withdrawal of pledged bank deposits		**46,178**	—
Net cash outflow arising from disposal of a subsidiary	9	**2,519**	—
Refund for property purchased		**2,326**	—
Proceeds from disposal of property, plant and equipment		**109**	1,394
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**173,332**	(244,883)
FINANCING ACTIVITIES			
Dividend paid		**(15,620)**	—
NET CASH USED IN FINANCING ACTIVITIES		**(15,620)**	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**266,912**	(235,915)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**210,739**	447,478
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		**102**	(824)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**477,753**	210,739
REPRESENTED BY,			
Bank balances and cash		**477,753**	207,578
Bank balances and cash classified as held for sale	9	**—**	3,161
		477,753	210,739

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 of the Company 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")

Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following amendments to IFRSs and a new Interpretation.

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

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

Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year *(Continued)*

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Group has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

IFRIC — Int 21 Levies

The Group has applied IFRIC — Int 21 Levies for the first time in the current year. IFRIC — Int 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. 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.

IFRIC — Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

The application of the other 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 2014

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.

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 1	Disclosure Initiative[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 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.

For the year ended 31 December 2014

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

New and revised IFRSs issued but not effective *(Continued)*

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 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. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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.

For the year ended 31 December 2014

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)

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company are in the process of assessing the impact of application of IFRS 9 in the future on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Changes in fair value of financial liabilities attributable to changes in credit risk of financial liabilities that are designated as at fair value through profit or loss are disclosed in note 32.

IFRS 15 Revenue from Contracts with Customers

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

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

New and revised IFRSs issued but not effective *(Continued)*

IFRS 15 Revenue from Contracts with Customers (Continued)

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company are in the process of assessing the impact of application of IFRS 15 in the future on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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 and its subsidiaries. Control is achieved when the Company:

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets held for sale *(Continued)*

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 to sell.

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.

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

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.

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Restricted share award scheme (Continued)

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 under restricted share award scheme. 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 under restricted share award scheme to accumulated losses.

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.

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Current and deferred tax are recognised in profit or loss, except when they 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.

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.

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

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.

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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.

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.

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

Estimated impairment of property, plant and equipment and investment properties

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 2014, the carrying amount of property, plant and equipment is RMB352,056,000 (net of accumulated impairment loss of RMB41,744,000) (2013: carrying amount of RMB423,583,000 net of accumulated impairment loss of RMB41,744,000). No impairment loss for property, plant and equipment has been recognised in the current period (2013: nil).

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

Estimated impairment of property, plant and equipment and investment properties *(Continued)*

For the purposes of determine whether the investment properties of the Group is impaired, the Group has determined the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of investment properties, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties. No impairment loss has been recognised for investment properties in the current period (2013: nil).

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 2014, the carrying amount of trade receivables was RMB2,505,000 (net of allowance for doubtful debts of RMB198,000) (2013: carrying amount of RMB13,984,000, net of allowance for doubtful debts of RMB568,000).

Income taxes

As at 31 December 2014, a deferred tax asset of RMB12,850,000 (2013: RMB14,496,000) 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 RMB185,885,000 (2013: RMB236,211,000) and deductible temporary differences of RMB61,420,000 (2013: RMB62,501,000) 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.

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	
	2014	2013
	RMB'000	RMB'000
Detox tea	**251,570**	246,898
Slimming tea	**307,738**	235,805
Other tea products	**4,580**	4,797
	563,888	487,500

Major customers

No single customer contributed over 10% or more of total revenue of the Group for the years ended 31 December 2014 and 2013.

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.

6. OTHER INCOME/OTHER GAINS AND LOSSES

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Other income		
Rental income from investment properties	**19,749**	18,016
Government grants (Note)	**12,813**	4,923
Interest income		
Bank interest income	**7,901**	6,748
Interest income from short term investment	**8,827**	4,159
Service income	**—**	1,931
	49,290	35,777
Other gains and losses		
(Loss) gain on disposal of property, plant and equipment	**(233)**	13
Donation	**(2,325)**	(972)
Net foreign exchange gain (loss)	**102**	(824)
Others	**122**	363
	(2,334)	(1,420)

Note:

The government grants amounting to RMB12,027,000 (2013: RMB4,137,000) represent various subsidies from the PRC government for supporting business operations of the Group.

The amount for the year ended 31 December 2014 also includes a government grant of RMB786,000 (2013: RMB786,000) related to plant facilities constructed by the Group (see Note 26).

7. PROFIT (LOSS) BEFORE TAX

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Profit (loss) before tax for the year has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
— salaries and other allowances	**123,600**	123,063
— share-based compensation	**2,278**	5,808
— retirement benefit scheme contributions	**5,189**	6,635
Total staff costs	**131,067**	135,506
Gross rental income from investment properties	**(19,749)**	(18,016)
Less:		
Direct operating expense (including depreciation) incurred for investment properties that generated rental income during the year	**11,487**	10,633
Direct operating expense (including depreciation) incurred for investment properties that did not generate rental income during the year	**175**	976
	(8,087)	(6,407)
Amortisation of intangible assets	**304**	594
Auditors' remuneration	**2,784**	4,577
Cost of inventories recognised as expense (including write-down of inventory amounting to RMB681,000 (2013: RMB9,834,000))	**88,607**	81,397
Depreciation of property, plant and equipment	**30,589**	34,175
Depreciation of investment properties	**10,608**	10,029
Impairment of non-current deposits	**39**	721
Loss (gain) on disposal of property, plant and equipment	**233**	(13)
Release of prepaid lease payments	**1,352**	1,352
(Reversal of) allowance for doubtful debts	**(370)**	301

For the year ended 31 December 2014

8. INCOME TAX EXPENSE (CREDIT)

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
The expense (credit) comprises		
Current tax:		
PRC Enterprise Income Tax	**8,926**	5,648
Over provision in prior year:		
PRC Enterprise Income Tax	**(829)**	(14,041)
	8,097	(8,393)
Deferred tax:		
current year (Note 27)	**1,375**	1,423
	9,472	(6,970)

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
(Profit) loss before tax	**(54,507)**	96,946
Tax at PRC Enterprise Income Tax rate of 25% (2013: 25%)	**13,627**	(24,237)
Effect of preferential tax rate granted	**(4,123)**	(2,401)
Tax effect of tax losses/deductible temporary differences not recognised	**6,652**	16,124
Utilisation of tax losses previously not recognised	**(9,729)**	(3,362)
Tax effect of expenses not deductible for tax purposes	**(12)**	20,947
Over provision in prior year and others (Note)	**3,057**	(14,041)
Tax expense (credit) for the year	**9,472**	(6,970)

Note:

During 2013, 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.

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.

For the year ended 31 December 2014

8. INCOME TAX EXPENSE (CREDIT) *(Continued)*

During 2014, 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 three years from 2014 to 2016.

Except for Beijing Outsell, the remaining PRC subsidiaries are subject to a unified Enterprise Income Tax rate of 25% for 2014 and 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/DISPOSAL OF A SUBSIDIARY

In December 2013, the directors of the Company initiated negotiations with an interested party to dispose of the Company's subsidiary — Ever Assure Limited ("**Ever Assure**"). The assets and liabilities attributable to Ever Assure, which were expected to be sold within twelve months from 31 December 2013, were classified as a disposal group held for sale and were presented separately in the consolidated statement of financial position as at 31 December 2013. On 14 March 2014, a sale and purchase agreement was signed to dispose of Ever Assure at a cash consideration of RMB5,680,000.

The net assets of Ever Assure at the date of disposal were as follows:

	RMB'000
Net liability disposed of	
Property, plant and equipment	1,806
Other receivables	2,633
Bank balances and cash	3,161
Other payables	(11,897)
	(4,297)
Gain on disposal	9,977
Total consideration	5,680
Represented by:	
Cash paid by purchaser	5,680
Net cash inflow arising on disposal:	
Cash consideration	5,680
Less: Bank balances and cash disposed of	(3,161)
	2,519

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 2014:

	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	190	2,250	120	56	2,616
Gao Yan	190	1,764	30	56	2,040
	380	4,014	150	112	4,656
Non-executive directors					
Zhuo Fumin	190	—	23	—	213
	190	—	23	—	213
Independent non-executive directors					
Arthur Wong Lap Tat (Note)	59	—	10	—	69
Huang Jingsheng	190	—	24	—	214
Ren Guangming (Note)	131	—	18	—	149
Wang Jing (Note)	131	—	18	—	149
Zhang Fenglou (Note)	78	—	—	—	78
	589	—	70	—	659

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

Directors and Chief Executive *(Continued)*

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	172	—	—	—	172
	516	—	67	—	583

Note: Mr. Arthur Wong Lap Tat and Mr. Zhang Fenglou resigned on 23 April 2014 and 30 May 2014, respectively. Mr. Ren Guangming and Mr. Wang Jing were appointed as independent non-executive directors of the Company with effect from 23 April 2014.

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 2014

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

Employees

The five highest paid individuals of the Group for the year ended 31 December 2014 included two directors (2013: two). The emoluments of the remaining three individuals for the year ended 31 December 2014 (2013: three) are as follows:

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Salaries and other allowances	**6,365**	4,429
Share-based compensation	**108**	4,384
Retirement benefit scheme contributions	**132**	51
	6,605	8,864

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	
	2014	2013
HK$1,000,001 to HK$1,500,000	**—**	1
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	—
HK$4,000,001 to HK$4,500,000	**1**	—
HK$7,500,001 to HK$8,000,000	**—**	1

During the year ended 31 December 2014, 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

An interim dividend of HK$0.0125 per share (total dividend of HK$19,618,000 or RMB15,620,000) in respect of the interim period ended 30 June 2014 was declared in August 2014 and paid during the year ended 31 December 2014. Subsequent to the end of the reporting period, the directors of the Company have proposed a final dividend of HK$0.02 per share with an aggregate amount of approximately HK$31,388,000 for the year ended 31 December 2014, which is subject to approval by the shareholders of the Company at the forthcoming general meeting.

No dividend was proposed or paid for the year ended 31 December 2013.

For the year ended 31 December 2014

12. EARNINGS (LOSS) PER SHARE

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Earnings (loss) attributable to owners of the Company:		
Earnings (loss) for the purpose of calculating basic and diluted earnings (loss) per share	**45,035**	(89,976)

	Year ended 31 December	
	2014	2013
	'000	'000
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	**1,530,189**	1,523,256
Effect of dilutive potential ordinary shares:		
Restricted shares granted by the Company	**210**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings (loss) per share	**1,530,399**	1,523,256

The computation of diluted earnings per share for the year ended 31 December 2014 does not assume the exercise of the Company's outstanding share options as the exercise price of these share options was higher than the average market price of its shares.

The computation of diluted loss per share for the year ended 31 December 2013 does not assume the exercise of the Company's outstanding share options 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) for the both years ended 31 December 2014 and 2013.

For the year ended 31 December 2014

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Computer equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2013	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
Additions	—	1,549	232	22	2,800	36,942	41,545
Transfer to investment properties	—	—	—	—	—	(81,651)	(81,651)
Transfer	5,821	—	—	—	—	(5,821)	—
Refund for property purchased	(490)	—	—	—	—	—	(490)
Disposals/write-off	(691)	(539)	(147)	(108)	(671)	—	(2,156)
At 31 December 2014	247,159	216,068	13,701	4,570	16,042	31,678	529,218
DEPRECIATION AND IMPAIRMENT							
At 1 January 2013	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
Provided for the year	8,613	16,685	1,761	1,065	2,465	—	30,589
Eliminated on disposals/write-off	(691)	(270)	(134)	(99)	(620)	—	(1,814)
At 31 December 2014	47,244	104,579	11,406	3,823	10,110	—	177,162
NET BOOK VALUES							
At 31 December 2013	203,197	126,894	3,837	1,799	5,648	82,208	423,583
At 31 December 2014	199,915	111,489	2,295	747	5,932	31,678	352,056

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

During the year ended 31 December 2014, the Group acquired property, plant and equipment amounting to RMB41,545,000 (2013: RMB54,855,000), including an amount of RMB1,217,000 (2013: RMB8,518,000) transferred from non-current deposit paid.

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

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

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

At 31 December 2014, the Group is in the process of obtaining property certificates of the leasehold land and buildings with a carrying value approximate to RMB73,058,000 (2013: RMB73,264,000) which are 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 in respect of property, plant and equipment has been recognised in the years ended 31 December 2014 and 2013.

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 12% (2013: 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.

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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	
	2014	2013
	RMB'000	RMB'000
Current assets (included in deposits, prepayment and other receivables)	**1,352**	1,352
Non-current assets	**58,850**	60,202
	60,202	61,554

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 2013	270,417
Transfer from property, plant and equipment	67,441
At 31 December 2013	337,858
Transfer from property, plant and equipment	81,651
Refund for property purchased	(1,836)
At 31 December 2014	417,673
DEPRECIATION	
At 1 January 2013	3,024
Provided for the year	10,029
At 31 December 2013	13,053
Provided for the year	10,608
At 31 December 2014	23,661
CARRYING VALUES	
At 31 December 2013	324,805
At 31 December 2014	394,012

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15. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties at 31 December 2014 is RMB436,500,000 (2013: RMB345,300,000). 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 for commercial property units located in Beijing and Shanghai was determined on the basis of capitalisation 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 for commercial property units used in the prior year. The valuation for industrial property units located in Fangshan was determined on the basis of current replacement cost due to no sufficient evidence of transaction prices for similar property or identifiable actual or notional income stream that would accrue to the owner of the relevant property.

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 2014 are as follows:

	Level 3 RMB'000	Fair value as at 31.12.2014 RMB'000
Commercial property units located in Beijing	**242,292**	**268,000**
Commercial property units located in Shanghai	**70,069**	**82,500**
Industrial property units located in Fangshan	**81,651**	**86,000**

At 31 December 2014, the Group is in the process of obtaining property certificates of the leasehold land and buildings with a carrying value approximate to RMB323,943,000 which are located in the PRC (2013: RMB252,283,000).

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.

16. INTANGIBLE ASSETS

	Trademarks RMB'000	Patents RMB'000	Product development costs RMB'000	Contract backlog RMB'000	Customers base RMB'000	Non-compete agreement RMB'000	Total RMB'000
COST							
At 1 January 2013	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
Additions	22	—	—	—	—	—	22
At 31 December 2014	11,498	7,287	3,483	—	—	—	22,268
AMORTISATION AND IMPAIRMENT							
At 1 January 2013	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
Provided for the year	245	59	—	—	—	—	304
At 31 December 2014	9,746	7,106	3,483	—	—	—	20,335
CARRYING VALUES							
At 31 December 2013	1,975	240	—	—	—	—	2,215
At 31 December 2014	1,752	181	—	—	—	—	1,933

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

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

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

During the year, the directors of the Company conducted a review of the intangible assets and no impairment loss in respect of intangible assets has been recognised in the current year (2013: impairment loss of RMB3,323,000).

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17. NON-CURRENT DEPOSITS

	At 31 December 2014 RMB'000	2013 RMB'000
Deposits for purchase of property, plant and equipment and investment properties	**696**	1,217
Deposits for purchase of intangible assets	**4,743**	61
	5,439	1,278

18. INVENTORIES

	At 31 December 2014 RMB'000	2013 RMB'000
Raw materials	**2,602**	2,724
Work in progress	**1,066**	1,139
Finished goods	**1,446**	1,811
	5,114	5,674

19. TRADE AND BILLS RECEIVABLES

	At 31 December 2014 RMB'000	2013 RMB'000
Trade receivables	**2,703**	14,552
Bills receivables	**11,616**	200
Less: allowance for doubtful debts	**(198)**	(568)
Total	**14,121**	14,184

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.

For the year ended 31 December 2014

19. TRADE AND BILLS RECEIVABLES *(Continued)*

	At 31 December	
	2014	2013
	RMB'000	RMB'000
0–90 days	**13,795**	12,407
91–180 days	**174**	1,392
181–365 days	**152**	385
Total	**14,121**	14,184

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 RMB152,000 (2013: RMB385,000) which are past due at 31 December 2014, 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	
	2014	2013
	RMB'000	RMB'000
181–365 days	**152**	385

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.

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

	2014	2013
	RMB'000	RMB'000
At the beginning of the year	**568**	267
Impairment loss (reversed) recognised on receivables	**(370)**	301
At the end of the year	**198**	568

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19A.TRANSFER OF FINANCIAL ASSETS

The Group transferred bills receivables amounted to RMB7,719,000 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. No outstanding bills receivables have been transferred through endorsing for the years ended 31 December 2014.

For the year ended 31 December 2014, no exposure to loss in respect of the endorsed bills, should the issuing bank fail to settle the bills on maturity date (2013: RMB7,719,000).

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

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December	
	2014	2013
	RMB'000	RMB'000
Prepaid advertising	**14,178**	20,286
Other prepayments	**9,595**	7,742
Other receivables	**6,342**	5,884
Interest receivables	**2,936**	3,058
Prepaid lease payments	**1,352**	1,352
Prepayment to suppliers	**402**	480
Total	**34,805**	38,802

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 carried an average interest rate of 1.30% per annum as at 31 December 2014 (2013: 1.27%).

For the year ended 31 December 2014

21. BANK BALANCES AND CASH *(Continued)*

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

	At 31 December	
	2014	2013
	RMB'000	RMB'000
United States Dollars ("**USD**")	**1,621**	2,897
Hong Kong Dollars ("**HKD**")	**4,289**	4,398

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 carried an average interest rate of 2.86% per annum as at 31 December 2014 (2013: 2.86%).

23. TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

The Group had no term deposits with initial term of over three months represent short-term bank deposits as at 31 December 2014. Term deposits with initial term of over three months carried an average interest rate of 3.19% per annum as at 31 December 2013.

24. TRADE AND BILLS PAYABLES

	At 31 December	
	2014	2013
	RMB'000	RMB'000
Trade payables	**1,733**	3,601
Trade bills payables	**8,648**	8,131
Bills payables for purchase of property, plant and equipment	**—**	5,500
Total	**10,381**	17,232

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24. TRADE AND BILLS PAYABLES *(Continued)*

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

	At 31 December	
	2014	2013
	RMB'000	RMB'000
0 to 90 days	**1,409**	3,519
91 to 180 days	**191**	82
181 to 365 days	**51**	—
Over 1 year	**82**	—
Total	**1,733**	3,601

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	
	2014	2013
	RMB'000	RMB'000
0 to 90 days	**8,648**	8,131

25. OTHER PAYABLES AND ACCRUED EXPENSES

	At 31 December	
	2014	2013
	RMB'000	RMB'000
Prepayments from customers	**33,670**	13,940
Accrued payroll	**23,526**	14,655
Accrued expenses	**22,438**	13,468
Accrued sales rebate	**22,130**	18,951
Other payables	**19,458**	25,322
Other tax payables	**18,115**	17,687
Others	**7,000**	7,000
Payable for land use right	**—**	3,000
Deferred government grant (Note 26)	**786**	786
Payable for advertising expenses	**648**	1,165
Total	**147,771**	115,974

For the year ended 31 December 2014

26. DEFERRED GOVERNMENT GRANT

	At 31 December 2014 RMB'000	2013 RMB'000
Analysed for reporting purposes as:		
Current liabilities (included in other payables and accrued expenses)	**786**	786
Non-current liabilities	**6,326**	7,112
	7,112	7,898

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 2014:

	Accrued expenses, accrued payroll and sales rebates RMB'000	Withholding tax on undistributed earnings RMB'000	Deferred government grant RMB'000	Patent RMB'000	Interests receivable RMB'000	Total RMB'000
At 1 January 2013	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
Credit (charge) to profit or loss during the year	(1,214)	—	(432)	—	271	(1,375)
At 31 December 2014	11,308	(6,422)	1,542	—	(411)	6,017

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27. DEFERRED TAX *(Continued)*

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

	2014	2013
	RMB'000	RMB'000
Deferred tax assets	**12,850**	14,496
Deferred tax liabilities	**(6,833)**	(7,104)
	6,017	7,392

At the end of the reporting period, the Group had unused tax losses of RMB185,885,000 (2013: RMB236,211,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of RMB185,885,000 (2013: RMB236,211,000) and deductible temporary differences of RMB61,420,000 (2013: RMB62,501,000) in respect of impairment loss and certain accrued expenses due to the unpredictability of future profit streams. Tax losses of RMB185,885,000 (2013: RMB236,211,000) will expire in various years before 2019 (2013: 2018). Deferred tax liabilities on the undistributed profits of the PRC subsidiaries of approximately RMB91,881,000 (2013: RMB84,039,000) which was generated after 1 January, 2008, have not been recognised as at 31 December 2014, 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 2014 and 2013.

28. SHARE CAPITAL

	Number of shares	**Amount**	**Shown in the Financial Statements as**
		US$	RMB'000
Ordinary shares of USD0.00000833333 each			
Authorised:			
At 1 January 2013, 31 December 2013 and 31 December 2014	6,000,000,000	50,000	341
Issued and fully paid:			
At 1 January 2013, 31 December 2013 and 31 December 2014	1,569,421,820	13,079	89

Note:

At 31 December 2014, 37,967,567 ordinary shares (2013: 40,362,567) of par value of US$0.00000833333 each were held by the Company's restricted share award scheme as set out in Note 30.

For the year ended 31 December 2014

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

Pre-IPO Share Option Scheme

The Company's pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**"), was adopted pursuant to a resolution passed on 30 April 2010 for the primary purpose of providing incentives to eligible employees. Under the Pre-IPO Share Option 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 Pre-IPO Share Option 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

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30. SHARE-BASED PAYMENTS *(Continued)*

Pre-IPO Share Option Scheme *(Continued)*

The following table discloses the movement of the Company's share options held by the directors of the Company, employees and consultant under the Pre-IPO Share Option Scheme for the year ended 31 December 2014:

	Date of grant	Option type	Vesting period	Outstanding at 1/1/2014	Forfeited during the year	Exercised during the year	Outstanding at 31/12/2014
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	35,070,000	(180,000)	—	34,890,000
	6.5.2010	2nd	4 Years	5,320,000	(330,000)	—	4,990,000
	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	280,000	(80,000)	—	200,000
				45,370,000	(5,190,000)	—	40,180,000
	Total			82,770,000	(5,190,000)	—	77,580,000
Weighted average exercise price (RMB)				1.23	1.23	—	1.23
Exercisable at the end of the year							77,580,000

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30. SHARE-BASED PAYMENTS *(Continued)*

Pre-IPO Share Option Scheme *(Continued)*

The following table discloses the movement of the Company's share options held by the directors of the Company, employees and consultant under the Pre-IPO Share Option Scheme 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

There were no options exercised under the Pre-IPO Share Option Scheme during the years ended 31 December 2014 and 2013.

Pursuant to the Pre-IPO Share Option 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;

30. SHARE-BASED PAYMENTS *(Continued)*

Pre-IPO Share Option Scheme *(Continued)*

(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 Pre-IPO Share Option 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 Pre-IPO Share Option 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

(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 RMB91,000 for the year ended 31 December 2014 (2013: RMB1,915,000) in relation to share options granted under the Pre-IPO Share Option Scheme by the Company.

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30. SHARE-BASED PAYMENTS *(Continued)*

Share Option Scheme

The Company's share option scheme (the "**Share Option Scheme**"), was adopted pursuant to a resolution passed on 8 September 2010 for the purpose of providing incentives to eligible persons. Under the Share Option 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 Share Option Scheme and the Pre-IPO Share Option Scheme shall not, in aggregate, exceed 168,109,132, being 10% of the shares of the Company in issue immediately after the initial public offering on the listing date which is the effective date of such scheme.

On 27 October 2014, the Company granted 44,860,000 share options under the Share Option Scheme.

Options type	Date of grant	Share options granted	Vesting period	Exercise period	Exercise price HK$	Fair value of option at grant date HK$
1st	27.10.2014	20,200,000.00	10.11.2014–9.11.2018	10.11.2015–9.11.2022	1.00	0.419
2nd	27.10.2014	21,060,000.00	10.11.2014–9.11.2018	10.11.2015–9.11.2022	1.00	0.388
3rd	27.10.2014	3,600,000.00	10.11.2014–9.11.2018	10.11.2015–9.11.2022	1.00	0.447

30. SHARE-BASED PAYMENTS *(Continued)*

Share Option Scheme *(Continued)*

The following table discloses the movement of the Company's share options held by the directors of the Company, employees and consultant under the Share Option Scheme for the year ended 31 December 2014:

	Date of grant	Option type	Vesting period	Outstanding at 1/1/2014	No. of shares options granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31/12/2014
Executive directors								
Zhao Yihong	27.10.2014	1st	4 Years	—	4,000,000	—	—	4,000,000
Gao Yan	27.10.2014	1st	4 Years	—	1,000,000	—	—	1,000,000
				—	5,000,000	—	—	5,000,000
Non-executive directors								
Zhuo Fumin	27.10.2014	1st	4 Years	—	600,000	—	—	600,000
				—	600,000	—	—	600,000
Independent non-executive directors								
Huang Jingsheng	27.10.2014	1st	4 Years	—	600,000	—	—	600,000
Wang Jing	27.10.2014	1st	4 Years	—	600,000	—	—	600,000
Ren Guangming	27.10.2014	1st	4 Years	—	600,000	—	—	600,000
				—	1,800,000	—	—	1,800,000
Employees and consultant								
In aggregate	27.10.2014	1st	4 Years	—	12,800,000	—	—	12,800,000
	27.10.2014	2nd	4 Years	—	21,060,000	—	—	21,060,000
	27.10.2014	3rd	4 Years	—	3,600,000	—	—	3,600,000
				—	37,460,000	—	—	37,460,000
	Total			—	44,860,000	—	—	44,860,000
Weighted average exercise price (HK$)					1.00	1.00	—	1.00
Exercisable at the end of the year								—

Pursuant to the Share Option Scheme, the option granted on 27 October 2014, 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 Scheme *(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 binomial option pricing model has been used to determine the fair value of share options granted during the year ended 31 December 2014. The inputs into the model were as follows:

	Option type		
	1st	2nd	3rd
Grant date share price (HK$)	0.98	0.98	0.98
Exercise price (HK$)	1.00	1.00	1.00
Expected volatility	50%	50%	50%
Option life	8 years	8 years	8 years
Dividend yield	1.0%	1.0%	1.0%
Risk-free interest rate	1.68%	1.68%	1.68%
Annual post-vesting forfeit rate	15.0%	25.0%	0.0%
Total estimated fair value of the options granted (HK$'000)	8,458	8,178	1,611

Expected volatility was estimated based on the historical share price volatility over the past 8 years of the Company and other comparable listed companies.

The risk-free interest rate of the option was estimated based on the yield of 8-year Hong Kong Sovereign Bond as at the grant date.

The selected dividend yield was estimated with consideration of the Company's expected dividend policy and analysis of historical trend of share price-to-earnings ratio of the Company.

The annual post-vesting forfeit rate was estimated with analysis of historical forfeit rate of the Company.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised a total expense of RMB1,300,000 for the year ended 31 December 2014 (2013: nil) in relation to share options granted under the Share Option Scheme by the Company.

For the year ended 31 December 2014

30. SHARE-BASED PAYMENTS *(Continued)*

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.

On 28 May 2014, 2,195,000 shares were granted by the Company to Selected Participants at nil consideration, and vested on 28 June 2014. On 21 November 2014, 200,000 shares were granted by the Company to a Selected Participant at nil consideration, and vested on 22 December 2014.

As at 31 December 2014, 37,967,567 shares (2013: 40,362,567 shares) were held by the Trust and not yet granted to Selected Participants.

The Group recognised a total expense of RMB887,000 for the year ended 31 December 2014 (2013: RMB3,893,000) 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 RMB1,544,000 (2013: RMB8,949,000) 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 RMB657,000 (2013: RMB5,056,000).

For the year ended 31 December 2014

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 2014 and outstanding at 31 December 2014:

Employees	Number of awarded shares
Outstanding as at 1 January 2013	—
Granted during the year	13,886,595
Vested during the year	(13,886,595)
Outstanding as at 31 December 2013	—
Granted during the year	2,395,000
Vested during the year	(2,395,000)
Outstanding as at 31 December 2014	—

The closing prices of the Company's shares immediately before 28 May 2014 and 21 November 2014, the dates of grant of the restricted shares, were HK$0.40 and HK$1.15, respectively.

The closing prices of the Company's shares immediately before 28 June 2014 and 22 December 2014, the dates on which the restricted shares were vested, were HK$0.46 and HK$0.89.

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.

For the year ended 31 December 2014

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December 2014 RMB'000	2013 RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)	**501,965**	445,335
Loans and receivables (including bank balances and cash) classified as assets held for sale	**—**	5,794
	501,965	451,129
Financial liabilities		
Liabilities measured at amortised cost	**30,487**	46,719
Other non-current liabilities	**1,693**	1,593
Liabilities measured at amortised cost classified as liabilities associated with assets classified as held for sale	**—**	155
	32,180	48,467

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	
	2014	2013
	RMB'000	RMB'000
USD		
Assets	**1,621**	2,897
HKD		
Assets	**4,289**	4,398

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 RMB 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 RMB strengthens 5% against USD and HKD. For a 5% weakening of RMB against USD and HKD, there would be an equal and opposite impact on the profit.

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Loss for the year (USD)	**(81)**	(145)
Loss for the year (HKD)	**(214)**	(220)

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.

For the year ended 31 December 2014

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 2014, the five largest debtors accounted for approximately 83% (2013: 53%) 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.

For the year ended 31 December 2014

32. FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk management

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

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	1,733	8,648	—	—	10,381	10,381
Other payables	20,106	—	—	—	20,106	20,106
Other non-current liabilities	—	—	—	1,693	1,693	1,693
At 31 December 2014	21,839	8,648	—	1,693	32,180	32,180
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

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.

For the year ended 31 December 2014

33. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2014 and 2013:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Premises	**5,595**	7,318

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	
	2014	2013
	RMB'000	RMB'000
Within one year	**2,237**	3,294
In the second to fifth year inclusive	**381**	1,945
	2,618	5,239

Operating lease payments represent rental payable by the Group for certain of its office and staff quarters. Rentals are fixed for an average of 1.15 years as at 31 December 2014 (2013: 1.6 years).

The Group as lessor

Property rental income earned during the year was RMB19,749,000 (2013: RMB18,016,000). The properties are expected to generate rental yields of 5% on an ongoing basis. All of the properties held as at 31 December 2014 have committed tenants for the next 2 to 5 years (2013: 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	
	2014	2013
	RMB'000	RMB'000
Within one year	**17,296**	18,965
In the second to fifth year inclusive	**28,796**	42,761
After five years	**—**	987
	46,092	62,713

For the year ended 31 December 2014

34. CAPITAL COMMITMENTS

	At 31 December 2014 RMB'000	2013 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of — property, plant and equipment	**6,392**	—

35. EVENT AFTER THE REPORTING PERIOD

As disclosed in the Company's announcement dated 15 December 2014, the Company entered into a non-legally binding term sheet with the vendors and the target company, Beijing Puxiang Investment Management Co. Ltd., in relation to a possible acquisition. As at the date of this report, no formal agreement had been signed and therefore the proposed transaction had not been completed.

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 2014 RMB'000	2013 RMB'000
Besunyen Investment Co., Ltd. (i)	Rental expense	—	321

(i) Mr. Zhao Yihong controls the entity.

The details of remuneration of directors and the five highest paid individuals the Company paid during the year ended 31 December 2014, are set out in Note 10.

For the year ended 31 December 2014

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	At 31 December 2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Investment in a subsidiary		**201,475**	203,484
Amounts due from subsidiaries	(a)	**974,909**	941,441
		1,176,384	1,144,925
CURRENT ASSETS			
Deposits, prepayments and other receivables		**430**	531
Bank balances and cash		**54,265**	65,848
		54,695	66,379
CURRENT LIABILITIES			
Other payables and accrued expenses		**5,386**	5,210
		5,386	5,210
NET CURRENT ASSETS		**49,309**	61,169
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,225,693**	1,206,094
CAPITAL AND RESERVES			
Share capital	28	**89**	89
Reserves	(b)	**1,225,604**	1,206,005
		1,225,693	1,206,094

For the year ended 31 December 2014

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) The amounts due from subsidiaries amounted to RMB717,911,000 (2013: RMB685,371,000) 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 RMB256,998,000 (2013: RMB256,070,000) 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 2013	1,287,209	51,004	6	(34,962)	(113,201)	1,190,056
Profit and total comprehensive income 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
Profit and total comprehensive income for the year	—	—	—	—	32,941	32,941
Dividends	(15,620)	—	—	—	—	(15,620)
Vesting of restricted shares under restricted share award scheme	—	(887)	—	1,544	(657)	—
Transfer of share-based payment reserve upon forfeiture of share options	—	(2,586)	—	—	2,586	—
Share-based payments	—	2,278	—	—	—	2,278
At 31 December 2014	1,271,589	50,082	6	(24,469)	(71,604)	1,225,604

38. PARTICULARS OF PRINCIPAL 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		Principal activities
			2014	2013	
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
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
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
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
Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd. (Note ii) 健士星生物技術研發(上海)有限公司	10 March 2008 The PRC	USD3,000,000	**—**	100%	Research and development of tea and Chinese medicinal herbal products
Ever Assure (Note ii) 恒利安有限公司	23 April 2010 Hong Kong	HKD1	**—**	100%	Investment holding

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) On 14 March 2014, a sale and purchase agreement was signed to dispose of Ever Assure and its subsidiary — Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd.

(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				
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014** **RMB'000**
Turnover	874,216	840,409	475,182	487,500	**563,888**
Gross profit	783,081	737,639	392,119	406,103	**475,281**
Operating profit (loss)	230,867	9,560	(286,409)	(93,623)	**44,530**
Gain (loss) on disposal of a subsidiary	—	—	(6,700)	—	**9,977**
Impairment loss on goodwill	—	(15,480)	—	—	**—**
Impairment loss recognised in respect of intangible assets	—	—	(8,844)	(3,323)	**—**
Impairment loss recognised in respect of property, plant and equipment	—	(962)	(41,744)	—	**—**
Change in fair value on redeemable convertible preferred shares	(121,361)	—	—	—	**—**
Profit (loss) before tax	101,146	(6,882)	(343,697)	(96,946)	**54,507**
Profit (loss) and total comprehensive income (expense) for the year	59,655	(40,876)	(342,187)	(89,976)	**45,035**
EBITDA	250,659	27,322	(304,291)	(52,148)	**96,008**
Earnings (loss) per share					
Basic	0.05	(0.02)	(0.22)	(0.06)	**0.03**
Diluted	0.05	(0.02)	(0.22)	(0.06)	**0.03**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 31 December				
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014** **RMB'000**
Non-current assets	450,957	857,898	833,836	826,579	**825,140**
Net current assets	1,305,501	832,871	417,255	340,572	**372,747**
Total assets less current liabilities	1,756,458	1,690,769	1,251,091	1,167,151	**1,197,887**
Non-current liabilities	20,673	18,603	15,581	15,809	**14,852**
Net assets	1,735,695	1,672,166	1,235,510	1,151,342	**1,183,035**
Share capital	95	95	89	89	**89**
Reserves	1,735,600	1,672,071	1,235,421	1,151,253	**1,182,946**
Total equity	1,735,695	1,672,166	1,235,510	1,151,342	**1,183,035**

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

http://ir.besunyen.com